Anticipating GATT

The red meat industry looks forward to the implementation of GATT and increased market access.

BY CINDY FOLCK

1994 was the year of changing world trade. The United States Congress debated and passed, and President Clinton signed, the North American Free Trade Agreement. This trade initiative opened up the borders of the United States, Canada and Mexico to free trade. December heralded the ratification and signing of the General Agreement on Tariffs and Trade (GATT) by the United States. But what does this era of opening borders and diminishing tariffs hold for U.S. beef producers?

NAFTA opened up a southern market for U.S. beef producers as Mexico began eliminating their tariffs on beef products. While GATT doesn't completely eliminate tarrifs on beef products, it ends import quotas for a majority of countries and polices some unfair trade practices that were levied at U.S. beef producers.

The Uruguay round of the GATT talks started in 1986. There were 124 countries involved in the negotiations. This is the seventh round of the GATT talks which were started before 1950. More rounds of the GATT seem imminent after the year 2000.

The Uruguay round was the first that agriculture was brought under the GATT agreement, according to Carl Zulauf, agricultural economist at The Ohio State University. Zulauf says that in the past agriculture was treated only on an issue basis, such as the soybean import issue in an earlier version of the GATT. Phil Seng, CEO and president of the U.S. Meat Export Federation, is excited that agriculture was included in the GATT and had a prominent position in the negotiations. "Agriculture is coming of age," he says.

GATT was divided into four major negotiation areas: phytosanitary, market price supports, export subsidies and market access.

Phytosanitary — The framework of GATT says that restrictions on imports in the sanitary and phytosanitary area must be based on science and not social or economical issues. Alan Sobba, director of tax and trade for the National Cattlemen's Association, says a good example was the ban of U.S. beef by the European Union because of hormone usage. With the GATT, the European Union would have to prove scientifically that U.S. beef doesn't meet their food safety standards.

Market Price Supports -The GATT provides that countries must reduce their internal price supports for exported products 20 percent by the year 2000. Zulauf says this will have little effect on the United States because we have reduced internal price supports for commodities by that amount since the talks began in 1986.

Export Subsidies -Countries will be required to reduce export subsidies by 21 percent for the goods exported and 36 percent of budgetary outlays, according to Zulauf. Seng predicts this will not affect producers because export subsidies are not used for beef. "A big plus is the European Union has to cut back the amount of subsidized beef exports. This gives us less competition from Europe," he says.

Zulauf says the export subsidy reduction will affect U.S. wheat farmers the most. Currently more than one-half of the wheat exported utilizes subsidies. 'There will be a downward pressure on wheat, world price will rise and other countries will increase production," he says.

Market Access — "All imports that have non-tariff barriers, such as quotas, change to tariffs," says Zulauf. He explains that developed countries must eventually reduce these tariffs by 15 percent; and 24 percent reductions must be made on all products with non-converted tariffs.

