

March 12, 2004

The Honorable Robert B. Zoellick
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Dear Ambassador Zoellick:

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, I am pleased to transmit the report of the Agricultural Technical Advisory Committee (ATAC) for Trade in Animals and Animal Products the U.S.-Australia Free Trade Agreement reflecting majority and additional advisory opinions on the proposed Agreement.

Sincerely,

James R. Hoben, Chair
Agricultural Technical Advisory
Committee for Trade in Animals and
Animal Products

The U.S.-Australia Free Trade Agreement (FTA)

**Report of the Agricultural Technical Advisory Committee (ATAC) for Trade
in Animals and Animal Products**

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The Agricultural Technical Advisory Committee (ATAC) for Trade in Animals and Animal Products

Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S.-Australia Free Trade Agreement

I. Purpose of the Committee Report

Section 2104 (e) of the Trade Act of 2002 requires that advisory committees provide the President, the U.S. Trade Representative, and Congress with reports required under Section 135 (e) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement.

Under Section 135 (e) of the Trade Act of 1974, as amended, the report of the Advisory Committee for Trade Policy and Negotiations and each appropriate policy advisory committee must include an advisory opinion as to whether and to what extent the agreement promotes the economic interests of the United States and achieves the applicable overall and principle negotiating objectives set forth in the Trade Act of 2002.

The report of the appropriate sectoral or functional committee must also include an advisory opinion as to whether the agreement provides for equity and reciprocity within the sectoral or functional area.

Pursuant to these requirements, the Agricultural Technical Advisory Committee (ATAC) for Trade in Animals and Animal Products hereby submits the following report.

II. Executive Summary of Committee Report

Please refer to Section V of the report below

III. Brief Description of the Mandate of Agricultural Technical Advisory Committee (ATAC) for Trade in Animals and Animal Products

The advisory committee is authorized by Sections 135 (c)(1) and (2) of the Trade Act of 1974 (Pub. L. No. 93-618), as amended, and is intended to assure that representative elements of the private sector have an opportunity to make known their views to the U.S. Government on trade and trade policy matters. The committee provides a formal mechanism through which the U.S. Government may seek advice and information. The continuance of the committee is in the public interest in connection with the work of the U.S. Department of Agriculture (USDA) and the Office of the U.S. Trade Representative. This advisory committee provides valuable private sector input.

IV. Negotiating Objectives and Priorities of the Agricultural Technical Advisory Committee (ATAC) for Trade in Animals and Animal Products

The Committee as currently constituted was not formed when negotiations began with Australia. Therefore, the comments below, in Section V, reflect the priorities and objectives of the current membership of the Agricultural Technical Advisory Committee for Trade in Animals and Animal Products.

V. Advisory Committee Opinion on Agreement

The Agricultural Technical Advisory Committee (ATAC) for Trade in Animals and Animal Products provides the following comments on the U.S.-Australia Free Trade Agreement (FTA):

Our trade advisory committee views non-tariff trade barriers as major hurdles that need to be resolved. Members of the committee remain concerned about the implementation and enforcement provisions within this Free Trade Agreement, specifically in regard to veterinary and sanitary issues. Some members of the Committee remained concerned about the potential negative impact from this agreement.

Poultry and Pork

This agreement is not comprehensive. It does not deal effectively with a number of non-science based sanitary and veterinary regulations that Australia may continue to use to protect its domestic producers. For U.S. poultry, for example, there is essentially no mechanism or method to resolve the problem of Australia imposing unwarranted veterinary/sanitary provisions that have excluded and may continue to exclude U.S. fresh/chilled or frozen poultry. In this sense, the negotiations to achieve a favorable agreement for U.S. poultry were a valuable opportunity that was lost and the agreement has little value to U.S. poultry exporters. The pork industry will be able to support this trade agreement when the risk assessment is fully implemented and pork trade commences. The Committee commends USTR for achieving zero tariffs on pork.

