

**SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE
REFERENCES COMMITTEE**

**INQUIRY INTO GENERAL AGREEMENT ON TRADE IN
SERVICES AND AUSTRALIA/US FREE TRADE AGREEMENT**

SUBMISSION

Submission No: 63

Submittor: Cattle Council of Australia

Contact: Mr Brett de Hayr
Executive Director

Address: PO Box E10
KINGSTON ACT 2604

Tel: (02) 6273 3688

Fax: (02) 6273 2397

Email: cca@farmwide.com.au

No. of Pages: 3

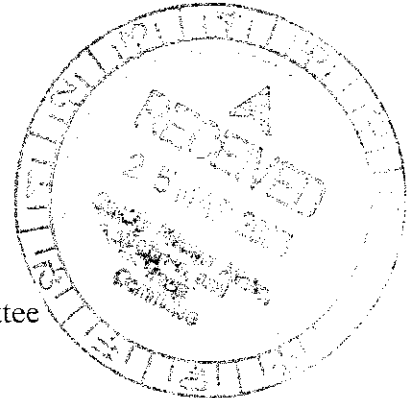
Attachments: No



**CATTLE
COUNCIL
OF AUSTRALIA**

24 March 2003

Mr B Holmes
Secretary
Senate Foreign Affairs, Defence and Trade References Committee
Suite S1.57
Parliament House
CANBERRA ACT 2600



Dear Mr Holmes

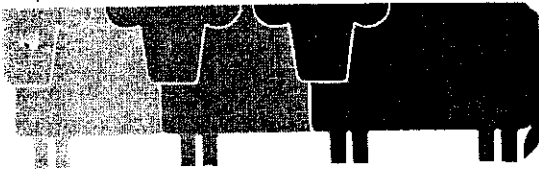
Cattle Council of Australia is pleased to submit the *attached* paper in response to the Senate Foreign Affairs, Defence and Trade Committee's invitation for comment regarding the Inquiry on the Free Trade Agreement (FTA) with the United States (US).

Cattle Council has prepared this paper after analysing a number of reports that it has on this issue, and on balance has concluded that a successful FTA with the US which removes tariff and quota barriers to Australian beef would be of significant benefit to the Australian beef industry. Cattle Council considers that it requires more time to analyse the available information before it is in a position to quantify what these benefits may be.

Cattle Council appreciates the opportunity to provide input to the Senate on this issue, which it considers is of particular significance to the Australian beef industry and looks forward to providing additional input as required. Please do not hesitate to contact me if you require any additional information.

Yours sincerely

Brett de Hayr
Executive Director



Information Paper

24 March 2003

What does an AUS/US FTA mean for the Australian Beef Industry?

Trade is set to be a major issue for the Australian beef industry over the next 18 months with negotiations underway for an Australian-United States Free Trade Agreement (AUS-US FTA), and the next Round of WTO talks. Australia is currently the largest beef exporter in the world and Australian beef producers operate in global beef markets without government subsidies.

What is an FTA?

The aim of a FTA with the US is to liberalise trade in a wide range of goods and services and facilitate trade and investment for both countries. Traditionally, agriculture has proved a stumbling block in trade negotiations with the US. Cattle Council could not support an AUS-US FTA which does not include significant gains for Australian beef producers.

It is important to note that the FTA negotiations will deal with a range of agricultural and non-agricultural goods and services. The assessments contained in this paper are confined to the beef industry only and on the complete removal of existing trade barriers for Australian beef into the US.

FTA Negotiation timelines

- On 14 November 2002, Australia and the US Administrations announced that they would commence negotiations on an AUS-US FTA.
- High level, political commitment exists in both the US and Australia for an expeditious conclusion to the negotiations. There is a need to ensure that any Congressional vote on an FTA is held well before the start of the US Presidential election campaign in 2004.
- Market access issues will receive their first airing at the July meeting of the negotiating teams.

What Australian Beef Producers want from an AUS-US FTA

- **Removal of Tariffs & Quotas** - The 378,214 tonne volume restriction on Australian beef exports to the US should be removed, as should the US\$4.4c/kg in-quota tariff.
- **No Safeguard Actions** - Australia to obtain exclusion from US special safeguard actions applied to beef imports to prevent a tariff "snapback" scenario.
- **Quarantine** - That Australia will retain a science-based quarantine framework but will commit to improving the speed and transparency of processing of import risk assessments.
- **Countervailing Duties** - That anti-dumping and countervailing duties will not be applied to imports of Australian beef by the US.



Current US Trade Barriers to Australian Beef

Currently, Australian beef exports to the US are restricted by a quota of 378,214 tonnes. How to allocate the US beef quota among Australian beef processors has been the source of significant division in the Australian beef industry. The quota has also had a direct impact on Australian beef producers who have to foot the \$3 million that it currently costs to administer the quota into the US. Product shipped within quota also attracts a tariff of US\$4.4 c/kg and an above-quota tariff of 26.4% is applied to product shipped out of quota.

