

COLORADO AGRICULTURAL TRADE ISSUES AND OPPORTUNITIES ACTION PLAN

Overview: A report on international trade issues facing Colorado's agricultural sector. Includes opportunities, issues and provides a basis for creating a workplan for addressing industry issues.

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TABLE OF CONTENTS

Introduction

Global access issues

Top Colorado agricultural market analysis
(includes U.S. and Colorado exports to each market – 5-year trend)

Japan
Mexico
Canada

China
Europe
Korea

Colorado commodity/product analysis

Beef
Dairy
Potatoes
Wheat
Corn

Organic products
Apples
Dry beans
Beef breedstock

List of frequently-used acronyms

INTRODUCTION

Colorado's agricultural industry has grown dependent on international sales for many commodities. Whether a product is exported from Colorado or another state, exports are a significant market for many commodities. Colorado commodity prices are impacted by global markets more than by Colorado consumer demand.

In the past six years, hard-fought trade agreements have been completed which are impacting Colorado's agricultural industry. The North American Free Trade Agreement (NAFTA) has stimulated U.S. (and Colorado) trade with Mexico. Since the 1995 implementation of the NAFTA accord, U.S. agricultural exports to Mexico have increased 72% while all U.S. agricultural exports have decreased 8% worldwide. This trade accord has resulted in new export opportunities for Colorado and U.S. agricultural industries. The Uruguay Round of GATT, commonly called the WTO (World Trade Organization) agreement, has also established some new trade regulations and accords that will lead to expanded U.S. agricultural exports.

While the expanded trade is welcome, it is critical to remember that there remain significant barriers to Colorado's (and the U.S.'s) agricultural industries' efforts to expand exports. While our largest customer, Japan, is an important market, they retain high tariffs (38% on beef, over 400% on wheat) which, if lowered or removed, would result in significant increased exports. Our trade with Canada has also grown in the past six years, but our industry continues to have Canadian sales limited by high duties (275% on above-quota cheese and dairy products) and a variety of trade-restricting barriers. The Europeans continue to ban Colorado and U.S. beef exports to Europe, despite the U.S. victory in the WTO Trade Court ruling their ban is illegal. The average agricultural tariff worldwide for U.S. agricultural exports is 62%, while the average U.S. import duty on agricultural products is 12%.

Many in the industry feel that with NAFTA and the WTO accords, we have just begun to address the trade issues for agriculture in our global economy. While the WTO accord represented the 7th major global trade accord since the end of World War II, it represented the first time that agriculture was included in an accord. Each new accord must include new elements that continue to open the world to Colorado and U.S. agricultural products. If we eliminated all agricultural policy distortions, the value of agricultural commodities would increase on average 12%. For wheat, the increase would be over 18%, and for livestock and meat products, the increase would be above 22%. The elimination of trade-distorting policies offers an opportunity to increase farmer income without government payments.

OVERVIEW OF COLORADO'S AGRICULTURAL EXPORTS

Colorado's agricultural exports for 1999, as tracked by the U.S. Department of Agriculture (USDA), were down 1.8% from 1998, a smaller decline than for the U.S. as a whole, which shrank 6.6% during 1999. The greater U.S. decrease is attributed to reduced exports in rice, soybeans, cotton, tobacco, soybean meal, soy and vegetable oil. During this same time, Colorado's primary agricultural exports of wheat, coarse grains and red meats grew or held steady.

Colorado's 1999 agricultural exports of \$900.4 million were led by meat and meat products, which accounted for \$369.2 million or 41% of total exports. Wheat exports were the state's second largest export segment with \$214.4 million. Other major export segments included vegetables, fruits and beans (fresh and processed) for \$95.6 million, and feeds and fodder for \$64.7 million.

AGRICULTURAL EXPORTS FROM THE STATE OF COLORADO FISCAL YEARS 1990-2001

(in million dollars)

Year	Wheat & Products	Feed Grains & Products	Fruits & Vegetables	Meats	Hides & Skins	Fats, Oils & Greases	Other	TOTAL
1990	\$118.60	\$178.20	\$73.60	\$151.20	\$118.20	\$27.80	\$69.00	\$736.60
1991	\$190.00	\$122.80	\$87.50	\$170.10	\$93.30	\$23.00	\$78.00	\$764.70
1992	\$190.60	\$132.60	\$70.30	\$223.40	\$95.90	\$29.20	\$93.00	\$835.00
1993	\$244.40	\$100.10	\$81.50	\$246.30	\$97.50	\$34.10	\$74.70	\$878.60
1994	\$223.30	\$111.40	\$82.70	\$254.80	\$105.30	\$33.00	\$85.20	\$895.70
1995	\$387.40	\$132.50	\$96.90	\$297.80	\$128.00	\$53.10	\$86.70	\$1,182.40
1996	\$296.30	\$156.30	\$80.80	\$304.30	\$120.70	\$42.60	\$97.30	\$1,098.30
1997	\$240.00	\$135.00	\$82.00	\$250.00	\$120.00	\$32.00	\$126.00	\$985.00
1998	\$206.10	\$110.60	\$91.00	\$272.20	\$93.80	\$45.00	\$98.40	\$916.90
1999	\$214.40	\$128.50	\$98.30	\$263.70	\$69.60	\$35.90	\$90.00	\$900.40
2000*	\$202.40	\$120.00	\$101.10	\$319.10	\$75.20	\$37.00	\$95.40	\$950.10
2001**	\$191.10	\$112.30	\$107.10	\$393.80	\$81.20	\$38.80	\$96.60	\$1,021.00

