



30 April 2004

Mr Brenton Holmes
Secretary
Senate Select Committee on the Free Trade Agreement between Australia and the United States
Suite S1.30.1, The Senate
Parliament House
CANBERRA ACT 2600

Via email: FTA@aph.gov.au

Australia / United States Free Trade Agreement

**Australian Red Meat Industry Submission
to the Senate Select Committee**

Dear Mr Holmes

I am writing in response to the Senate Select Committee's invitation to comment on the Free Trade Agreement (FTA) between Australia and the United States (US).

I have attached a submission outlining the Australian red meat industry's views on the Australia / US FTA. This paper has been endorsed by the Cattle Council of Australia, Sheepmeat Council of Australia, Australian Lot Feeders' Association, Australian Meat Industry Council and Meat and Livestock Australia.

The Australian red meat industry has been an interested and contributory party from the outset of the FTA process. In January 2003 the industry submitted to the Department of Foreign Affairs and Trade its objectives for the proposed Australia / US FTA. These objectives are presented again in the attached paper. On 2 April 2003 the Australian red meat industry provided a submission to the Senate Foreign Affairs, Defence and Trade References Committee Inquiry into the proposed FTA and later provided verbal comment at a public hearing. The industry also submitted comments (13 April 2004) to the Joint Standing Committee on Treaties Inquiry into the FTA.

Please don't hesitate to contact me or Andrew McCallum (MLA's Manager - Trade Policy, Tel 02 9463 9153) should you require clarification of any of the issues raised in the attached document.

Yours sincerely

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Australian Red Meat Industry Submission to the Senate Select Committee

Executive Summary

This submission has been compiled by the Australian red meat¹ industry (Cattle Council of Australia, Sheepmeat Council of Australia, Australian Lot Feeders' Association, Australian Meat Industry Council and Meat & Livestock Australia) in response to the Senate Select Committee's invitation to comment on the Free Trade Agreement (FTA) between Australia and the United States (US).

Key FTA outcomes for the Australian beef, sheepmeat and goat meat sectors:

Beef

- Additional 70,000 tonne FTA quota added (incrementally) to existing 378,214 tonne quota over 18 years.
- Immediate elimination (year 1) of in-quota tariffs (US4.4¢/kg and 4%-10% for processed beef).
- Phase out of over-quota tariff (26.4%) from years 9-18.
- Volume safeguards applicable from years 9-18.
- Price safeguards applicable from year 19.

Sheepmeat

- Immediate elimination (year 1) of the bulk of tariffs (lamb US0.7¢/kg and mutton US2.8¢/kg).

Goat meat

- Reaffirmation of zero tariffs.

Industry position on the FTA outcome:

- The FTA did not deliver industry expectations of an immediate increase in Australia's beef quota to the US.
- Despite sound economic rationale, the level of liberalisation ambition was tempered by a case of BSE in the US announced in December 2003 and opposition to any increased access for Australian product under an FTA as voiced by the US beef lobby. This was compounded by the influence of sugar being omitted from the Agreement.
- The access negotiated for beef, involving the expansion of the quota (albeit 'back loaded' over an 18-year timeframe), immediate elimination of in-quota tariffs and a phasing out of the over-quota tariff, delivers gains, albeit modest, to the Australian beef industry as a whole.
- The arbitrary price-based safeguards to be imposed at the end of the transition period provide a "safety-net" to the US beef industry and are an unwarranted obstacle in achieving free trade.
- For sheepmeat and goat meat, the industry's objectives were met.
- The FTA offers increased access not immediately available from any other forum.

¹ Beef, veal, lamb, mutton, goat meat and associated offal products.

1. Overview

The Australian red meat industry supported the initiation of negotiations on a FTA between Australia and the US. While our industry recognised that the FTA negotiations would present challenges for both sides, we also believed that an FTA would create important opportunities for many products, including agricultural products.

As a globally focussed industry and a staunch supporter of free trade, the prospects of an FTA delivering ongoing trade improvements presented a unique opportunity to advance the interests of the red meat industries in both Australia and the US.

It was envisaged that a comprehensive trade deal between the two countries would also send a clear signal about reform to the global trading community.

This paper outlines the objectives the Australian red meat industry set for the FTA and compares these to the negotiated outcomes.

1.1 Overarching FTA objective

- *Unencumbered access for Australian beef, sheepmeat and goat meat to the US market.*

2. Beef

Beef exports were Australia's largest individual merchandise export item to the US in 2003 – valued at A\$1.35 billion (A\$1.6 billion in 2002). However, the volume of these exports is quota constrained.

A comprehensive FTA between Australia and the US could potentially remove this constraint and alleviate the market distortions of the current tariff rate quota (TRQ).

