



## **CATTLE COUNCIL OF AUSTRALIA**

### **Senate Submission Regarding the Proposed Australia-US Free Trade Agreement**

#### **Background**

The Cattle Council of Australia (CCA), represents Australia's 70 000 beef producers and has had a long held commitment to pursuing improved market access. Australian beef producers operate without government protection in the form of import tariffs/quotas or support in the form of single desks, floor prices or industry deregulation/restructuring packages. It is against this background that Australian beef producers compete in the global market place, including the important United States (US) beef market.

Beef is Australia's single largest agricultural export and Australia's largest manufactured export to the US. Last year the Australian beef industry had sales in excess of \$A10 billion dollars, with sales in North America in excess of \$A1.7 billion.

CCA supported negotiations on a Free Trade Agreement (FTA) between Australia and the US, as it was the first FTA negotiation by Australia, which could have had major significance for the Australian beef industry. This is not only because of the size of the US market, but also because of the implications of a comprehensive US FTA for future bilateral and multilateral trade negotiations. For these reasons CCA, along with Meat & Livestock Australia (MLA), invested considerable resources into positioning the Australian beef industry for the US FTA negotiations.

The objectives set by the Australian beef industry for the FTA were:

1. Immediate expansion of the 378,214 tonne TRQ via a 'down-payment' coupled with annual tonnage increments before the TRQ is removed and free trade would prevail.
2. Elimination of the 26.4% ad valorem over-quota tariff over a specified time period. The reduction of the over-quota tariff will assist in facilitating trade, which the current high ad valorem level prohibits.
3. Elimination of the existing US\$4.4¢/kg and 4%-10% (ad valorem tariff on processed beef) in-quota tariffs.
4. Obtain security of access for Australian beef exported to the US, by obviating any special safeguards (which have the potential to become border protection measures).



## **The FTA Negotiations**

As previously stated, the Australian beef industry invested significant time and money throughout the entire FTA negotiation process, both domestically and in the US. This took the form of a co-ordinated and cohesive process between CCA, MLA, the Australian Lot Feeders Association, the Australian Meat Industry Council and the National Farmers Federation. This highlights the importance the Australian beef industry placed on meeting its objectives for the FTA.

CCA (and other sections of the Australian beef industry) had representatives in Washington DC for consultations during the entire period of the final round of negotiations and was in close contact with Australian Government and Departmental officials. Therefore, the industry representatives present received a unique insight into the negotiations.

It is this insight which allows CCA to state that in its opinion, the Australian Trade Minister and the Australian negotiating team worked tirelessly to achieve the best outcome they could for Australian beef producers. CCA takes exception to anyone who would criticise their efforts during the FTA. There has been comment by some groups within Australia questioning the professionalism of the Australian negotiators. However, it is interesting to note that none of these groups were present in Washington during the final round of negotiations. Therefore, their comments are not based on first hand experience as compared to groups such as CCA. While CCA remains frustrated with the outcome of the FTA, this is entirely targeted at the US and its inability to free itself from its protectionist shackles.

The comments provided by CCA in this submission obviously relate only to those issues impacting on beef and agriculture in general. Only the negotiators themselves know what was actually said at the negotiating table.

## **The Australian Offer on Beef**

Before the final round of negotiations commenced, the Australian beef industry put forward a modest request to the US for a down payment of just over 90,000 tonnes of beef on implementation (i.e. year one), the complete removal of all quotas within seven years and no permanent safeguards. These access requests were developed by industry in consultation with Australian negotiators, to be deliberately conservative – the magnitude of the down payment equates to less than 0.5% of the US beef market. The Australian request should also be viewed in the context that US beef production is predicted to fall by over 600,000 tonnes in 2005, while total US beef consumption continues to rise.

Because the Australian beef industry does not have any mechanisms such as single desks, which could be targeted by the US as a component of trade reform, it did not have any concessions which it could or should consider granting the US. The US beef industry already has free access to the Australian market.



## **The Outcome in Relation to Beef**

**Additional 70 000 tonne Quota** – The outcome on beef from the AUSFTA negotiations was substantially different from the negotiating objectives of the CCA. In short, an increase in quota of 70,000 tonnes over 18 years was negotiated. This negotiating outcome can only be described as disappointing. Critically, the increase is not sufficient for Australia to avoid quota restrictions in the US market in many years.

This conclusion that Australia will continue to face quota restrictions in the US market in many years is supported by three observations.