* Est. based on YTD 2000 Export information ** Forecast based on USDA estimates

Colorado and U.S. agricultural exports continue to be plagued by low commodity prices for bulk commodities and the effect of the strong dollar against other world currencies. Prices for U.S. agricultural products are effectively 18% higher in 2000 versus 1995 due to exchange rate differences (international buyers pay 18% more, even though our farmers do not benefit). The higher value of the U.S. dollar is exacerbated by the continuing glut in commodities worldwide, especially impacting bulk commodities. In grains, the U.S. continues to export greater quantities of product; however, the lower market price results in a lower U.S. export value in dollars.

U.S. agricultural exports have increased over 8% through July. Nineteen commodity segments have experienced growth, while 17 segments are down in 2000 versus 1999. Colorado's grain crop sales continue to be impacted by the global market abundance of commodities, experiencing 7-10% declines in 2000. Exports of wheat and coarse grains are showing an increased volume, but falling prices continue to drive down the export value. Red meats have grown 29% in the first seven months of 2000, leading to projections of all-time record export values in 2000. In

2000, Colorado's agricultural exports grew 5.6% to \$950 million. In 2001, grain export values will be stable, with growth in sunflowers, fruits and vegetables, meat and meat products and other segments, resulting in additional growth of over 7% to \$1,021 million in total agricultural exports.

MULTILATERAL ISSUES

Issue: WTO negotiations on agriculture

WTO members began negotiations on further liberalization of trade in agriculture at the March 2000 Special Session of the WTO Committee on Agriculture. The U.S. submitted a comprehensive negotiating proposal at the June 2000 meeting. This provides for the elimination of export subsidies, greater limitations on trade-distorting domestic supports, substantial reductions in all import tariffs and increases in tariff-rate quotas (TRQs), disciplines on state trading enterprises, and calls for rules to ensure market access for products of new technologies. The negotiations resumed in February 2001.

USDA research indicates that if all agricultural policy distortions in all countries, including tariff barriers, production-distorting domestic subsidies and export subsidies, were eliminated, the value of agricultural commodities would increase on average 12%. For wheat, the increase would be over 18% and for livestock and meat products, the increase would be above 22%. The elimination of trade-distorting policies offers an opportunity to increase farmer income without government payments.

Action:

Support the USDA/Foreign Agricultural Service (FAS) and the U.S. Trade Representative (USTR) on maintaining a firm position on agricultural negotiations at all WTO meetings.

Communicate to the U.S. congressional delegation the importance of agriculture in all global accords.

Issue: WTO accession of new members

Currently 27 countries/economies are in the process of gaining membership in the WTO. Of these, China, Taiwan, Russia, Saudi Arabia and Ukraine are the largest economies. The processes for China and Taiwan are almost complete, those for Russia and Saudi Arabia are very active, while Ukraine is still in the early stages.

Action:

Support the USDA/FAS and the USTR on maintaining a firm position of not compromising key agricultural issues and opportunities at all WTO meetings. Communicate to the U.S. congressional delegation the importance of agriculture in all global accords.

Issue: Free Trade Area of the Americas (FTAA)

Thirty-four nations in the hemisphere are participating in negotiations to establish the FTAA, with the goal of completing negotiations in 2005. At the third ministerial meeting held in November 1999, the ministers instructed the FTAA negotiating groups to prepare draft texts of the various chapters of the agreement during the 2000-2001 period. The draft texts are to be presented at the next ministerial meeting.

Action:

Support the USDA/FAS and the USTR in maintaining a firm position of not compromising key agricultural issues and opportunities at meetings on Regional Free Trade Agreements.

Communicate to the U.S. congressional delegation the importance of agriculture in the development of this accord.

Issue: Global barriers to agricultural products from GMO seedstock

The lack of global standards and agreements governing the sales of GMO commodities is having a disruptive impact on the global market for these products. In addition, the sales of processed foods that may have some ingredients deriving from a GMO crop are impacted in the global market.

Action:

Support the USDA/FAS and the USTR in negotiating global standards for this technology.