Australia has only triggered (exceeded) the current 378,214 tonne [World Trade Organization (WTO) negotiated] beef TRQ once in the past nine years. However, the presence of the quota distorts free market behaviour. These distortions stem from the commercial uncertainty and market speculation currently associated with the possible introduction of quota restrictions each year.

An FTA would also enhance the complementary strengths of both lean Australian manufacturing grade product and US beef trimmings. Both beef industries are efficient producers of high quality products suitable for a range of end uses. The Australian beef industry is predominantly a grassfed industry, producing lean product, while the US industry focuses on producing grainfed beef.

Given this focus, the bulk of Australia's beef exports to the US comprise lean frozen manufacturing grade product – a mix of grinding cuts, which are blended with US trimmings used primarily for the production of hamburger patties. While the Australian beef industry only produces one sixth of the quantity of beef the US industry does, lean Australian beef clearly adds value to US fatty trim.

One result of a successful FTA would be the further development of this beef trade, which is beneficial to both parties.

2.1 Beef industry objectives

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.

- An immediate expansion of the TRQ was the industry's priority and its incremental expansion before removal would provide:
 - An increase in the level of access upon implementation – allowing the Australian industry to respond to US demand;
 - Relief from the ceiling imposed by the TRQ (“commercially” the quota would not be triggered);
 - Removal of the commercial uncertainty and market speculation currently associated with the possible introduction of quota restrictions; and
 - The US beef industry with some “comfort” that Australian beef exports will not flood the market.
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.
 - The elimination of the in-quota tariff should be part of a comprehensive FTA.
 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).
 - During any transition period the TRQ and the over-quota tariff provide a safeguard and no further safeguard measures are warranted.
 - Should safeguards be a component of the FTA, these should be applicable during the transition period only and should only be applicable to over-quota product.

2.2 The US beef industry position

Despite acknowledging the sound economic (complementarity) argument for increased access, the US beef cattle lobby opposed any increase of Australia's TRQ and / or a reduction of tariffs without the US beef industry receiving substantial gains in access to the other major beef importing nations such as Japan, South Korea and the European Union.

The US industry's position was that its objective could only be achieved through multilateral WTO negotiations – not bilateral negotiations.

The US beef cattle industry's position in the negotiations² was to prevent any potential negative impact on the industry caused by an FTA before the US beef industry had an opportunity to increase its ability to export via the WTO liberalisation process.

With US five-year industry estimates projecting a 1-2% annual growth in demand for manufacturing beef, the US argued that the size of Australia's TRQ should grow commensurate with the market's demand. It was argued that if these estimates held there would be no net negative price effect on US cow prices during the next 10 years of the FTA.

The US modelling showed that an extra 70,000 tonnes access granted to Australia in year 18 would only equate to a US\$0.0085/lb decrease in the live price of the US cow market (assuming zero growth in food service hamburger demand).

² USTR Trade Advisory Committee Reports – US/Australia Free Trade Agreement, Agricultural Technical Advisory Committee for Trade in Animals and Animal Products, March 2004, as posted on www.ustr.gov.

2.3 Impact of BSE

The US announced on 23 December 2003, that a case of Bovine Spongiform Encephalopathy (BSE or 'mad cow' disease) had been detected in a single animal in Washington State. The reaction of international markets was to immediately ban the entry of all US beef (a ban which is still effective in most Pacific Rim countries today).

The announcement, just prior to the final round of FTA negotiations (and the subsequent report from the international BSE panel released 4 February 2004), ultimately impacted the negotiated beef outcome (see section 2.4). The timing of the detection of BSE was most unfortunate.

2.4 Beef outcome

- The in-quota tariffs (US\$4.4¢/kg and 4%-10% processed beef) will be eliminated immediately once the Agreement enters into force (Table 1).
- Australia will receive additional duty free TRQ access for an increasing volume of beef during the 18 year transition (liberalisation) period of the Agreement (Table 1). The additional quota volumes will grow from 20,000 tonnes in year 3 of the Agreement (at the latest) to 70,000 tonnes in year 18 of the Agreement.

Table 1: Beef access arrangements

Year	Additional duty free FTA quota volume (tonnes)	Total duty free quota volume WTO + FTA (tonnes)	In-quota tariff	Over-quota tariff
1	Zero	378,214	Zero	26.40%
2	15,000	393,214	Zero	26.40%
3	20,000	398,214	Zero	26.40%
4	20,000	398,214	Zero	26.40%
5	25,000	403,214	Zero	26.40%
6	25,000	403,214	Zero	26.40%
7	30,000	408,214	Zero	26.40%
8	30,000	408,214	Zero	26.40%
9	35,000	413,214	Zero	24.64%
10	35,000	413,214	Zero	22.88%
11	40,000	418,214	Zero	21.12%
12	40,000	418,214	Zero	19.36%
13	45,000	423,214	Zero	17.60%
14	45,000	423,214	Zero	14.08%
15	50,000	428,214	Zero	10.56%
16	55,000	433,214	Zero	7.04%
17	60,000	438,214	Zero	3.52%
18	70,000	448,214	Zero	Zero
19 and beyond	Unlimited	Unlimited	Zero	Zero

