

## **05/26/2002 Entry: "R-CALF USA Submits Comments to U.S. ITC on Tariff Reductions"**

For Immediate Release Contact John Lockie

May 21, 2002 406-252-2516 - johnlockie@r-calfusa.com

(Billings, MT) R-CALF USA (United Stockgrowers of America) has submitted comments to the U.S. International Trade Commission (ITC) regarding the possible economic effects of the reduction or elimination of U.S. tariffs on both cattle and beef. The ITC will examine the probable effect on consumers and U.S. industries producing like or directly competitive articles.

R-CALF USA asked the ITC NOT to use existing economic models to review the effects of trade liberalization on the U.S. cattle industry. A March 2002 report by the U.S. General Accounting Office (GAO) criticizes the ITC's economic models used in studies of the cattle industry. The GAO notes: "ITC has...used computable general equilibrium (CGE) models to assess the likely effects on various sectors of the U.S. economy from major trade liberalization. CGE models are generally not specific enough to predict cattle prices or to address structural changes associated with market concentration, marketing agreements, and forward contracts."

According to the GAO, the ITC generally agrees with the findings of the GAO report. Thus, as both the GAO and the ITC acknowledge that the ITC's current models are flawed, these models should not be used in the current investigation. The ITC should develop new models regarding cattle imports that take into consideration market concentration, marketing agreements, and forward contracts. Further, the new economic models should factor in the perishable nature of live cattle – smaller percentages of imports can have a greater impact on the prices of domestically produced perishable products than is the case with products that can be stored as producers of perishable products have a very limited amount of time in which to sell their products.

The ITC investigation should also take into consideration government support to foreign producers that provides them with artificial advantages in various markets of the world, including the U.S. market. These programs ultimately impact prices received by U.S. producers in the U.S. market, and the potential removal of some of these artificial barriers through international negotiations would impact prices in the U.S. market in conjunction with any reduced or eliminated tariffs.

Increased imports of live cattle and beef can be expected to lead to further saturation of the U.S. market, and thus lower prices received by producers. At the same time consumers purchasing beef will be unlikely to benefit from lower cattle prices. Little connection exists between dollar returns to producers and

prices paid by consumers for beef. For example, in November 2001, average retail beef prices were 9% above those of the previous year. In December 2001, however, fed cattle prices were \$14/cwt lower than the previous year. R-CALF USA contends that this discrepancy is due to market concentration, marketing agreements, and forward contract – factors not taken into account in current ITC economic models. Major U.S. packers can, and do, use imports to suppress prices received by domestic producers of live cattle and beef.

Increased imports will harm U.S. cattle producers and not benefit U.S. consumers. Instead, only the heavily concentrated U.S. beef packing industry, which consists principally of four firms, will profit from increased imports brought about by lower tariffs.

Below is the R-CALF USA comments :

May 20, 2002

Marilyn R. Abbott  
Secretary  
U.S. International Trade Commission  
500 E Street, S.W.  
Washington, D.C. 20436

Re: Probable Economic Effect of the Reduction or Elimination of U.S. Tariffs:  
Comments of the Ranchers-Cattlemen Action Legal Fund – United Stockgrowers  
of America (R-CALF USA)

Dear Ms. Abbott:

The Ranchers-Cattlemen Action Legal Fund – United Stockgrowers of America (R-CALF USA) is pleased to submit comments to the U.S. International Trade Commission (ITC) regarding the possible economic effects of the reduction or elimination of U.S. tariffs.[1] R-CALF USA's comments address both live cattle and beef.

Per the conversation of counsel of R-CALF USA with you on May 3, 2002, R-CALF USA requests permission to submit its comments past the original deadline.

In its Federal Register notice requesting comments, the ITC notes that it will examine the probable effects on consumers and U.S. industries producing like or directly competitive articles using the following three scenarios: (1) the elimination of U.S. tariffs of 5 percent ad valorem or below on dutiable imports from all U.S. trading partners and the reduction of all other U.S. tariffs by 50 percent; (2) the elimination of U.S. tariffs on all dutiable imports from all U.S.

trading partners; and (3) the elimination of U.S. tariffs on all dutiable imports from FTAA countries.

R-CALF USA's comments do not address each of these three scenarios separately. Rather, R-CALF USA discusses issues that should be examined when evaluating each of these scenarios. When appropriate, R-CALF USA refers to individual countries or blocs of countries, e.g., FTAA countries.