Colorado's Top Country Issues for Agriculture

Colorado's top seven export markets account for over 70% of the state's agricultural exports. Japan remains the largest market, with beef as their largest import. Mexican imports include

Colorado's Top Export Markets in 1999
(US\$ Million)

	Sales	% total
Japan	225.25	25.0%
Mexico	102.81	11.4%
Canada	98.73	11.0%
EU	77.85	8.6%
S. Korea	65.09	7.3%
Taiwan	39.44	4.4%
China	27.29	3.0%

beef, followed by grains and produce. Canada's primary imports include produce, as well as meat products. The European Union's (EU's) imports include grains, feed and fodder, meat products (pet-food grade) and produce. Korea is a growing market for meats and remains a major market for cattle hides and grains. Taiwan and China complete the top seven export destinations for Colorado agricultural products in 1999.

JAPAN

Japan continues to be the largest market for agricultural exports for both Colorado and the U.S. Japan's economic slowdown, combined with a relatively-strong U.S. dollar, has resulted in lower annual exports, since record U.S. agricultural exports of \$11.73 billion in 1996. In the first seven months of 2000, Colorado exports to Japan are up over 8% versus 1999 and are projected to continue to grow. Meat exports from Colorado are up over 18% and could reach a record high in 2000. Other fast-growing segments in 2000 include pulses (38%), hides (112%), snack foods (16%), prepared meats (40%) and pet foods (52%).

While Japan remains Colorado's largest export market, there have been and continue to be barriers and problems that restrict the total export opportunities for agriculture to Japan. As the industry's largest market, ending these barriers would create significant additional export opportunities for Colorado and the U.S. agricultural industry.

AG EXPORTS TO JAPAN

	Value in U.S. \$ million	
	U.S.	Colorado
1995	11,150	286.1
1996	11,730	256.9
1997	10,500	230.8
1998	9,090	229.0
1999	8,900	225.25

IMPORT POLICIES

In the Uruguay Round, Japan agreed to tariff elimination on pharmaceuticals; paper and printed products; beer, whisky, and brandy; selected agricultural products, medical, and construction equipment; furniture; steel; and toys. This reduction did not address all commodities and products. Japan's remaining high tariffs primarily affect agricultural and food products, including processed food products, wood and wood products, and leather and leather products.

Issue: Varietal testing

U.S. agricultural products such as apples, cherries, tomatoes, walnuts and nectarines have been subject to unnecessary phytosanitary restrictions. Japan has required repeated testing of established quarantine treatments each time a new variety of an already-approved commodity has been presented for export from the U.S.

Action:

Encourage the USDA/FAS and the USTR to emphasize elimination of this barrier in all trade negotiations.

Issue: Fumigation policies

Japanese plant quarantine regulations require fumigation of imported fresh horticultural products if, upon import inspection, a shipment is found to be infested with live insects, regardless of whether they are considered serious plant pests or are already present in Japan. The fumigation requirement is particularly detrimental to trade in delicate horticultural products, such as organic produce, as well as conventional lettuce and cut flowers, which generally do not survive the treatment and must be destroyed. In fact, Japanese produce importers report that if the risk of fumigation were eliminated, imports of U.S. lettuce would grow dramatically. Due to the high risk of product loss due to fumigation, sales of lettuce typically average less than \$5 million per year.

Action:

Encourage the USDA/FAS and the USTR to emphasize elimination of this barrier in all trade negotiations.

Issue: Fresh potatoes – golden nematode and potato wart

Japan bans importation of fresh potatoes from the U.S. Japan's Ministry of Agriculture, Forest and Fisheries (MAFF) officials maintain that the ban is necessary to prevent introduction of golden nematode and potato wart into Japan. The U.S. has challenged Japan's position, demonstrating that golden nematode and potato wart disease are not found in Colorado, the Pacific Northwest, California, and other U.S. potato-exporting areas. The U.S. has urged Japan to immediately lift the ban on fresh potatoes from areas not infested by golden nematode and potato wart. In the most recent communication from Japan in July 1999, MAFF repeated its position prohibiting importation and raised new concerns regarding a number of viruses that would necessitate post-entry quarantine of imported potatoes even if approval were granted.

Action:

Encourage the USDA/FAS, the USTR and the National Potato Council to urge Japan to eliminate golden nematode and potato wart from the list of quarantine concerns for fresh potatoes.

Issue: General food products

During the Uruguay Round, Japan agreed to bind (forgo any future increases) tariffs on all agricultural products and to reduce import rates by an average of 36% during 1995-2000, with a minimum 15% reduction on each tariff line. Japan also agreed to gradually reduce tariffs on imports of beef, pork, fresh oranges, cheese, confectionery, vegetable oils, and other items. However, even after full implementation of the Uruguay Round cuts, a wide range of intermediate and consumer-oriented food and beverage products still face tariffs from between 10 and 40%, including beef, fresh apples, bakery products, confectionery, snack foods, ice cream, citrus and other fruit juices, and processed tomato products. The import taxes raise food prices for consumers and cost U.S. food and agricultural exporters an estimated \$500 million in lost sales every year.