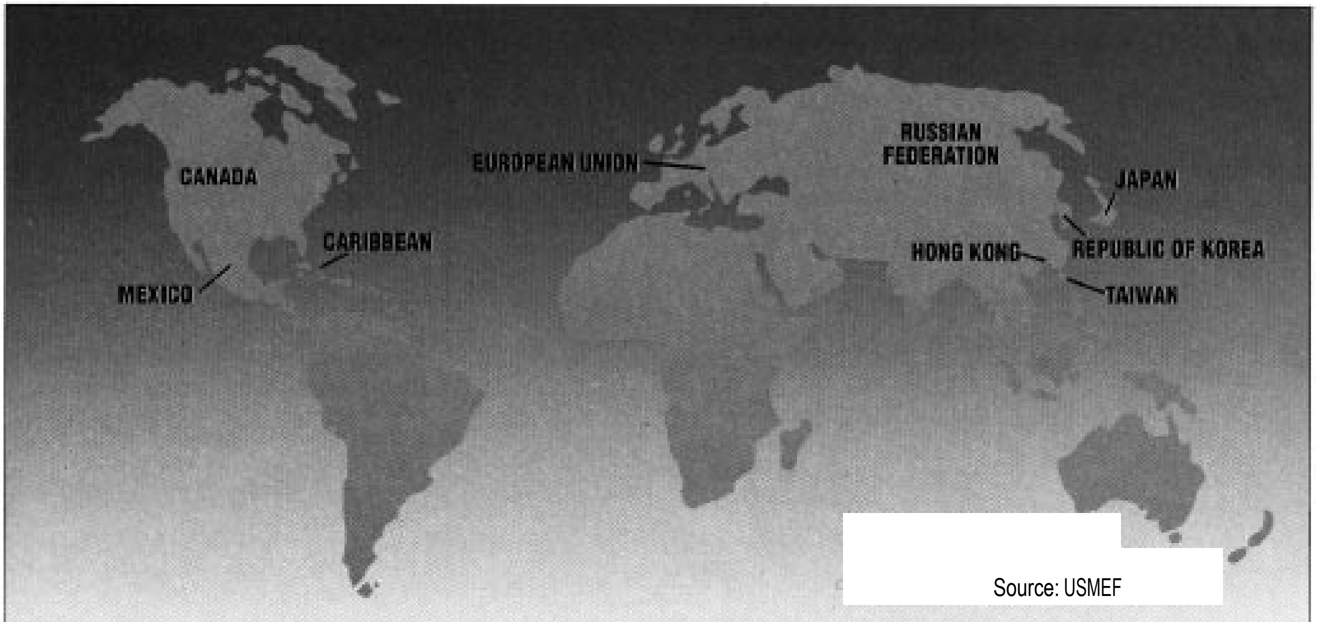
Seng sees the increased market access as an opportunity to begin expanding markets for U.S. beef exports. He says with the quotas eliminated there won't be a finite amount of beef that can be imported by a country.

Seng is concerned, however, with the immediate effects on key U.S. beef export markets. "Korea had a 20 percent bound duty for their beef quota. This will be replaced with a higher 43 percent tariff which will eventually be reduced to 30 percent over a few years. Still the U.S. beef will be more expensive than it was," he says. For the first half of 1994, Korea's imports of U.S. beef rose 54 percent over the previous year.

The largest export market for U.S. beef, Japan, will slow down their rate of duty reduction to 10 percent, in accordance with the GATT. This is a slower pace than the 20 percent they currently have been reducing the duty.

According to Seng, the European Union will still be able to retain their 10,000 metric ton quota on beef through the GATT He is concerned that if new countries join the European Union the quota will not be increased to reflect the increased market potential. "In total sum, GATT is very positive," says Seng, "but there is still work to do."

Alan Sobba, director of tax and trade for the National Cattlemen's Association, sees market access as a key for exporting beef. "GATT provides more opportunity to sell product. There is a difference between domestic and foreign markets.



LEADING WORLD MARKETS FOR U.S BEEF PLUS BEEF VARIETY MEAT EXPORTS

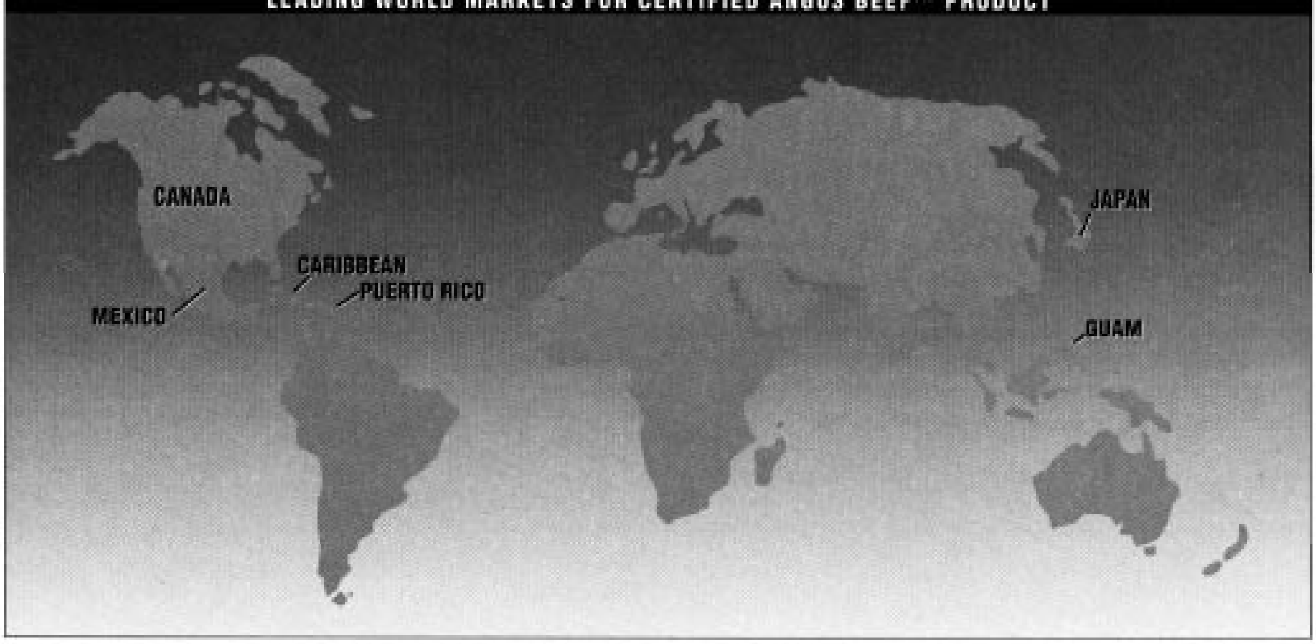
Domestic is a demand market. Foreign is an access market."