- Note: the 15,000 tonnes in year 2 (Table 1) will only be granted if US beef exports return to their pre-BSE (2003) levels. Additional quota volumes in years 3 and beyond are guaranteed, regardless of US exports.
- The additional 70,000 tonnes represents an 18.5% increase in access to the US over 18 years. To put the tonnage in context, this volume equates to only around 3 weeks of Australian beef production and is equivalent to less than 2 days of US beef production. Further, the growth in access of 18.5% barely keeps pace with the US Government's projected population growth (potential beef consumers) over this period.

2.5 Beef safeguards

- Two types of safeguards will apply to beef at different times under the Agreement.

2.5.1 Quantity-based safeguard – implementation years 9 to 18

- During years 9 to 18 of the tariff elimination period, a safeguard will apply to exports of beef which exceed 110% of the total preferential quota volume in that year.
- If the 10% trigger is exceeded, any additional over-quota exports would have to pay a higher tariff (equal to the FTA preferential tariff plus 75% of the difference between the original tariff and the FTA preferential tariff).

2.5.2 Price-based safeguard – implementation year 19 and beyond

- A price-based safeguard may apply to beef exports starting in year 19 of the Agreement - that is, once the binding quotas and tariffs on beef have been eliminated a permanent safeguard mechanism exists. (The US has the discretion not to impose the safeguard.)
- This safeguard is applicable to aggregate quantities greater than the sum of the existing 378,214 tonne WTO quota plus the 70,000 tonnes FTA quota (achieved in year 18) plus an annual growth factor of 0.6% of the FTA quota (initially 420 tonnes in year 19) ie 448,634 tonnes in year 19. This amount of beef will always receive duty free access into the US and cannot be subject to the price-based beef safeguard.
- The safeguard will be triggered if the monthly average index price of beef in the US (based on a Wholesale Boxed Beef price) falls 6.5% below the average of the past two years.
- If the safeguard is triggered, beef exports to the US in excess of the minimum quota amount will be subject to a tariff equal to 65% of the prevailing Most Favoured Nation (MFN) tariff on beef. (Based on the current tariff, the safeguard tariff would be 17.2%).
- Initial research indicates that this safeguard would have been triggered in at least 5 years (and in some years on repeated occasions) over the past decade had it been operational. This would cause noticeable trade disruption.
- [Note: the price safeguard provisions previously available to the US under Chapter 99 of the US tariff schedule are longer applicable to Australian product under the FTA.]

2.6 Estimated quantitative benefit for beef

The Centre for International Economics (CIE) is calculating (on behalf of the Federal Government) the potential benefits derived for beef from the FTA.

An initial estimate of the basic gains (not accounting for cumulative net present value benefits which the CIE is calculating) for the beef industry include:

- A\$22 million per annum (in years which the full beef quota is achieved) from elimination of the US\$4.4¢/kg in-quota tariff (assuming the full tariff value is passed back by importers). This represents around 1.6% of the total value of Australian beef exports to the US (A\$1.35 billion).
- A\$54 million for a 15,000 tonne quota increase in year 2 (at 2003 average value of A\$3,600 / tonne).
- A\$252 million for a 70,000 tonne quota increase in year 18 (at 2003 average value of A\$3,600 / tonne).

Industry position on beef outcome:

- FTA objectives only partially met.
- Key divergences: 1. no immediate increase in TRQ; 2. small increase in the TRQ over 18 years; 3. long phase out of TRQ; and 4. price-based safeguards from year 19.

3. Sheepmeat

Securing certainty in the sheepmeat trade by eliminating the import tariffs on lamb / mutton and ensuring no arbitrary safeguard provisions were introduced in the Agreement was a necessary outcome for the Australian industry.

The industry sought that the flaws exposed by the WTO Dispute Settlement Body (DSB) in the US International Trade Commission process (as evidenced in the 1999-2001 US Section 201 lamb safeguard action) be addressed by avoiding any application of safeguard measures involving Australian sheepmeat products.

The sheepmeat industry has made a significant investment in developing the US market over recent years and is currently actively working in conjunction with the US sheepmeat industry to expand US consumer demand for this product.

Australia exported 31,656 tonnes of lamb to the US in 2003 worth around A\$263 million - making it Australia's largest lamb export market. Australia also exported 14,600 tonnes of mutton to the US worth around A\$49 million.

3.1 Sheepmeat industry objectives

1. As there is no quota applicable to Australian lamb or mutton exports to the US, the primary objective was to ensure no arbitrary safeguard provisions apply.
2. Elimination of the existing US\$0.7¢/kg and US\$2.8¢/kg tariffs.