Japan also agreed in the Uruguay Round to convert all import bans and quotas (except for rice) to tariffs, which would be reduced between 1995 and 2000. TRQs replaced import quotas for wheat, barley, starches, peanuts and dairy products. Japan retains state trading authority and price stabilization schemes for these products but is currently studying proposals to liberalize imports to a small degree. The U.S. is closely monitoring Japan's implementation of the Uruguay Round measures for agriculture (particularly imports and exports of rice) and safeguard measures for beef and pork.

Action:

Encourage the USDA/FAS and the USTR to seek significant reductions in Japan's high-tariff regime for high-value foods through the WTO agriculture negotiations.

Issue: Import clearance procedures

Despite progress in recent years, Japan's import clearance procedures remain slow and cumbersome by industrial-country standards, resulting in increased costs for both U.S. exporters and Japanese consumers.

Action:

Encourage the USDA/FAS and the USTR to support the U.S. government and U.S. firms' requests to Japan to:

- (1) Facilitate the release of low-risk shipments (i.e., physical examination not required) at the point of arrival without transfer to a bonded area.
- (2) Improve pre-clearance procedures so that, prior to arrival, the customs administration and all other relevant Japanese government agencies accept and process declarations, determine whether physical examination is required, and immediately notify the importer of the decision.
- (3) Implement an entry process that would permit a release determination based on a minimal amount of documentation, which would be followed by the complete documentation and then payment of duty.

(4) Reduce user fees, which remain high.

(5) Customs' processing hours of operation are too short. Current hours of operation of 8:30 a.m.-5:00 p.m. should be changed to 6:00 a.m.-10:00 p.m. every day, including Saturdays, Sundays, and holidays, and would bring processing hours for cargo in line with processing hours for passenger baggage, greatly benefiting importers and facilitating onward transportation.

(6) The U.S. government and U.S. companies have also requested that Japan establish procedures to effect customs release of cargo 24 hours per day by implementing a surety bond system, bank guarantee, or "round-the-clock" bank clerk.

Issue: Food additives

Processed food imports into Japan have at times come into conflict with Japan's standards affecting food additives, even though such additives may be approved as safe in other countries by the Joint FAO/WHO Experts Committee on Food Additives. For example, Japan refuses to allow the importation of light mayonnaise (as well as creamy mustard) containing the food additive potassium sorbate, a food additive evaluated and accepted by numerous national and international standard-setting organizations. Other food products containing this additive, however, are permitted to enter Japan. Through revisions to its Food Sanitation Law (FSL), Japan is working to harmonize its national regulations to conform to the provisions of the WTO Sanitary and Phytosanitary (SPS) Agreement. Currently, Japan's food additive regulations remain unique, especially the listing of "non-natural" additives designated by Japan's Ministry of Health & Welfare (MHW) pursuant to Article 6 of the FSL.

Action:

The U.S. government encourages U.S. firms and industry associations to file applications with Japan's MHW for approval of new additives, allowing sufficient time for assessment. The U.S. has raised Japan's regulation of food additives under the Enhanced Initiative and intends to continue to urge Japan to adopt regulations that both protect consumers and facilitate international food trade.

Issue: Pesticides residue

While Japan has made progress in establishing pesticide residue standards in harmony with internationally-recognized tolerance levels, further work with Japan is necessary to help ensure that non-tariff barriers regarding imported food and agricultural products do not unreasonably restrict trade.

Action:

Encourage the USDA/FAS and the USTR to negotiate with Japan to bring their pesticide residue standards into harmony with international standards.

Issue: High import duties on beef

The Japanese import duties remain very high at 38.5%. No further reductions are scheduled unless they are negotiated in upcoming and future trade agreements. Japan also bases import duties on CIF value (cost of goods, plus insurance and freight) versus the global norm of basing duties on FOB value (free on board).

Action:

Support the National Cattlemen's Beef Association (NCBA) in their efforts to have the USTR assign a high priority to efforts to reduce beef import duties in all trade negotiations with Japan.

Issue: Import policies restrict imports of U.S. dairy products

Japan maintains a series of trade barriers, including high tariffs and TRQs that restrict imports of U.S. dairy products. Japan imposes separate TRQs on the following categories of dairy products and products containing dairy components:

- a) Skimmed milk powder for school lunches
- b) Skimmed milk powder for other purposes
- c) Evaporated milk
- d) Whey and modified whey for feeding purposes
- e) Prepared whey for infant formula
- f) Butter and butteroil
- g) Mineral concentrated whey
- h) Prepared edible fat
- i) Other dairy products for general use
- j) Designated dairy products for general use

Japan's final Uruguay Round-bound tariff levels will exceed 20% for virtually all dairy products; in many cases, these tariffs will remain substantially in excess of 20%. The major U.S. dairy exports that are negatively affected by ordinary tariffs are cheeses, including processed cheese, pizza cheese, Monterey Jack cheese, cream cheese and grated/powdered cheese.