Beef and Cattle

Majority Opinion of Beef Industry

The U.S. cattle industry opposed any increase in the Australian tariff rate quota for beef, and/or a reduction of tariffs, during the U.S.-Australia FTA negotiations without substantial gains in market access for U.S. beef and beef products in the other major importing beef nations of the world, such as Japan, South Korea, and the European Union. Because Australia is a major beef exporter and many major beef importers are in Asia and Europe, the cattle industry's position was that its objective could only be achieved through comprehensive multi-lateral WTO negotiations -- not regional or bilateral negotiations.

Throughout the Australia FTA negotiating process, the assumption was made that there will be a new WTO Agreement within the next 10 years that will increase market access in beef trade globally and that such an agreement would mean greater access for U.S. beef around the world via a multilateral reduction in tariffs on beef. It is also anticipated that any new WTO agreement would include an expansion in the size of tariff-rate quotas (TRQ) around the world including the U.S. beef TRQ. (The Harbinson text currently says all TRQs would be expanded to 10 percent of consumption which would make the U.S. beef import TRQ roughly 1,000,000 tons versus the current 378,214 tons—subject to negotiation.)

The U.S. cattle industry's primary objective in these negotiations was to prevent any potential negative impact on the U.S. beef industry caused by this FTA before the U.S. beef industry would have an opportunity to increase its ability to export beef via the WTO trade liberalization process. The expectation being that once this reduction in beef tariffs globally was in place, Australia would not have enough production to meet this global demand and still annually fill its US quota of which it has accomplished on only one occasion.

As the primary end-use for its 86-88 percent lean, Australian beef is a ground product for hamburger, only a minute amount of Australian beef exported to the United States is currently attempting to be marketed as a whole muscle cut. Current five-year industry estimates all concur in projecting a 1-2 percent annual growth in the demand for this (food service ground beef) product. If these estimates hold over the next decade, the size of Australia's TRQ should grow commensurate with the marketplace's demand for this product resulting in no net negative price effect on live utility cow prices during the next 10 years as a result of this FTA.

If for some reason the demand for these lean beef imports stagnates, the FTA could give Australia a slight advantage over New Zealand via the elimination of the in-quota tariff. If not, a regression utility cow price model suggests that the agreement's 15,000 ton increase in Australia's beef TRQ to the United States would equate to a \$0.0018/lb decrease in the live price of the U.S. utility cow market on an annual basis with the 40,000 tons in year 11 equating to \$0.0049lb and the 70,000 ton in year 18 \$0.0085/lb. Again, these price effects assume zero growth in the demand for food-service hamburger in the years ahead.

Overall, this agreement is unique in that significant market access (above expected growth in demand) is backloaded until essentially year 15 of the agreement. The inclusion of a transitional quantity-based safeguard, and the permanent price-based safeguard at the end of the transition period, are critical components of this agreement.

The world beef market should benefit from this post-transitional price-based "safety-net" mechanism that essentially provides a type of braking (not blocking) mechanism in the event of a U.S. or Australian beef market meltdown. While such an event seemed unlikely before December 23, 2003, we now know that such a provision is actually sensible trade policy given the quantity of trade involved.

Another issue that continues to be of concern for U.S. cattlemen is the Jones Act. Under this Act, Hawaiian cattlemen cannot directly ship live feeder cattle to the continental United States at a competitive rate on ships under U.S. flag, and instead must transship them through Canada. As

part of the U.S.-Australia FTA negotiations the Australians will obtain direct access for feeder cattle into the United States. Such access would continue to put those Hawaiian cattlemen at an unacceptable disadvantage.

Lastly, we are encouraged by Australia's overtures to harmonize BSE (Bovine Spongiform Encephalopathy) standards between our nations and assist in resolving outstanding trade issues related to this situation.

Minority Opinion of Beef Industry

Australia offers very limited opportunities to market U.S. beef and cattle. In recent years, the United States has marketed no cattle and very little beef into Australia. Conversely, Australia has a beef cattle herd of 26,300,000 despite their recent severe drought. Further, Australia is increasing its cattle producing capacity and feedlot capacity. The Australian beef cattle herd is expected to increase 5 percent per year over the next several years.

