R-CALF USA 2006 Position Paper:
International Trade in Cattle and Beef

R-CALF USA believes U.S. cattle producers can compete and thrive in global markets if the rules are fair. Today, U.S. exports of cattle and beef are thwarted by high import tariffs abroad, large subsidies to cattle and beef producers in other countries, and a failure to harmonize health and safety standards to allow for increased trade while protecting animal health and consumer safety. In addition, the highly perishable nature of our product demands the creation of special rules for cattle and beef trade that reflect the special needs of our producers and protect them from import surges and excess price volatility. While many of these issues ultimately require global solutions, progress can also be made through strategic bilateral and regional negotiations.

Trade Deficits and Distorted Markets

- The U.S. has traditionally run a trade surplus in agriculture, but that surplus is disappearing. In fact, in 2005 the U.S. ran a deficit in agriculture of more than $4.3 billion. The trade deficit in cattle and beef hit nearly $3.5 billion in 2005.

- This trade deficit results in part from numerous global distortions in cattle and beef markets:
  - Other countries have restrictive quotas and tariffs as high as 40 % or more on cattle and beef, while U.S. quotas are much larger and U.S. tariffs are relatively generous.
  - Foreign countries provide their cattle producers with billions of dollars in direct production-related subsidies, while U.S. cattle producers receive no such subsidies.
  - USDA continues to apply health and safety standards on imports that are more lax than the standards imposed by our trading partners on our exports.

The WTO and Special Rules for Perishable and Cyclical Products

- The Doha Round at the WTO creates an opportunity to address these global distortions. While U.S. negotiators are working hard to address some of the concerns R-CALF USA has identified, there are other areas where more work remains to be done.

- In particular, the negotiations threaten to permanently eliminate the Special Safeguard for agriculture for developed countries such as the U.S. The U.S. used the WTO's Special Safeguard to counteract declines in beef import prices in 1999, 2000, 2001, and 2002.

- While the Special Safeguard was created for import sensitive products, it has particular value for products with a short shelf-life or limited marketing seasons. Congress has recognized that cattle and beef are among such items. If the Special Safeguard is not available, new rules will be needed to guard against import surges and price volatility for such products.

- In the Trade Act of 2002, Congress instructed U.S. negotiators to include special rules for perishable and cyclical products such as cattle and beef in new trade agreements. The U.S. identified perishable and cyclical products as an important issue for discussion in a 2003 WTO submission, and R-CALF USA is hoping to see a formal proposal put forward soon.

- The deadline for proposals in the WTO Rules Negotiations is April 30, and R-CALF USA looks forward to working with the Administration and Congress to ensure a strong proposal on special rules for perishable and cyclical agriculture is put forward in the next two months.

Free Trade Agreements

- R-CALF USA believes the U.S. should pursue FTAs strategically to achieve a balance between the size of new export markets opened for American producers and the volume of potential foreign production given preferential access to the U.S.

- R-CALF USA assesses each FTA on a case-by-case basis, and believes agreements negotiated by the U.S. should make significant progress toward:
  - Reducing global market distortions such as high import tariffs abroad;
  - Applying a born, raised and slaughtered rule of origin to beef;
  - Creating special rules for cattle and beef trade that reflect the highly perishable nature of cattle and beef and protect against import surges and excess price volatility; and
  - Upwardly harmonizing health and safety standards to allow for increased trade while protecting animal health and consumer safety.

- In FTAs with large beef producing countries it is particularly important to build upon the special safeguard for beef that was included in the Australia FTA. The mechanism can be strengthened by making its operation automatic, rather than discretionary, and by treating cattle and beef as like products in the FTA.

Andean FTAs

- Potential FTAs with Andean countries present significant concerns for R-CALF USA. The recently-concluded Peru FTA does not allow the U.S. to have recourse to a special safeguard for cattle or beef and does not apply a born, raised, and slaughtered rule of origin to beef. Any future FTAs with Andean countries must make progress on these issues, especially given the region's large export potential.

- Though Andean countries do not currently export beef to the U.S. due to health and safety restrictions, they have significant export potential. Peru and Ecuador each have herds of 5 million head, while Colombia's herd size is 25 million.

- If health and safety issues are resolved, exports from the region could surge. Uruguay, for example, ramped up exports to the U.S. dramatically after gaining market access in mid-2003. Uruguay's Tariff Rate Quota appeared not to serve as an effective deterrent, since Uruguay exceeded it many times over in 2004 and 2005. Uruguay is now the fourth largest exporter of beef to the U.S., with volumes nearing that of New Zealand. And Uruguay's herd is less than half the size of Colombia's.

- In addition, Argentine or Brazilian cattle shipped to an Andean country for slaughter would qualify for preferential access to the U.S. under rules of origin like those in the Peru FTA. This adds to the region's significant export capacity, and it allows countries to refuse to participate in FTA negotiations but nonetheless reap the benefits.

Korea FTA

- R-CALF USA welcomes the announcement of FTA negotiations with Korea, which was the second largest market for U.S. beef before BSE issues arose in late 2003. The FTA negotiations should provide a forum for addressing continued Korean import barriers related to BSE and raising concerns about Korea's direct subsidies for domestic beef production. In the FTA, the U.S. should focus talks on Korea's small import quota and high tariff on beef.