In the Uruguay Round, the U.S. negotiated a simultaneous buy-sell (SBS) arrangement for whey. This arrangement has worked satisfactorily for U.S. exporters by gradually increasing the quantity of whey that can be sold directly to Japan end users. However, this arrangement should be phased out and the associated mark-up eliminated, so that all U.S. whey exports can be made directly to end users.

Action:

The USTR must use trade accords to negotiate less restrictive access for U.S. dairy products in Japan.

Issue: Export subsidies (that displace U.S. dairy exports)

The EU and Canada subsidize exports of dairy products, including cheese, to Japan, thus limiting growth of U.S. commercial exports of such products in that market.

Action:

The USTR must continue to emphasize elimination of trade-distorting subsidies in all international trade accords.

Issue: Restrictions on corn exports based on GMO issues

While Colorado is not a corn-exporting state, when a country restricts imports of a major U.S. commodity such as corn, the Colorado farmer is impacted as well through a lower U.S. market price. The Japanese market has reacted to the GMO corn issues and reduced their imports of U.S. corn.

Action:

Support the USDA and the USTR in negotiating with Japan to establish standards for corn and all GMO commodities, whether as trace presence or total market access.

MEXICO

U.S. agricultural exports to Mexico grew in 1999. While total U.S. agricultural exports were down 14% from 1995 to 1999, U.S. exports to Mexico were up 59% during the same period, growing over \$2 billion. In addition, the U.S. has changed from a net importer of Mexican agricultural products to a net exporter, contributing to our total U.S. agricultural trade balance. In the first seven months of 2000, Mexican imports of U.S. agricultural products were up 16%. Meat imports were up over 28%, indicating that the Mexican market will continue to play an increasingly important role as a market for Colorado’s agricultural community. U.S. red meat exports to Mexico have grown from \$191 million in 1995 to over \$675 million in 1999, a growth of over 254%. During this same period, total U.S. exports of red meats grew 5.6%. Without the exports to Mexico, U.S. red meat exports would have decreased from 1995 through 1999. In 1995, Mexico was the U.S. meat industry’s fourth largest market. In 1999, Mexico was our second largest market, and growing 61% faster than our largest market, Japan.

Mexico has been the single largest U.S. pulse export market since 1996. NAFTA established a

	<i>U.S. Pulse Exports</i>				
	<i>Value in U.S. \$ million</i>				
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Total exports	263.9	262.1	260.0	336.9	263.8
Mexico	12.3	72.1	42.2	113.7	48.9

quota program to stabilize the marketing of U.S. pulses into Mexico and the timing and fluctuating release of these quotas have created disruption in the U.S. market and become a concern for the Colorado

and U.S. pulse industry. Colorado is a primary growing region for pinto beans (the primary variety imported by Mexico). Mexico's growth as our largest pulse export market (now 18% of total exports) is of great concern. Colorado's exports to Mexico suffered a significant setback in 2000 when Mexico banned shipment of potatoes for phytosanitary issues. But until this dispute is resolved, all shipments of Colorado potatoes have been halted. Early shipments of potatoes in 2000 promised a very strong market year and a permanent loss of Mexican market access will significantly reduce Colorado potato exports.

Issue: Mexican anti-dumping duties on high fructose corn syrup (HFCS)

On January 28, 2000, a WTO panel ruled that Mexico's imposition of anti-dumping duties on imports of HFCS from the U.S. was inconsistent with the requirements of anti-dumping agreements in several respects.

Action:

Support the USDA/FAS and the USTR to have a high priority in pursuing this issue through the WTO.

Issue: TRQ and quota

The U.S. is concerned about Mexico's administration of its TRQ obligations for certain U.S. agricultural products. In particular, in 1999, Mexico delayed its auction of TRQ import permits for U.S. edible dry beans until so late in the year that the TRQ was not filled, despite substantial demand for U.S. dry beans. Mexican Customs also seized 25 rail cars of dry beans for alleged falsification of invoices. These beans were then donated to Mexican government food agencies. Other TRQ shipment issues include hogs for slaughter, cattle, beef and beef offal.

Action:

Encourage the USDA/FAS and the USTR to continue monitoring Mexico's TRQ administration.

Issue: Administrative procedures and customs practices

U.S. exporters register complaints about certain aspects of Mexican customs administration including: the lack of sufficient prior notification of procedural changes; inconsistent interpretation of regulatory requirements for imports at different border posts; new requirements that particular goods may enter only through certain ports; and discriminatory and capricious enforcement of Mexican standards and labeling rules. Complications and confusion have occasionally resulted in the application of harsh penalties for technical customs law violations committed as a result of simple mistakes rather than an attempt to evade Mexican customs rules. Agricultural exporters note current Mexican inspection and clearance procedures for some agricultural goods are long, burdensome, non-transparent and unreliable.