The elasticity calculation for beef and cattle is that a 1 percent increase in supply results in a 1 percent to 2 percent decline in live cattle prices. It is in this context that the U.S. live cattle industry sees the Australian agreement as mortgaging the future of the cattle industry and making the prospects bleak for our children and young farmers and ranchers to continue to produce the best cattle and beef in the world. The long-term adverse affects on our rural communities and cultural heritage are disconcerting. We are very troubled that there does not appear to be sufficient recognition of the special needs of cattle and beef trade in the Australian FTA. Even with special safeguards, including a price based "snap-back" provision, which would be implemented in times of surging imports and live cattle prices dropping below cost of production, USTR has negotiated an agreement that will be detrimental to the heirs of the live cattle culture in the United States.

Dairy

Liberalization in market access for dairy in the Australian Free Trade Agreement is one in which the majority of the dairy members of this committee have consistently opposed from day one. Our policy has been to support further trade reform via the multilateral (WTO) process, while at the same time using the bilateral and regional approach in order to gain increased access for U.S. dairy products. However, Australia is not a potential market for U.S. dairy. In fact, there is absolutely no benefit for U.S. dairy producers or the U.S. dairy industry as a whole under the FTA with Australia.

Although we sincerely appreciate USTR's effort to protect dairy's over-quota tariffs, we believe that the new access granted to Australia will cause unnecessary harm to the U.S. dairy industry. The new access, however, can be mitigated if USDA would use all the tools accessible to them to expand U.S. exports and counter European subsidies.

We take exception to Australia's remarks that the U.S. dairy industry paid for the exclusion of other sectors in the U.S.-Australia FTA. It is unfortunate that commodities in the United States were treated differently.

Conclusion

In general, members of the committee remain concerned about the implementation and enforcement provisions within this Free Trade Agreement. We understand that the agreement as a whole will move trade forward between the two countries. However, there were areas in the animal and animal products sector where inadequate progress was achieved and a loss of income could occur.

Our trade advisory committee is grateful for the access that it had to the negotiators of the Australia FTA. We also appreciate and commend USTR for the successes achieved in these most difficult negotiations.

VI. Membership of Committee

Name	Organization	City/State
Jaime Castaneda	National Milk Producers Federation	Arlington, VA
Tom Cook	National Renderers Association, Inc.	Alexandria, VA
Gregory Doud	National Cattleman's Beef Association	Washington, DC
Richard Ellinghuysen	Producers Livestock Marketing Association	Omaha, NE
Richard Fritz	U.S. Meat Export Federation	Denver, CO
John Hardin	John Hardin Farms	Danville, IN
Dana Hauck	Pike Trail Cattle Co., Inc.	Delphos, KS
James Hoben	Interra International, Inc.	Atlanta, GA
John Hogan	John Hogan, Attorney	Washington, DC
Gregory Ibach	Nebraska Department of Agriculture	Lincoln, NE
John Lincoln	Linholt Farm and New York Farm Bureau	Bloomfield, NY
Thomas May	Trugman-Nash, Inc.	New York, NY
Dennis McDonald	Open Spear Ranch	Melville, MT
David Meeker	Federation of Animal Science Societies	Arlington, VA
Daniel Meyer	American Dairy Products Institute	Elmhurst, IL
Toby Moore	USA Poultry and Egg Export Council	Stone Mountain, GA
Michael Mullins	Cargill, Inc.	Washington, DC
James Peterson	Jim Peterson Ranch	Buffalo, MT
John Reddington	American Meat Institute	Arlington, VA
William Roenigk	National Chicken Council	Washington, DC
Donald Schriver	Dairy Farmers of America	Kansas City, MO
Jane Shey	Shey & Associates	Annapolis, MD
Ray Souza	Mel-Delin Dairy	Turlock, CA
Thomas Suber	U.S. Dairy Export Council	Arlington, VA
Jeffrey Swain	BC Natural Foods	Evergreen, CO
James Tillison	Alliance of Western Milk Producers	Sacramento, CA
Gene Wiese	Wiese & Sons	Manning, IA
Caren Anne Wilcox	Caren Wilcox and Associates	Washington, DC
Dennis Wolff	Pen-Col Farms	Millville, PA
Robert Yonkers	National Cheese Institute	Washington, D.C.