Zulauf sees the market access issue affecting U.S. dairy, sugar and peanut farmers. Currently, these industries have quotas for products coming into the United States. These quotas will be eliminated and replaced by tariffs that will be eventually reduced by 36 percent.

Green box promotions are a special element of the GATT which allows countries to utilize their public funds to promote products in foreign markets. One of these programs in the United States is called the Market Promotion Program (MPP), which was introduced in the 1990 Farm Bill, according to Seng. He said these monies are set aside for advertising and promotion of U.S. products abroad.

"We feel MPP should be regarded as highly important to experts. In looking at the world's food consumption, four percent is consumed in the United States and 96 percent throughout the rest of the world. GATT will create $5 trillion of trade and one-half of that will be in the Pacific Rim alone." Seng says.

LEADING WORLD MARKETS FOR CERTIFIED ANGUS BEEF™ PRODUCT



"It's imperative that we are aggressive to capture the new markets," says Sobba. He adds that the MPP provides necessary money to establish foreign marketing offices and promote products through trade shows, advertising and other means.

While the GATT doesn't specifically address breeding cattle and genetic trade, some breeders are concerned about opening borders with regard to animal health issues. LeRoy Baldwin of Baldwin Angus Ranch Ocala, Fla., has been exporting seedstock and genetics since 1968. His markets are in South America, Central America and the Caribbean Islands. He is also president of Florida International Agribusiness Trade Council.

Baldwin doesn't see GATT changing markets for breeders interested in exporting their products. He is very concerned with U.S. animal health as the borders are opening up more for free trade. Baldwin cites cases of tuberculosis and screw worm in the United States that have been traced to Mexican cattle. 'Unless we build quarantine facilities, we could have many problems, especially from the hoof and mouth disease in South America," he says. He is also concerned about the United States importing food products from countries that don't have the same regulations for pesticide and chemical usage as U.S. producers.

The future is bright for U.S. genetics, Baldwin says. "Someone told me that since we are exporting our technology and genetics that other countries would catch up. I said the reason we are ahead is we worked hard. We need to keep working and produce more quality at a more economical price."

Tracey Erickson, director of Certified Angus Beef Program's export division, says while GATT will encourage increased beef exports, she doesn't expect any change in Certified Angus Beef ™ product exports.

"For the Certified Angus Beef product, supply is a limiting factor. We have more demand already than supply of the product," she says. Erickson does look forward to a further opening of the Korean market and expects a shift in market share eventually.

The effects of the GATT will be felt in more than just the beef sector of the agricultural industry. A group called the Agricultural Alliance for GATT (AG for GATT) predicts that GATT will increase total U.S. agricultural exports by $5 to $14 billion over the next five years and aid in creating more than 100,000 new jobs.

Increased trade also directly affects domestic cattle prices, according to a study by CF Resources Inc., a subsidiary of Cattle-Fax. They found that U.S. beef exports in 1993 added $68 per head to the value of fed cattle, $64 per head to feeder cattle and $61 per head to calves. The same study related that the 1.5 billion pounds of beef exported in 1993 was equivalent to 1.9 million head of fed cattle.

"GATT is a positive for the red meat industry," says Seng. 'We need to go out and aggressively pursue the markets. We need to set the high jump bar higher to move more product."

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