Action:

Encourage the USDA/FAS and the USTR to establish and maintain discussions with Mexico to address these problems.

Issue: Standards, testing, labeling and certification

Mexican sanitary and phytosanitary standards have created barriers to exports of certain U.S. agricultural goods, including grains, seed products, potatoes, apples, stone fruit, meat, poultry, and table eggs. The U.S. remains concerned about the far-reaching extent of some sanitary and phytosanitary import regulations, such as those for grains, potatoes, apples, poultry, rendered products and meat. These include a new animal health standard for imported poultry products which was implemented in early 1999. In addition, procedural requirements regarding SPS inspections at the port-of-entry often do not reflect agreements reached between USDA officials and their Mexican counterparts, resulting in unnecessary delays at the border, seaports and airports.

Action:

Encourage the USDA/FAS and the USTR to establish and maintain discussions with Mexico to address these problems.

BEEF

Mexico is the second largest market for beef and has grown over 250% in the past five years. This growth is attributed to the elimination of import duties with the signing of the NAFTA accord. While this new market is projected to continue to grow, barriers are appearing that restrict Colorado and U.S. beef exports to Mexico.

Issue: Application of anti-dumping duties on U.S. beef

Mexico has introduced anti-dumping and certification requirements on beef shipments to Mexico effective May 28, 2000. These establish duties on beef trade that has previously been duty free. These duties range up to 80 cents per kilo. The industry feels that these duties and increased certification requirements are designed to reduce the U.S. market in Mexico.

Issue: A variety of inspection and certification requirements that restrict trade

Mexico has implemented a variety of requirements that are restricting trade and making the sale of U.S. beef in Mexico more difficult. These actions include: slaughter facility and hygiene requirements on U.S. plants that restrict the U.S. plants' ability to export to Mexico; restrictive standards on U.S. products that do not apply to Mexican products; and special import inspection requirements at the border.

Action:

Support the NCBA in their efforts to include the U.S. government in ongoing efforts of exporters who are currently pursuing legal remedies through the Mexican justice system and seek changes through NAFTA arbitration procedures on trade-restricting action.

DAIRY**Issue: Export subsidies (that displace U.S. dairy exports)**

Mexico continues to take advantage of import subsidies from third countries, particularly the EU and Canada, to import dairy products such as skim milk powder. This requires the U.S. to rely on export bonuses provided under the Dairy Export Incentive Program (DEIP) to supply this product to its NAFTA partner. Limitations placed on such bonuses pursuant to the U.S.'s commitments to reduce export subsidies under the WTO Agreement on Agriculture, together with continued subsidy use by competing suppliers, will thus limit growth of U.S. commercial exports of skim milk powder to Mexico.

Action:

The USTR must continue to emphasize elimination of trade-distorting subsidies in all international trade accords.

POTATOES

Market access commitments negotiated under NAFTA have not been as quick to increase access for U.S. potato products to Mexico as hoped. Tariff commitments are subject to a ten-year phase out for many potato items. Efforts to accelerate the phase-out periods using NAFTA's accelerated tariff procedures have been blocked by Mexico. Current efforts include working with Mexican government officials to improve access through adjustments to the TRQ for french fries.

Phytosanitary restrictions still block access for U.S. fresh and seed potatoes, as Mexico has moved slowly to comply with WTO and NAFTA requirements. In the meantime, Mexico has allowed access for Canadian seed potatoes.

Because consumer demand and market potential for frozen french fry and processed potato products in Mexico is high, the industry estimates short-term gains of several million dollars if tariffs are reduced and TRQs expanded more quickly than currently scheduled under the terms of NAFTA. Delaying unrestricted access will disadvantage U.S. processors by giving infant industries in Mexico time to become competitive. The market for U.S. fresh and seed potatoes in Mexico is also significant. The timely conclusion of a U.S.-Mexican workplan to allow access for U.S. potatoes is critical since Mexico is already allowing access for competitive Canadian seed potatoes.

Issue: Phytosanitary restrictions (standards)

Fresh potatoes for consumption are prohibited from Colorado, as well as Washington, Oregon, Idaho, California, New Mexico, Nebraska, Utah, Nevada, and a growing number of other states due to unsubstantiated phytosanitary concerns. As of August 15, 2001, this ban has been expanded to prohibit all U.S. potatoes. For the same reason, seed potatoes are prohibited. Several years ago, the Mexican government agreed to document the scientific basis for these restrictions and to develop a workplan to allow access to U.S. fresh potatoes.

Action:

Encourage the USDA/FAS, the USTR and the National Potato Council to continually raise this issue in meetings and trade negotiations with Mexican officials.