## I. Use of ITC Models

### A. Current ITC Models for Evaluating the Cattle Sector Should Not Be Used in Investigation

R-CALF USA contends that models currently employed by the ITC in conducting economic studies on the effects of trade liberalization on the cattle industry are flawed. Thus, these models should not be used in this investigation.

As the ITC is aware, the U.S. General Accounting Office (GAO) released a report in March 2002 titled *Economic Models of Cattle Prices: How USDA Can Act to Improve Models to Explain Cattle Prices* (GAO-02-246).[2] The GAO's report criticizes the ITC's models used in studies of the cattle industry. The GAO notes:

ITC has . . . used computable general equilibrium (CGE) models to assess the likely effects on various sectors of the U.S. economy from major trade liberalization. CGE models are generally not specific enough to predict cattle prices or to address structural changes associated with market concentration, marketing agreements, and forward contracts.[3]

The GAO further states that:

ITC also maintains other models, including a multisector model to estimate the impact of broad trade initiatives such as the North American Free Trade Agreement (NAFTA). While this model is designed to estimate effects of these initiatives on all sectors, it is not detailed enough to estimate the effects of cattle imports on U.S. cattle prices. None of these models explicitly accounts for concentration, marketing agreements, and forward contracts.[4]

According to the GAO, the ITC generally agrees with the findings of the GAO report.[5] Thus, as both the GAO and the ITC acknowledge that the ITC's current economic models are flawed, these models should not be used in the current investigation. Rather, the ITC should develop new models regarding cattle imports that take into consideration, at a minimum, the following market factors: market concentration, marketing agreements, and forward contracts. Further, the new economic models should factor in the perishable nature of live cattle -- smaller percentages of imports can have a greater impact on the prices of domestically produced perishable products than is the case with products that can be stored as producers of perishable products have very limited amounts of

time in which to sell their products. Use of the ITC's current models would produce inaccurate results.

#### B. New Economic Models Should Be Developed for Beef

Likewise, the ITC should not use current models when evaluating the U.S. beef industry and tariff reductions. As with cattle, the U.S. beef market is impacted by market concentration, marketing agreements, and forward contracts, and by not examining these factors, the current models for beef are flawed. Accordingly, the ITC's investigation should take into account market concentration, marketing agreements, and forward contracts when looking at the impact of U.S. tariff reductions on the U.S. beef sector. As is the case with live cattle, the economic models should also factor in the perishability of beef.

#### II. Investigation Should Examine Not Only Impact of Possible Tariff Reductions on Beef, But Also Possible Changes to U.S. Tariff Rate Quotas on Beef

U.S. general tariffs on beef range from 4 percent to 10 percent.[6] In addition, the United States maintains tariff rate quotas (TRQ) on beef with the following allotments: Canada – No Limit; Mexico – No Limit; Australia 378,214 metric tons; New Zealand – 213,402 metric tons; Japan – 200 metric tons; Argentina – 20,000 metric tons; Uruguay – 20,000 metric tons; other countries or areas – 64,805 metric tons.[7]

Some countries would like to see these quotas raised through the current WTO agricultural negotiations. Any expansion of these quotas would impact U.S. cattle producers as more beef would enter the U.S. market. Therefore, the investigation should examine the probable economic effects of lowered tariffs in the context of the TRQs on beef.

#### III. Effects of Tariff Reductions Difficult to Assess Due to Possible Varying Outcomes of Agricultural Trade Negotiations

R-CALF USA notes that the effects of possible changes to U.S. tariffs are directly related to the ability of the Administration to achieve access for U.S. beef and live cattle in the world's major producing and consuming countries. As the United States is currently engaged in agricultural negotiations at the WTO and with other potential FTAA members, the ability of R-CALF USA to address the effects of reduced or eliminated U.S. tariffs is somewhat problematic. After all, if foreign markets are opened or expanded for U.S. beef and live cattle, and if artificial advantages provided to foreign producers are eliminated, U.S. producers will benefit, and these benefits could offset pressures in the U.S. market resulting from increased imports caused by changes in U.S. tariffs. If the current situation in other countries remains the same, but the U.S. reduces its tariffs, the imbalance in the international market will become even greater.

For the information of the ITC, R-CALF USA supports expedited duty reductions to zero for imports of live cattle by all WTO members contingent upon the addition of live cattle to the list of products eligible for coverage under the special safeguard of Article 5 of the Agreement on Agriculture. Regarding beef, R-CALF USA believes that U.S. officials should negotiate for tariff parity with our trading partners, and in particular, with the European Union and Japan as these are major consuming markets.

