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November 16, 2005

Gloria Blue
Executive Secretary
Trade Policy Staff Committee
Office of the United States Trade Representative
600 17th Street, N.W.
Washington, DC 20508

Via E-Mail: FR0508@USTR.EOP.GOV

**Re: 2006 National Trade Estimate Report on Foreign Trade Barriers:
Submission by the Ranchers-Cattlemen Action Legal Fund –
United Stockgrowers of America (R-CALF USA): Comments
Specific to Brazil**

Dear Sir or Madam:

The Ranchers-Cattlemen Action Legal Fund – United Stockgrowers of America (R-CALF USA) is pleased to have the opportunity to submit comments to the U.S. Department of Commerce and the Office of the U.S. Trade Representative concerning the National Trade Estimate Report on Foreign Trade Barriers. These comments are submitted in response to the *Request for Public Comment With Respect to the Annual National Trade Estimate Report on Foreign Trade Barriers* at 70 Fed. Reg. 55204 (Sept. 20, 2005).

R-CALF USA is a non-profit association that represents over 18,000 U.S. cattle producers in 47 states across the nation. R-CALF USA works to sustain the profitability and viability of the U.S. cattle industry, a vital component of American agriculture. R-CALF USA's membership consists primarily of cow-calf operators, cattle backgrounders, and feedlot owners. Various main street businesses are associate members of R-CALF USA.

I. Global Distortions in the Cattle and Beef Sector

The world market place for cattle and beef is one of the most grossly distorted markets of any sector. Foreign cattle and beef markets are plagued by massive subsidies, including those provided through state trading enterprises; high tariffs and the manipulation of unscientific sanitary and phytosanitary measures to block imports.

U.S. tariffs on cattle and beef imports are among the lowest in the world. The U.S. has only minimal tariffs, and no quotas, on cattle imports.¹ In-quota tariffs on beef imports range from 4 to 10 cents per kilogram,² and calculated duties for all beef imports in 2004 equaled less than 2.6 percent of the value of those imports.³ In addition, dozens of countries receive duty-free access to the U.S. market for in-quota beef imports, either through bilateral free trade agreements or unilateral trade preference programs.⁴ Major U.S. trading partners, on the other hand, apply tariffs rates four to ten times higher than the effective U.S. rate. The European Union, for example, imposes tariffs of at least 12.8 percent on beef imports.⁵ Japan applies a tariff of 38 percent on beef imports, and Korea's tariffs on beef imports are 40 percent or higher.⁶ American cattle and beef producers face a profound disadvantage in overseas markets due to such disproportionately high tariffs.

In addition to tariffs, trading partners' abuse of sanitary and phytosanitary standards (SPS) presents a nearly insurmountable obstacle to exports of American cattle and beef. Scores of foreign countries shut their markets to American cattle and beef following the reported first bovine spongiform encephalopathy (BSE) case in the U.S. at the end of 2003, which involved a Canadian animal. Export markets have largely remained closed after the second reported BSE case in the U.S. this year. Currently, 54 countries prohibit some or all imports of U.S. beef, citing concerns about BSE.⁷ The United States has repeatedly expressed concerns that many of these import bans are unjustified because they have been imposed with no science-based risk assessment, with an inadequate scientific basis, and/or on the basis of SPS standards that are inconsistent with international standards.⁸ The BSE bans instituted by U.S. trading partners have drastically curtailed U.S. exports of cattle and beef. The value of U.S. exports of cattle and beef plummeted by more than 83 percent from 2003 to 2004, representing a loss of nearly \$2.6 billion in export revenue for the industry in just one year.⁹ There are many steps the U.S. can take to push for an end to these bans on U.S. cattle and beef exports, including through bilateral negotiations, trade enforcement, and improvements in the U.S.'s own controls on cattle imports from countries known to have BSE risks.

¹ U.S. Harmonized Tariff Schedule at Chap. 1, heading 0102 (live cattle) (supp. 2005).

² U.S. Harmonized Tariff Schedule at Chap. 2, headings 0201 (fresh and chilled beef) and 0202 (frozen beef)(supp. 2005).

³ Calculation based on data from the U.S. International Trade Commission's Interactive Tariff and Trade DataWeb for HS 0201 and 0202

⁴ U.S. Harmonized Tariff Schedule at Chap. 2, headings 0201 – 0202 (supp. 2005).