First, MLA forecasts that Australian beef production will increase by 400 000 tonnes during the next 5 years. With the anticipated firm levels of demand for beef in the US, given open access it would be expected that a significant proportion of the 400,000 would be shipped to this market. By the time the 400 000 tonnes of Australian beef production comes on line, the US beef quota under the FTA will only have increased by 20 000 tonnes.

Second, modeling completed by the Centre for International Economics (the same firm used by the Government for modeling the total impacts of the AUSFTA) concludes that, even with the additional AUSFTA tonnages, the Australian beef industry will continue to be constrained by the US quota.

Third, historical analysis strongly points to the probability of Australian beef exports continuing to be constrained by the US quota. In 1994 Australia only had a quota of approximately 300 000 tonnes into the US. The Uruguay Round saw Australia achieve an immediate 75 000 tonne increase in its US quota, a level it exceeded within seven years. This demonstrates the ability of the Australian cattle industry to respond to increased demand in the US.

It should also be noted that Australia has filled its beef quota into the US for the last two consecutive years, despite the impact of a drought.

The projected increases in Australian beef production may seem large from an Australian perspective, however is tiny in comparison to US beef production and the total market for beef in the US. The American beef industry is six times the size of the Australian beef industry. It would be impossible for the Australian beef industry to increase production to an extent which could cause any perceptible harm to the US beef industry.

**18 Year Transition Period** - The 18-year transition period negotiated under the FTA was also disappointing. The Australian beef industry was seeking a seven year transition period to free trade and noted that Chile achieved a 4 year transition period for beef in its FTA with the US. Before the final round of negotiations, both the National Farmers Federation and the Government said that a transition period of more than the 12 years achieved by Chile in the FTA with the US would not be acceptable. This position was seen as both justifiable and achievable at the time.



The 70 000 tonne increase in beef quota would have represented a satisfactory increase if the transition period had been over 7-9 years. However, this increase in access over an 18-year transition period will not keep pace with the anticipated growth in the Australian beef industry and growing US domestic demand.

**Safeguards** - CCA has consistently opposed the inclusion of permanent safeguards in FTAs. Agreeing to permanent safeguards sets dangerous precedents for future FTA negotiations and also makes it difficult to argue against countries such as Japan over the beef tariff safeguard or “snapback”.

The FTA negotiated with the US contains a volume based transitional safeguard and a price based permanent safeguard. It should be noted that the transitional volume based safeguard has a lower trigger (10% as opposed to 17%) than the much-criticized “snapback” safeguards used by Japan. However, that tariff rate which it snaps back to, is lower in the case of the US than in Japan.

Whilst CCA policy is against any safeguards, it is the inclusion of the permanent safeguard, which is considered the most problematic. Unfortunately, it is impossible to forecast what impact it will have in 18 years time. No one can predict the factors which will be operating in the market so far into the future.

Although CCA and other industry representatives had input in assessing the US safeguard proposal and the fact that a price based safeguard is more defensible than a volume based safeguard (i.e. as in Japan), CCA remains opposed to the use of a 6.5% price trigger. Industry assessment indicates that such a safeguard would have been triggered six times over the last decade. At a 6.5% trigger, this is clearly not a mechanism to protect the US industry from undue damage, but one designed to unduly restrict Australian beef imports.

### **Financial Benefits of the FTA to Australian Beef Producers**

At the conclusion of the FTA negotiations in Washington, the CCA estimated that the financial impact of the FTA for Australian beef producers would be approximately equivalent to the value of one cow per year per producer, over the 18-year transition period. This was a basic initial assessment of the FTA in relation to beef to provide preliminary feedback. CCA indicated at the time, that an in-depth assessment would be carried out to provide more accurate information to Australian beef producers as to what the FTA would mean for them. This analysis is now complete and CCA considers this to be an honest appraisal of the financial impact of the FTA, from the perspective of Australian beef producers.

In summary, the assessment indicates that the FTA would have a net positive impact on the Australian beef industry of approximately 1.1% to 1.5%. There are a number of ways, which this figure can then be applied. In analysing the total benefit of the FTA to the Australian beef industry, the independent modelling indicates that the benefit to the Australian beef industry in the first operational year of the FTA would be \$121 million, growing to \$154 million in 2020. This is obviously not an insignificant benefit to the broader Australian beef industry.