#### IV. Investigation Should Examine Effects of Tariff Reductions or Elimination in Light of Foreign Barriers to U.S. Products and Artificial Advantages Provided to Foreign Producers

Any examination of the effects of lowering or eliminating U.S. tariffs is not complete without looking at overall factors affecting U.S. cattle and beef prices, and most significantly, barriers to U.S. exports as well as government support that provides artificial advantages to foreign producers.

##### A. U.S. Producers Face Various Barriers to Exports Which Directly Affect Prices in the U.S. Market

U.S. producers of cattle and beef face unreasonable export restraints, in the form of both high tariffs and non-tariff barriers, in a number of countries. For example, while Korea "liberalized" its beef trade regime in 2001, a duty of 40.9 percent is levied on U.S. imports.[8] Although consumption of beef in Turkey is growing,[9] Turkey bans the importation of beef and permits the importation of only cattle for breeding, and not cattle for feeding or slaughter.[10] Even if the United States could ship beef and non-breeding cattle to Turkey, these products would face tariffs of 232.5 percent and 139.5 percent respectively.[11] Further, although the WTO has determined that the European Union's ban on the importation of hormone-treated beef is in contravention of the SPS Agreement of the WTO, U.S. beef is still prohibited entry into the European Union. If U.S. producers could ship beef to the European Union, EU tariffs on beef reach as high as 12.8 percent plus 304.1 euros/100 kg/net.[12] Japan imposes a tariff of 50 percent on beef imports.[13]

If these and other barriers are reduced or removed, such as through current WTO agriculture negotiations, new markets will open for U.S. cattle and beef producers, which will cut excess supply in the U.S. market. Further, exports of other major producing countries to third markets will also relieve pressure in the U.S. market. Thus, the ITC's study should take into consideration barriers to U.S. exports as the potential removal of these barriers would impact prices of cattle and beef in the U.S. market if any of the three above scenarios are ever implemented.

##### B. Report Should Factor Government Support Provided to Foreign Producers

The ITC investigation should also take into consideration government support to foreign producers that provides them with artificial advantages in various markets of the world, including the U.S. market. Governmental support in a number of countries puts U.S. cattlemen and women at a disadvantage. As just several examples of such support, Brazil provides below-market loans to cattle producers, gives them subsidized credit, and provides special financing assistance to meatpackers.[14] Argentina gives special tax advantages to beef exporters.[15] In 2002, the European Union provided a “slaughter premium” of 50 EUR per calf and 80 EUR for adult cattle.[16] Korea gives a maximum deficiency payment of \$221 per calf under its Calf Breeding Stabilization Scheme, and the Korean government has announced a new \$1.8 billion program that will extend over several years to support Korean cattle producers.[17] These programs ultimately impact prices received by U.S. producers in the U.S. market, and the potential removal of some of these artificial barriers through international negotiations would impact prices in the U.S. market in conjunction with any reduced or eliminated tariffs.

#### V. Decreased or Eliminated Tariffs Would Lead to Increased Imports of Beef and Live Cattle

Given the large cattle inventories of some U.S. trading partners, imports of beef and live cattle could potentially saturate the U.S. market and drive down prices received by U.S. producers. The total cattle herd of the United States as of January 1, 2002, was comprised of 97 million head.[18] While beef from Brazil, Argentina, and Uruguay is currently not being imported into the United States due to the presence of foot and mouth disease (FMD) in those countries, ongoing efforts to eradicate FMD could result in imports of fresh, frozen, and chilled beef from these three large beef producing countries within the next several years.[19] Brazil’s cattle supply is projected at 201 million head for 2002.[20] Argentina’s herd is estimated to consist of 65 million head for 2002, and Uruguay has a projected 13 million head for the same year.[21]

Australia has a large cattle population – a projected 38 million head for 2002 – and it is currently exporting large volumes of beef to the U.S. market.[22] In fact Australian exports to the United States, as demonstrated by the following chart, have grown markedly over the past five years.

#### Beef (for Processing into Ground Beef) Imports From Australia (kilograms)

1996  
1997  
1998  
1999  
2000  
2001

181,485,405  
212,763,644  
284,149,644  
284,487,972  
334,980,906  
363,398,568

Source: ITC DataWeb.