3.2 US sheep industry position

The following is an extract from the American Sheep Industry Association's position³ on the FTA: *"Lamb is already freely traded between the two countries and with maintenance of adequate sanitary and phyto-sanitary requirements for live sheep and meat, we do not anticipate issues with the proposed agreement regarding lamb."*

³ American Sheep Industry Association letter to The Hon. Robert Zoellick, July 2003, as posted on www.sheepusa.org.

3.3 Sheepmeat outcome

- The bulk of the in-quota tariffs applicable to Australian lamb (US0.7¢/kg) and mutton (US2.8¢/kg) will be eliminated on implementation of the Agreement (Table 2).
- No arbitrary safeguards were introduced.

Table 2: Sheepmeat tariffs

Tariff line	Product description	Base tariff rate (US cents)	FTA outcome
02041000	Carcases / half carcasses of lamb, fresh or chilled	0.7¢/kg	Immediate elimination
02042100	Carcases / half carcasses of sheep, other than lamb, fresh or chilled	2.8¢/kg	Elimination in equal installments over 4 years
02042220	Cuts of lamb, bone-in, fresh or chilled	0.7¢/kg	Immediate elimination
02042240	Cuts of sheep meat, bone-in, fresh or chilled	2.8¢/kg	Immediate elimination
02042320	Boneless lamb, fresh or chilled	0.7¢/kg	Immediate elimination
02042340	Boneless sheep meat, fresh or chilled	2.8¢/kg	Immediate elimination
02043000	Carcases / half carcasses of lamb, frozen	0.7¢/kg	Immediate elimination
02044100	Carcases / half carcasses of sheep, other than lamb, frozen	2.8¢/kg	Immediate elimination
02044220	Cuts of lamb, bone-in, frozen	0.7¢/kg	Immediate elimination
02044240	Cuts of sheep meat, bone-in, frozen	2.8¢/kg	Immediate elimination
02044320	Boneless lamb, frozen	0.7¢/kg	Immediate elimination
02044340	Boneless sheep meat, frozen	2.8¢/kg	Immediate elimination
02068000	Edible offal, fresh or chilled	Zero	Confirmed as zero
02069000	Edible offal, frozen	Zero	Confirmed as zero

3.4 Estimated quantitative benefit

- The elimination of the lamb and mutton tariffs (excluding chilled mutton carcasses) is estimated to be worth around A\$850,000 per annum.

Industry position on sheepmeat outcome:

- FTA objectives met.

4. Goat meat

As there is no tariff or quota applicable to Australian goat meat exports to the US, no transition arrangements or special safeguard provisions should apply under an FTA.

Australia exported 7,714 tonnes of goat meat to the US in 2003 worth around A\$29 million.

4.1 Goat meat outcome

- The Agreement reaffirms that no tariffs (Table 3) or tariff rate quotas will be applicable to Australian goat meat imported by the US.
- No arbitrary safeguards were introduced.

Table 3: Goat meat tariffs

Tariff line	Product description	Base tariff rate	FTA outcome
02045000	Meat of goats, fresh, chilled or frozen	Zero	Confirmed as zero
02068000	Edible offal, fresh or chilled	Zero	Confirmed as zero
02069000	Edible offal, frozen	Zero	Confirmed as zero

Industry position on goat meat outcome:

- FTA objectives met.

5. Additional FTA provisions

5.1 Side-letter on Bovine Spongiform Encephalopathy (BSE)

In a side-letter on BSE, the US and Australia have agreed to cooperate in international standard setting bodies. This is intended to cover any international standards or guidelines that might be developed by OIE (World Animal Health Organisation) and Codex Alimentarius (which develops international standards in food).

Industry position:

- The Australian red meat industry concurs with the harmonizing of BSE standards and mutual cooperation in resolving trade issues related to this situation.
- The intent of the BSE side-letter is supported.

5.2 Global safeguard measures

Article 9.5 of the Agreement commits each Party to consider excluding products from the other Party from any global safeguard measure (i.e. a safeguard measure applied to all imported products of a particular type, regardless of their country of origin, under the WTO Agreement). Australian products may, for example, be excluded where they are not a substantial cause of the serious injury being suffered by the US industry.

Industry position:

- The Australian red meat industry is fully supportive of the intent of the Article on global safeguard measures.

6. Additional comments

6.1 Consultative process

The Australian red meat industry wishes to acknowledge the work carried out by the Australian Government negotiators and Ministers in relation to the FTA over the past 12 months.

Industry representatives have had unprecedented access to Australian Government officials in the preparatory stages, before and following each engagement, during the final round of negotiations and subsequent to the release of the FTA outcomes.

Industry position:

- The industry extends its gratitude to the Australian negotiating team for the close level of consultation / cooperation.

(Ends.)