Position on CAFTA

- **Reduce Tariffs.** R-CALF USA has long advocated, and continues to support, efforts to open up U.S. cattle and beef export markets by reducing global tariffs to U.S. levels. The U.S. Department of Agriculture (USDA) reports that the average allowed tariff on beef around the world is 85%, while the U.S. in-quota tariff rate is near 0% and out-of-quota tariff rate is only 26.4%.

- **Eliminate Subsidies.** R-CALF USA supports the attempts of USTR to reform agricultural subsidies around the world that artificially distort market conditions, especially since U.S. producers receive no direct support outside of disaster assistance.

- **Remove Non-Scientific Trade Barriers to Exports.** While the United States imposes scientifically supported measures to ensure the safety of the food supply, many other nations use sanitary and phytosanitary measures in the cattle and beef sector to unjustifiably restrict trade. Most notably, is the EU's longstanding non-tariff trade barrier against U.S. beef related to the use of beef hormones. Recent reports from U.S. embassies around the world indicate that use of these non-tariff trade barriers has increased. Further, beginning in December of last year, U.S. beef has been banned in a number of countries on the basis of BSE without adequate scientific justification or WTO notification.

- **Do Not Open the U.S. to Further Beef Imports Until These Issues are Addressed.** These distortions create the operating background against which free trade agreements must be examined to understand the consequences of liberalization. R-CALF USA believes that <u>before</u> the United States enters into regional FTAs with agricultural producing countries with small internal markets, the major global distortions caused by tariffs, non-tariff barriers and subsidies <u>must</u> be eliminated at the WTO. If markets are liberalized where the U.S. cattle industry is likely going to fare poorly and the U.S. is unable to simultaneously open the major consuming markets where the U.S. cattle industry will do reasonably well, then the U.S. cattle industry will be placed in the position to lose market share globally, not because we are uncompetitive, but because we expand market access in the U.S. far ahead of equitable access abroad.

- **CAFTA Does Not Give Effect to Certain Provisions of the Trade Act of 2002.** The Trade Act of 2002 (P.L. 107-210) provides certain principal negotiating objectives for USTR pertaining to perishable, seasonal, and cyclical agricultural products. Unfortunately, CAFTA does not implement these principal negotiating objectives with respect to the cattle industry. Unlike the Australian FTA in which a limited beef safeguard is present, the CAFTA has no special agricultural safeguards that acknowledge the sensitive position cattle producers face.

CAFTA Eliminates the Existing U.S. Special Safeguard on Beef for Imports from CAFTA countries. While granting two of the CAFTA countries the right to use a special safeguards on beef provided under the WTO Agreement on Agriculture against imports from the U.S. over a 15 year period, the Agreement eliminates <u>immediately</u> the U.S. right to use its special safeguard on beef against imports from CAFTA countries.

- **CAFTA is a Large and Potentially Expanding Source of Imports.** The CAFTA countries have a combined herd of approximately 10,600,000 head and are a potentially significant source of cattle and beef imports for the United States. Canada, which has been our largest foreign supplier, by comparison has 13,454,000 head. One of CAFTA's purposes is to increase investment in the region. If applied to the cattle and beef sector, this could include expanding herd size, improving genetics and modernizing/expanding the slaughtering facilities, all of which would increase the volume of beef being produced in Central America with the most likely export destination for this product being the United States (the U.S. already receives as much as 80% of the beef exports from some of the CAFTA countries).

- **CAFTA Will Not Improve Market Conditions for U.S. Cattlemen.** Under CAFTA there will be immediate duty free access for CAFTA beef in the United States for many product categories. The U.S. already runs a 52.9 million-pound (or in terms of value $53,571,058) trade deficit with CAFTA countries on beef and this is likely to worsen after implementation. While the U.S. obtained immediate duty free access for prime and choice cuts, there is limited current demand for these products in these countries. With low per capita GDP, CAFTA countries are not likely to be major export destinations for U.S. beef while the U.S. market has been and will grow in importance for CAFTA cattle and beef producers. Absent expanded market access in major consuming countries, CAFTA will lower the relative share of U.S. consumption supplied by US cattle producers. Improved access for U.S. exports will not offset this loss of home market resulting in a net worsening of position for US producers.

- **CAFTA Does Not Delay Duty Free Treatment due to BSE.** Unlike the Australian FTA, there is <u>no</u> BSE clause that delays duty free entry levels from the beginning until the United States' beef exports return to pre-BSE levels, or until 3 years have passed from the date the agreement was signed.

- **CAFTA's Rule of Origin could result in Benefits Accruing to non-CAFTA Cattle Producers.** R-CALF has long advocated use of a "born and raised" standard for determining country of origin for many purposes including origin for preferential access. Such a rule would ensure large producing nations that do not have a FTA with the U.S. (e.g., Brazil and Argentina) do not obtain the benefit of preferential access negotiated by others. Without this rule of origin other countries could ship their cattle into a CAFTA partner and after slaughter the resulting beef could be shipped to the U.S. duty free. This would worsen the trade deficit for U.S. cattle producers with the region. The CAFTA rule of origin, however, gives preferential treatment to beef (regardless of where the cattle are born and raised) based only on the country of slaughter.