Australian producers are lobbying their government to petition the United States for a higher quota under the beef TRQ, and if higher access is indeed agreed upon, imports could be expected to grow to an even higher level.[23] R-CALF USA notes that Australian and Mexican government officials in 2000 signed a protocol that might result in up to 100,000 live cattle being shipped annually from Australia to Mexico, so Australian producers apparently have the logistical ability to export large amounts of live cattle, as well as beef, to the United States.[24]

#### VI. Increased Imports Brought About By Lower Tariffs Will Depress Prices Received by U.S. Cattle Producers, But Will Not Benefit U.S. Consumers

Increased imports of live cattle and beef can be expected to lead to further saturation of the U.S. market, and thus lower prices received by producers. At the same time, however, consumers purchasing beef will be unlikely to benefit from lower cattle prices. Little connection exists between dollar returns to producers and prices paid by consumers for beef. For example, in November 2001, average retail beef prices were 9 percent above those of the previous year. In December 2001, however, fed cattle prices were \$14.00 lower per hundredweight than the previous year. R-CALF USA contends that this discrepancy is due to market concentration, marketing agreements, and forward contracts -- factors not taken into account in current ITC economic models. Major U.S. packers can, and do, use imports to suppress prices received by domestic producers of live cattle and beef.

Thus, increased imports will harm U.S. cattle producers and not benefit U.S. consumers. Instead, only the heavily concentrated U.S. beefpacking industry, which consists principally of four firms, will profit from increased imports brought about by lower tariffs. These four firms constituted 80.4 percent of the U.S. steer and heifer slaughter in 1998, and 85 percent of boxed beef production in that same year.[25]

#### VII. Conclusion

R-CALF USA appreciates the opportunity to make this submission. If the ITC has any questions regarding these comments, please do not hesitate to contact.

Sincerely,

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

---

[1] See 67 Fed. Reg. 10756 (March 8, 2002).

[2] U.S. General Accounting Office, Economic Models of Cattle Prices: How USDA Can Act to Improve Models to Explain Cattle Prices, GAO-02-246, March 2002.

[3] Id. at 49.

[4] Id. at 8.

[5] Id. at 12.

[6] U.S. Harmonized Tariff Code at 0201 (2000).

[7] Id. at Chapter 2, Additional U.S. Note 3.

[8] Grant Pettrie, Republic of Korea Livestock and Products Semi-Annual 2002, Foreign Agricultural Service, U.S. Department of Agriculture, GAIN Report # KS2005, February 1, 2002, at 13.

[9] Susan Schayes, Turkey Livestock Products Annual 2001, Foreign Agricultural Service, U.S. Department of Agriculture, GAIN Report # TU1034, August 21, 2001, at 5.

[10] Id at 1 and 7.

[11] Id at 1.

[12] European Union Tariff Schedule at 0201, 0202 (2000).

[13] Japan Tariff Schedule at 0201, 0202.

[14] U.S. Department of Commerce, Subsidies Enforcement Annual Report to the Congress, February 2002, at 27.

[15] Id at 26.

[16] Id at 28.

[17] Id at 29.

[18] Jose G. Pena, Ag-Eco News, Cattle Market Remains Bright as the U.S. Industry Continues to Decline, Vol. 18, Issue 4, February 7, 2002.

[19] See, e.g., David Mergen, Argentina: Livestock and Products Annual 2001, U.S. Department of Agriculture, GAIN Report No. AR1049, August 3, 2001, at 1.

[20] See Kimberley Svec, Brazil: Livestock and Products Annual 2001, U.S. Department of Agriculture, GAIN Report No. BR1617, August 16, 2001, at 9.

[21] See David Mergen, Argentina: Livestock and Products Annual 2001, U.S. Department of Agriculture, GAIN Report No. AR1049, August 3, 2001, at 1; David Mergen, Uruguay: Livestock and Products Annual 2001, U.S. Department of Agriculture, GAIN Report No. UY1003, August 2, 2001, at 5.

[22] Randolph H. Zeitner, Australia: Livestock and Products Annual 2001, U.S. Department of Agriculture, GAIN Report No. AS1020, August 2, 2001, at 3.

[23] Victoria Farmers Federation, Increased Access Needed for Australian Beef into US (press release), December 7, 2001.

[24] Australian Broadcasting Corporation, Mexico Cattle, 3 August 2000, available at , obtained from internet on May 24, 2001.

[25] Clement E. Ward, Oklahoma State University, Packer Concentration and Captive Supplies, WF-554, December 2001.

(30)

R-CALF USA is a national cattle association representing U.S. cattle producers in trade and marketing issues. It represents independent cattle producers in 42 states and has 28 state and local cattle association affiliates. For more information, visit [www.rcalf.com](http://www.rcalf.com).