⁵ European Union Tariff Schedule at 0201 – 0202 (2004).

⁶ U.S. Trade Representative, *National Trade Estimate Report on Foreign Trade Barriers 2005*, at 317 and 359.

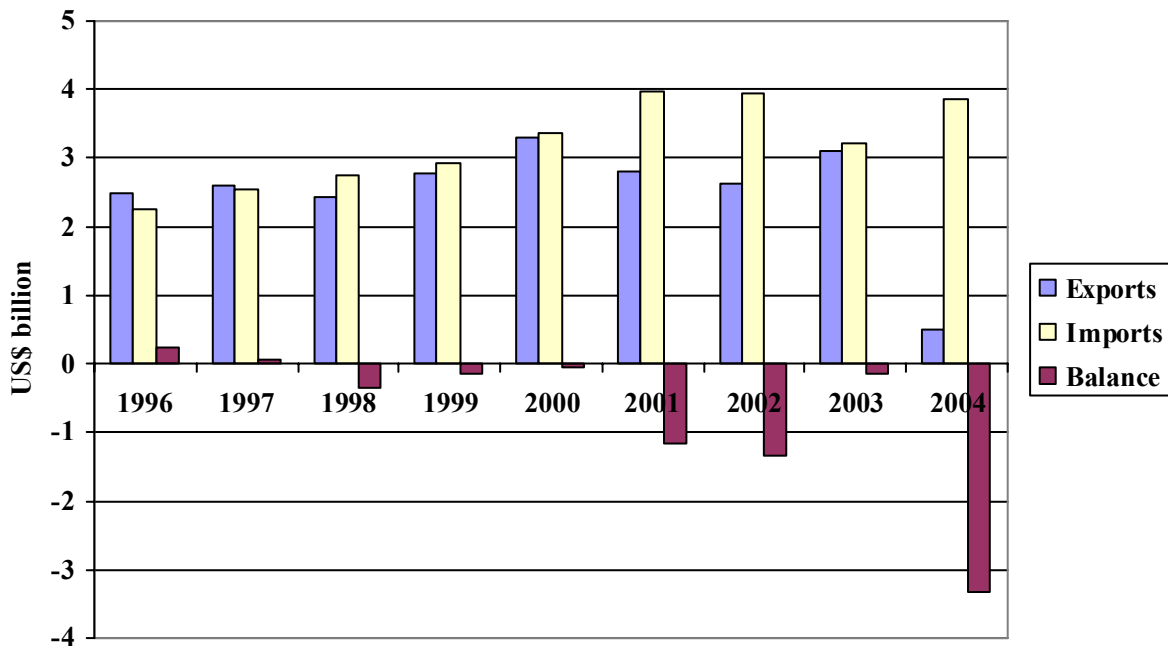
⁷ U.S. Department of Agriculture, Animal and Plant Health Inspection Service, *BSE Trade Ban Status as of 09/21/05* at http://www.aphis.usda.gov/lpa/issues/bse/trade/bse_trade_ban_status.html.

⁸ See, e.g., U.S. Trade Representative, *National Trade Estimate Report on Foreign Trade Barriers 2005*, sections on Argentina, Brazil, Chile, China, Hong Kong, Japan, Korea, and Taiwan at 11, 32, 65, 91, 257, 320, 364, and 596, respectively.

⁹ U.S. Department of Commerce, U.S. Census Bureau, *Foreign Trade Statistics for HS 0102 (cattle), 0201 (fresh and chilled beef), and 0202 (frozen beef)*.

In addition, major cattle and beef producing nations provide billions of dollars of subsidies to cattle and beef producers through export subsidies and domestic support programs. Australia, Brazil, Canada, China, the EU, Japan, Korea and other producers all subsidize cattle and beef production, while the U.S. provides no subsidies to the cattle and beef industry outside of disaster assistance and drought relief.¹⁰ In addition, countries such as Australia and Canada use state trading enterprises for beef and for cattle feedstuffs such as wheat. Wheat Boards in these countries, for example, are able to guarantee domestic cattle producers artificially low feed prices, further disadvantaging American ranchers. These massive subsidies severely distort the global market for cattle and beef, artificially depressing prices and undercutting American producers. R-CALF USA believes that these trade-distorting subsidies in this sector need to be eliminated in order to create a truly balanced international cattle and beef market in which the domestic industry can compete and thrive.