Issue: TRQ - Fresh potatoes

NAFTA replaced Mexico's import license regime for fresh potatoes with a TRQ. Roughly 17,391 metric tons of fresh U.S. table potatoes were permitted to enter Mexico duty-free in 1999, with the quota increasing by 3% compounded annually. Any U.S. exports over the quota amount are subject to a tariff of \$269 per metric ton, but not less than 206.7% of value of shipment. The tariff is to be phased out over ten years, under a formula that limits reduction of the tariff in the first six years to only 20%. The excessive over-quota tariff of 207% or more for the first six years of the phase-out period effectively precludes competitive access to the Mexican market during this time. Although the NAFTA-implementing legislation directs the administration to give priority to consulting with Mexico on a more rapid tariff reduction schedule for potatoes in the context of the accelerated tariff elimination provisions, Mexico has successfully defeated these efforts. The quota level provided for in NAFTA is restrictive in its own right since the level does not reflect anticipated growth. The extraordinarily high over-quota tariff effectively prohibits access for over-quota potatoes.

Action:

The industry should work with the USTR to insure that the quota level is expanded; or at minimum, U.S. fresh potato exports to Mexico targeted specifically for potato chip processing in Mexico should not be counted as part of the 17,391 metric ton fresh potato quota.

Issue: TRQ - Processed potatoes

Under NAFTA, Mexico adopted safeguard TRQs on almost all processed potato products, including frozen potatoes, dried potatoes, french fries, potato chips and other prepared or preserved potatoes. The TRQs are unduly restrictive in that the quota amounts are small (based on anticipated exports) and the ten year phase-out period of the TRQs is excessive. The 1999 TRQ on frozen french fries was 3,593 MTS at an 8% duty, which accounts for roughly 20% of total Mexican demand. When the TRQ was filled by March in 2000, a 20% over-quota tariff was applied. Here again, the U.S. industry has twice requested the accelerated elimination of these TRQs under the NAFTA accelerated tariff removal process. Both times, Mexico has

successfully blocked the request. Given that there is no domestic processed potato industry (except chip) in Mexico, the TRQ should be removed.

Action:

The industry should work with the USTR to pursue more favorable trade access and elimination of TRQs on products that are not processed in Mexico.

APPLES

Issue: Restricted access to the Mexican market for Colorado apples based on phytosanitary requirements

Current Mexican regulations prohibit shipment of Colorado apples to Mexico. The Mexican government has established regulations that are not economically feasible for the Colorado apple industry to comply with to receive approval for exporting to Mexico. The Mexican government requires a Mexican government staff to be resident in the apple production area, to inspect orchards, and monitor the storage and packing of apples. All costs for this staff are the obligation of the apple growers. This is the program that Mexico has for apples from Washington, Oregon and Idaho but with the low volume in Colorado compared to Pacific North West, the pro-rated costs of this program are prohibitive for Colorado growers, thus preventing Colorado apples from entering the Mexican market.

Action:

Encourage the USDA/FAS and the USTR to negotiate alternative certification programs for smaller apple-shipping states.

DRY BEANS

Issue: Administration of TRQ guidelines for bean imports

The U.S. is concerned about Mexico's administration of its TRQ obligations for certain U.S. agricultural products. In particular, in 1999, Mexico delayed its auction of TRQ import permits for U.S. edible dry beans until so late in the year that the TRQ was not filled, despite substantial demand for U.S. dry beans. The Mexican government is now auctioning the import quotas (IQs) to the Mexican importers. The cost to purchase these import permits has reached over 35% of the value of the imports. The cost of the import permits should be viewed as import duties, which is prohibited within the TRQ rules.

Action:

Encourage the USDA/FAS and the USTR to require Mexico to fairly administer the TRQ for beans to allow for an orderly trade in beans and eliminate the de facto duty on dry beans now collected as the auction price for import permits.

The Canadian market for U.S. agricultural products grew by 22% from 1995 to 1999. The North American market (often referred to as the NAFTA trade area) has become the single largest market for U.S. agricultural products, surpassing the Japanese market and representing 25% of all U.S. agricultural exports versus Japan's 18% of total purchases.

U.S.-Canadian Agricultural Trade					
Value in U.S. \$ billion					
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
U.S. Exports	5.808	6.138	6.797	7.009	7.073
U.S. Imports	<u>5.587</u>	<u>6.748</u>	<u>7.389</u>	<u>7.724</u>	<u>7.924</u>
Trade Balance	0.221	-0.61	-0.592	-0.715	-0.851

In 1989 the U.S.-Canada Free Trade Agreement was established to govern trade between Canada and the U.S. It has not had a positive impact on our agricultural trade balance with Canada. We now import more products from Canada than we export to Canada, representing a significant shift in trade patterns. In just the past five years, U.S.-Canadian trade in bulk commodities (grains and raw commodities) and intermediate agricultural products (oils, feed & fodder, live animals, etc.) has remained level. Canada's gain in exports to the U.S. has been in consumer-ready products, particularly red meats, snack foods, fresh and processed vegetables, and nursery products. While Canadian shipments of beef to the U.S. have increased, these imports have displaced other import sources rather than displacing U.S. production. The total quantities of imported beef, however, have been declining since 1993.