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*Cattle Council of Australia - Senate submission regarding the proposed Australia-US FTA (April 2004)*





Over 18 years, the cumulative benefit of the FTA for beef would equate to \$1.1 to \$1.7 billion to the broader Australian beef industry. However, to accurately reflect the true impact of the FTA on the Australian beef industry over this period, this must be viewed in the context that the industry will have total sales of approximately \$100 billion (farm gate) over the same period. CCA considers that an appraisal must view any benefits relative to the total size of the industry and that cumulative figures over such an extended period may not be particularly meaningful.

CCA is most interested in the benefits which the FTA would accrue to Australia's 70,000 specialist beef producers. As producers at the very beginning of the supply chain, they are the last to capitalise on any benefits which arise in the market place. The analysis indicates that the impact of the FTA on cattle prices remains relatively static over the 18 years at 2 cents/kg live-weight (LWT). For an average animal at 500 LWT, this translates to an additional \$1 per head.

Industry statistics indicate that the average producer sells approximately 600 head per year. Under this example the value of the FTA to the average beef producer would be approximately \$600 per year. This is close to CCA's original assessment at the conclusion of the FTA negotiations of the value of one cow, but it is closer to the value of one calf.

There are obviously producers who sell much more or much less than 600 head, but it does provide what CCA considers to be a valid indication of the impact of the FTA in relation to Australian beef producers, over the next 18 years. Quoting extreme examples on either end of the spectrum would in CCA's opinion not be valid.

In relation to the situation after 18 years and the future impact or operation of the price-based safeguard, CCA considers that the long timeframe makes it impossible to provide any clear assessment. Whilst the FTA "may" result in free trade over 18 years, it is impossible to predict what range of political and commercial forces will be operating in 18 years time. If the FTA did in fact result in free trade for the Australian beef industry after 18 years, this would indeed be extremely valuable. However, this potential benefit would not be realised by the current generation of Australian. CCA considers that due to the long timeframes, the situation post the 18-year transition period is too difficult to provide a valid assessment and would be purely speculative.

There are also non-financial aspects associated with the FTA, which could potentially have a negative impact on Australian beef producers, via their potential impact on future bilateral and multilateral trade negotiations. These are the fact that Australia agreed to a FTA, which was not comprehensive (i.e. sugar was left out – it could be beef's turn next), Australia agreed to long transition periods i.e. 18 years and that permanent safeguards were agreed to. CCA considers that it is impossible to accurately quantify the financial impact of these aspects for potential future agreements.

Equally there may well be aspects of the FTA outside of the specific negotiations on beef, which could have flow on financial benefits to Australian beef producers. However, these are again difficult to quantify and depend on a range of factors,



which may or may not come to fruition. This assessment is purely concerned with those items directly contained within the negotiations on beef.

CCA considers that this assessment is an honest and accurate assessment of the benefits of the FTA for individual Australian beef producers.

## **Conclusion**

The outcomes of the FTA in relation to beef did not approach the justifiable expectation of Australian beef producers and was not a "Free Trade Agreement", but a "Trade Agreement". However, CCA recognises that the deal that has been negotiated cannot now be altered and that a pragmatic approach is required.

It is CCA's opinion that the Australian Government secured the best deal it could for the Australian beef industry. Any fault lies not with the Australian Government and its negotiators, but with the US and its inability to remove itself from the political shackles of certain groups within the US farm lobby.

Despite the fact that increased access which the FTA would provide is significantly less than that sought by industry, it is greater than that which is likely to be achieved via the WTO in the near future. However, it is important that the impact of the FTA in relation to beef for individual Australian producers is honestly portrayed and not oversold. The outcomes are positive, but minimal for most Australian beef producers.

CCA considers that both government and industry have learnt much from the FTA negotiations with the US, which will prove useful in the future when conducting other FTA negotiations. Both government and industry will need to be prepared to commit significant resources to future FTA's if market access gains for Australian beef producers are to be maximised.

From CCA's perspective, the close collaboration between industry representatives and Government seen in the FTA negotiations with the US, should be used as a model for future FTA's. This was one of the most positive aspects of these FTA negotiations. Without this collaboration and the resulting understanding of industry of the Australian governments efforts, the attitude of industry to the outcome of the FTA is likely to have been less positive.

In closing, the Federal Government had to make a judgment call in accepting the FTA which was on offer at the conclusion of the negotiations. As the FTA negotiations were being concluded, the Federal Government was aware of the beef industry's concerns regarding the US offer on beef. In accepting the FTA, CCA understands that the Federal Government had to assess the benefits to the broader economy.

CCA considers that the US remains unjustifiably protectionist in relation to agriculture and that as the leading Australian agricultural export, continued growth in market access is essential for the Australian beef industry to grow and prosper.