U.S. Trade in Cattle and Beef



Source: Census Bureau Foreign Trade Statistics for HS 0102, 0201, and 0202.

Together, these distortions drive down prices for U.S. producers and close markets for U.S. exports. As a result, the American cattle industry suffered catastrophic losses during the 1990s and up until the last two years. While the American cattle and beef market remains one of the most open in the world, markets abroad have slammed their doors shut to American exports. As a result, the U.S. has not enjoyed a trade surplus in cattle and beef trade since 1997, and the deficit in the sector has exploded over

¹⁰ For a summary of foreign subsidies in the cattle and beef sector, see Office of the U.S. Trade Representative and the U.S. Department of Commerce, *Subsidies Enforcement Annual Report to Congress*, February 2004, at 37 – 43.

the past six years, hitting more than \$3.3 billion in 2004.¹¹ Over the same period, the U.S. has lost its position as a global exporter of beef. While the U.S. was the second-largest exporter of beef in the world in 2000, accounting for 19.5% of global beef exports, in 2005 the U.S. has regressed to the position of the ninth-largest exporter of beef and is projected to account for only 4.1% of world beef exports, falling behind Brazil (the number one exporter), Argentina, Australia, Canada, the EU, India, New Zealand, and Uruguay.¹²

Since 1994, more than 122,000 cattle ranches and farms have closed down or otherwise exited the beef cattle business.¹³ During the same period, the inventory of cattle and calves in the U.S. dropped from 101 million to just under 95 million.¹⁴ The steep decline of the cattle industry – a vital component of America’s rural economy – has devastated ranching families and rural communities across the nation. The underlying problems facing the American cattle industry are caused in part by the massive distortions in the global cattle and beef market.

R-CALF USA is hopeful that the identification of foreign trade barriers in the cattle and beef sector in the National Trade Estimate Report will lead to negotiations and enforcement activities to remove these barriers and create a more balanced global market in cattle and beef products.

II. Foreign Trade Barriers in Brazil

A. Import Policies

Brazil is the world’s number one exporter of beef, sending more than one-fifth of its production abroad, and enjoying the largest trade surplus in beef of any country.¹⁵ Despite high consumption of beef, imports account for less than one percent of consumption.¹⁶ Brazil applies tariffs of 10 to 16 percent on beef imports.¹⁷

B. Standards

Brazil banned the import of American cattle and beef following the reported first bovine spongiform encephalopathy (BSE) case in the U.S. at the end of 2003, which

¹¹ U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics for HS 0102 (cattle), 0201 (fresh and chilled beef), and 0202 (frozen beef).

¹² U.S. Department of Agriculture, Foreign Agricultural Service, *Livestock and Poultry: World Markets and Trade*, April 2005.

¹³ U.S. Department of Agriculture, National Agricultural Statistics Service Agricultural Statistics Database, *U.S. and All States Data – Cattle and Calves*, 1994 – 2004.

¹⁴ *Id.*

¹⁵ U.S. Department of Agriculture, *Production, Supply, and Distribution Database*, available on-line at <http://www.fas.usda.gov/psd/>.

¹⁶ *Id.*

¹⁷ Joao F. Silva, *Brazil: Livestock and Products Annual Report 2004*, U.S. Department of Agriculture, GAIN Report No. BR4619, Aug. 24, 2004, at 11.

involved a Canadian animal, and their market remains closed.¹⁸ The United States has expressed concerns that Brazil's import ban is unjustified because it is not based on a science-based risk assessment and it is inconsistent with international standards.¹⁹ While U.S. beef exports to Brazil prior to the BSE ban were not significant, the issues with Brazil's BSE ban are similar to those confronted by the U.S. cattle and beef industry with regard to BSE bans instituted by key export markets, which have drastically curtailed U.S. exports of cattle and beef. The value of U.S. exports of cattle and beef plummeted by more than 83 percent from 2003 to 2004, representing a loss of nearly \$2.6 billion in export revenue for the industry in just one year.²⁰ There are many steps the U.S. can take to push for an end to these bans on U.S. cattle and beef exports, including through bilateral negotiations, trade enforcement, and improvements in the U.S.'s own controls on cattle imports from countries known to have BSE risks. Ultimately, the U.S. must do everything it can to re-open these essential markets for American cattle and beef as quickly as possible.

