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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 the European Union**

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.

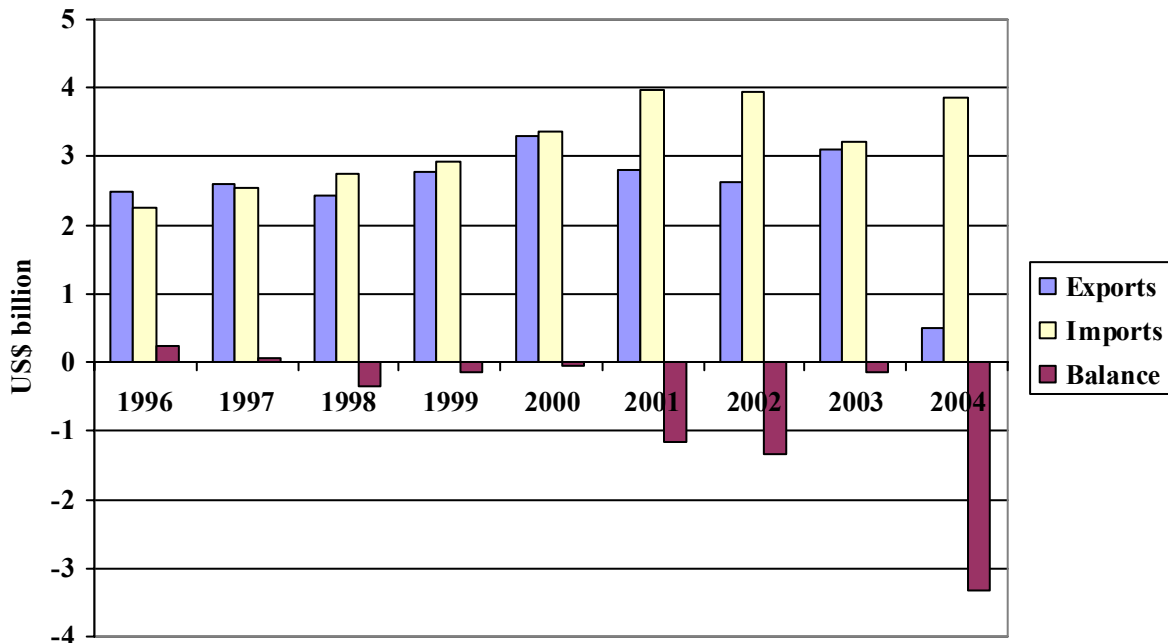
⁷ U.S. Department of Agriculture, Animal and Plant Health Inspection Service, *BSE Trade Ban Status as of 09/21/05* at http://www.aphis.usda.gov/lpa/issues/bse/trade/bse_trade_ban_status.html.

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

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.

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 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 the European Union

A. Import Policies

The European Union is among the biggest subsidizers of the cattle and beef industry, and is able to maintain a relatively closed market through tariff and non-tariff barriers. The European Union imposes tariffs of at least 12.8 percent on beef imports.¹⁵

B. Standards

Since 1988, the EU has banned imports of hormone-grown beef, despite the measure’s inconsistency with WTO rules and the WTO’s authorization of retaliatory sanctions on EU exports. The U.S. maintains tariffs on EU exports despite a new 2003

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

EC Directive on the hormone issue, since the Directive merely recodifies and even expands the ban.¹⁶ An EU challenge to the retaliatory tariffs is pending at the WTO.

C. Subsidies

The EU provides billions of dollars of subsidies to the beef industry, with payments and other support measures, including tariffs and quotas, amounting to 73% of the value of beef production, according to the OECD's producer support estimate.¹⁷ The EU reformed its Common Agricultural Policy (CAP) in 2003, and implementation began on January 1, 2005. While the stated goal of the reform was to break the link between subsidies and production, and thus reduce or eliminate the trade-distorting nature of European farm subsidies, the livestock sector is one in which the CAP reforms still allow European states retain much of their ability to subsidize production.

Under the reform, states have the option of converting beef subsidies to a fully decoupled, single payment scheme, or they can maintain many of the links to production that have supported the European beef industry in the past, with caps on the payments. While some payment systems such as the deseasonalization premium are now fully decoupled, EU members are allowed to maintain 100% of the EUR\$50 per animal premium for calf slaughter, and either: 1) 100% of the EUR\$200 per animal suckler cow premium and 40% of the EUR\$80 per animal slaughter premium for adult bovine animals; or 2) 100% of the EUR\$80 per animal premium for slaughter of adult animals; or 3) 75% of the special EUR\$150 – 210 per animal premium for male cattle. In addition, member states may take an extra one to two years to comply with the reformed single payment system if special agricultural conditions justify a delay.¹⁸

Finally, the EU is maintaining its program to provide market support through public storage and subsidized private storage of beef in times of price declines or oversupply. When national prices for beef fall below a benchmark minimum for two weeks in a row, the EU will purchase beef through "intervention" stores to reduce supply and boost prices. In addition, when there is an oversupply of beef, the EU offers subsidies to private traders to store beef. These measures protect producers from market volatility and keep prices high, subsidizing the cattle and beef sector.¹⁹

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

¹⁶ U.S. Trade Representative, *National Trade Estimate Report on Foreign Trade Barriers 2005*, at 202.

¹⁷ Organization for Economic Cooperation and Development, *Producer and Consumer Support Estimates Database*, available on-line at http://www.oecd.org/document/54/0,2340,en_2825_494504_35009718_1_1_1_1,00.html.

¹⁸ European Commission, *Information Sheet on CAP Reform: The Meat Sector*, available on-line at http://europa.eu.int/comm/agriculture/markets/sfp/index_en.htm#capinfosheets.

¹⁹ *Id.*

continued dialogue with the Office of the U.S. Trade Representative to address these important issues.

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