Australia does not apply any tariffs or quotas to American beef.

Why Pursue an FTA with the United States?

The US is Australia's largest individual trading partner, with Australia exporting US\$12 billion in goods and services to the US in 2001-2002. **Beef is Australia's single largest export at \$1.7 billion.** Currently, total trade favours the US, as Australian exports to the US account for around 11 per cent of total Australian exports and the US is the source of nearly one fifth of Australia's imports.

A report by the Centre for International Economics (CIE) (April 2002) outlines that the economic and wider implications of an AUS-US FTA indicate that the liberalisation of bilateral trade and investment would be shared almost equally between both countries. The CIE report states that for GDP, the net present value of benefits is US\$15.5 billion for Australia and US\$16.9 billion for the US.

Potential Benefits to the Australian Beef industry from a Successful FTA

The potential benefits to Australian beef producers from an AUS-US FTA will ultimately be determined by what is contained in the final agreement. The scale of the benefits to the Australian beef industry from an AUS-US FTA will also be governed by supply factors in Australia and demand from the US. A successful AUS-US FTA is likely to have significant implications for the Australian beef industry. However, at this stage, it is difficult to accurately predict the form and size of these implications.

Importantly, a successful AUS-US FTA would remove market distortions caused by the existing tariff and quota system into the US. These distortions exist even when the TRQ level for Australian beef exports is not reached. The very existence of this TRQ creates uncertainty and acts to divert effort from globally marketing beef to securing a slice of the US quota pie.

Australian beef producers must also be prepared for competition in our domestic market from the US. Although there are currently no tariff or quota restrictions on US beef into Australia, this could change if the exchange rate between the \$A and \$US narrows.

Implications for the US Beef Industry from a Successful FTA

The Australian cattle herd totals approximately **27 million head**. The US herd in comparison totals over **96 million head, 3.5 times the size of the Australian herd**. While Australia is the largest exporter of beef in the world, it produces less than 4% of the world's beef supplies. About one-third of this production is consumed domestically; the remainder services a wide range of customers in over 100 countries. Given this, and the fact that the US industry in beef production terms is six times the size of Australia, Australia does not represent a threat to American beef producers.

This means that the US, like Australia, has a



Page 3

has been a strong ally in this aim and the Magellan Project, which is a joint project of the 5 Nations Beef Group (Australia, USA, New Zealand, Canada and Mexico) to quantify the benefits of trade liberalisation to the beef industry, is an example of the collaborative work being done in this area.

Successful FTAs between the US and countries such as Australia will increase the pressure on countries such as Japan, Korea and the EU in the upcoming WTO Round. At this stage these countries show few signs of any significant liberalisation in their beef markets, and FTAs between countries such as Australia and the US are clearly in the best interest of both countries in driving reform in these markets.

Australia has traditionally exported manufacturing grade beef to the US, which is complementary, rather than in significant competition, to domestic US production.

Pork & Poultry

Both Pork and Poultry are also likely to be discussed within the framework of a FTA. Currently, all fresh poultry imports into Australia are banned under our current SPS requirements. However, pork is imported from Canada, Denmark and New Zealand. The US is currently the largest global exporter of poultry meat and is also a major player in the pork export market.

It is likely that the US will negotiate for access for these products, particularly pork, and this has the potential to impact on the beef industry if any of the current quarantine measures to the imports of pork and poultry are reduced or removed. However, analysis indicates that the effect on the beef industry is likely to be relatively small.

Bilateral Agreements (FTA) v Multilateral Agreements (WTO)

As outlined above, a successful AUS-US FTA could have significant wider trade implications for both Australia and the US. There have been concerns raised in some quarters that pursuing bilateral trade agreements (i.e. FTAs), could undermine progress on multilateral agreements under the next Round of WTO negotiations. However, the reverse is more likely to be the case. Neither the Europeans nor the Japanese have shown signs of meaningful reductions in agricultural trade barriers in the lead-up to the next WTO Round.

Successful FTAs, such as the one proposed for the US and Australia could increase the pressure on other countries to achieve meaningful gains in the WTO multilateral trade talks, or run the risk of being left out on access to liberalised markets. Therefore, a successful AUS-US FTA could benefit both Australian and US beef producers as it would increase the pressure on countries such as the EU, Korea and Japan in the next Round of WTO multilateral negotiations.

Quarantine

Cattle Council supports the retention of Australia's science-based quarantine framework, but agrees with improving the speed and transparency of processing of import risk assessments. Cattle Council will not support negotiations which place Australia's pest and disease status at undue risk.

Conclusion

While the final benefits of a successful FTA are difficult to quantify and depend very much on what assumptions are made, it is clear that Australian beef producers would gain from an AUS-US FTA. A comprehensive FTA would result in the elimination of unproductive and divisive quota speculation. Most importantly, an AUS-US FTA would help to put positive pressure countries such as Korea and Japan to significantly liberalising their beef markets under the