C. Subsidies

Beef cattle producers in Brazil benefit from a broad array of government subsidy programs. In June, the Brazilian government announced its Agriculture and Livestock Plan for the 2004/2005 marketing year. Under the plan, \$13 billion will be available for rural credit, \$3.6 billion of which is available for the beef sector, for an increase of more than 86 percent over 2003.²¹ Government credit programs increase beef production by subsidizing the following investments by cattle producers:

- Producers can borrow up to \$50,000 for pasture improvement at below-market rates each year. The budget for this program rose 50% between 2003 and the 2004/2005 crop year.
- More than \$200 million is available to help cattle producers access subsidized credit to build or upgrade grain silos and warehouses.
- Producers can also take advantage of unlimited credits to modernize farm machinery. The funds allocated to this program rose 175 percent in the 2004/2005 crop year, reaching \$2.7 billion.
- Producers can also obtain long-term subsidized loans for breeding programs, and an array of state and municipal subsidies in the form of subsidized credit and tax breaks.²²

¹⁸ U.S. Department of Agriculture, Animal and Plant Health Inspection Service, *BSE Trade Ban Status as of 09/21/05* at http://www.aphis.usda.gov/lpa/issues/bse/trade/bse_trade_ban_status.html.

¹⁹ U.S. Trade Representative, *National Trade Estimate Report on Foreign Trade Barriers 2005*, at 32.

²⁰ U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics for HS 0102 (cattle), 0201 (fresh and chilled beef), and 0202 (frozen beef).

²¹ Joao F. Silva, *Brazil: Livestock and Products Annual Report 2004*, U.S. Department of Agriculture, GAIN Report No. BR4619, Aug. 24, 2004, at 6.

²² *Id.*

The Brazilian government also provides direct subsidies to the beef sector. Subsidized long-term loans are available for packers to modernize their facilities, at a cost of \$300 million to the Brazilian government for 2004/2005.²³ In addition, aggressive export promotion programs provide substantial support to Brazilian beef producers:

- The government provides cash advances to exporters with an export contract prior to shipment, and post-shipment before payment is received.
- In addition, Brazil has an export credit agency that can finance up to 100% of a shipment. The program was funded at about \$4.6 billion in 2003, with \$800 million for meat products including beef.
- The Brazilian export promotion agency and ministry of agriculture also worked with the private, non-profit beef exporters association to promote the “Brazilian Beef” brand in foreign markets and publicize grass-fed beef as more natural and environmentally sound, particularly in European markets.²⁴

In addition, the Brazilian government provides incentives for meat production as part of its Amazonian Development Fund.²⁵ While a specific amount of money available to the cattle and beef sector through the fund is not available, the overall budget of the fund was R\$2.4 million in 2005, or US\$1.1 million.²⁶ Many rainforest advocates have criticized incentives to convert forest to ranch land, and the FAO estimates that by 2010 pasture for livestock will account for 62 percent of deforested land in Latin America.²⁷

III. Conclusion

R-CALF USA appreciates the opportunity to submit comments for the 2006 National Trade Estimate Report on Foreign Trade Barriers, and looks forward to a continued dialogue with the Office of the U.S. Trade Representative to address these important issues.

²³ *Id.* at 8.

²⁴ *Id.* at 8 – 9.

²⁵ Ministry of National Integration, “Directives and Priorities – 2004/2005 – Amazonian Development Fund,” *Oficio* No. 1232, Annex 1, Oct. 14, 2004.

²⁶ Ministry of National Integration, “Provision of Accounts Received, Expended, Disposable and Committed – Amazonian Development Fund,” available on-line at <http://www.ada.gov.br/>.

²⁷ “Cattle ranching is encroaching on forests in Latin America,” Food and Agriculture Organization press release, June 8, 2005, available on-line at <http://www.fao.org/newsroom/en/news/2005/102924/index.html>.

Sincerely,

A handwritten signature in black ink, appearing to read "Leo R. McDonnell, Jr.", written in a cursive style.

Leo R. McDonnell, Jr.
President, R-CALF USA