On the Colorado front, cattlemen have been concerned about the import of Canadian slaughter cattle to Colorado processing plants. In 1996, Canadian cattle rose to 7.3% of cattle slaughtered in Colorado plants, for a total of 171,832 head of cattle from Canada. The trend changed beginning in 1997 when imports from Canada dropped over 50% and the total has continued to decline in 2000 to below 1% of Colorado slaughtered cattle.

Issue: Canadian countervailing duty (CVD) action against U.S. corn

On June 19, 2000, the Manitoba Corn Growers Association (MCGA) filed an anti-dumping and countervailing duty complaint with the Canadian Customs and Revenue Agency against the U.S. The MCGA based their complaint on the adverse impact of U.S. domestic support programs, focusing on two principal domestic support tools provided to U.S. corn producers: loan deficiency payments (LDPs) and ethanol support programs maintained by the federal and several state governments. On October 10, 2000, the Canadian International Trade Tribunal (CITT) issued a preliminary finding of injury on behalf of Manitoba's corn producers against U.S. corn exports into Canada's western provinces. On October 23, the CITT issued its statement of reasons indicating that the overall margin of dumping is estimated at 40%. Furthermore, the CITT estimates, at this preliminary stage, that the aggregate of loan benefits represents approximately 8% (1998), 13% (1999) and 12.5% (2000) of export values of goods.

Action:

Encourage the USDA/FAS and the USTR to contest this action and eliminate this trade impediment.

Issue: North Dakota Wheat Commission Section 301 petition

On September 8, 2000, the North Dakota Wheat Commission (NDWC) filed a Section 301 petition alleging anti-competitive pricing practices by the Canadian Wheat Board (CWB). The petition alleges the wheat-trading practices of the CWB are anti-competitive and have injured domestic U.S. wheat growers.

Action:

Encourage the U.S. government to implement actions to offset alleged discriminatory pricing practices by the CWB, particularly in third markets. In the short term, seek immediate relief through quantitative restrictions -- quota, TRQ, or voluntary restraint, on U.S. imports of Canadian spring and durum wheat. On October 23, 2000, the USTR's Office announced its decision to proceed with an investigation into the trade practices and policies of the CWB. The investigation could take up to a year to complete.

DAIRY**Issue: WTO Canadian dairy case**

On March 17, 1999, the WTO dispute panel reviewing Canada's dairy export program issued its final report which concluded that Canada, through the Special Milk Classes, acted inconsistently with its obligations under the Uruguay Round Agreement on Agriculture to provide export subsidies. Under Canada's two-tiered pricing system for dairy products, dairy processors in Canada are able to purchase lower-priced milk for sales to export destinations. The panel found that Canada failed to comply with its TRQ obligations under the Agreement on Agriculture. Following an appellate body decision upholding the original dispute panel decision, Canada, New Zealand and the U.S. entered into an "Implementation Agreement" giving Canada a reasonable amount of time to come into compliance with the panel's recommendations and rulings.

Action:

Encourage the USDA and the USTR to continue negotiations with Canada to insure compliance with the appellate body decision.

Issue: TRQ restrictions on dairy exports to Canada and high duties outside of TRQ

Canada has restricted U.S. shipments of dairy products to Canada through a TRQ program. The import of cheese has a low TRQ set, with no provision to increase or ultimately eliminate the

TRQ. For shipments above the TRQ rate, the import duty is over 270%.

Action:

Encourage the USDA and the USTR to negotiate for the reduction and eventual elimination of the TRQ for dairy products to Canada.

WHEAT

Issue: State Trading Enterprise (STE)

Canada markets their wheat through the Canadian Wheat Board. STEs have been identified as distorting local and global markets. The Canadian Wheat Board system distorts the global market and prohibits shipment of U.S. wheat to Canada, where a logical market exists for various types of wheat.

Action:

Encourage the USDA and the USTR to include the elimination of STEs in any trade accord negotiated with Canada.

CHINA

The opening of China has been viewed as the “Holy Grail” of export markets. With an estimated population of 1.3 billion, the attraction of selling to China has been strong for many years. With the recent granting of Permanent Normal Trade Relations (PNTR) to China, the unanswered question is: “Will China become a large, new market for Colorado and U.S. agriculture?”

Interestingly, China has long been an important agricultural market for the U.S. In the past, the general assumption has been that much of what the U.S. exported to Hong Kong eventually found its way into China. With the unification of China and Hong Kong, the export statistics have been combined to provide a more complete understanding of our trade with China.

The U.S., as a nation, has a significantly negative trade balance with China, importing far more

U.S. Agricultural Trade with China					
Value in U.S. \$ million					
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
U.S. Imports	1,139	1,252	1,455	1,621	1,887
U.S. Exports	4,338	3,809	3,614	3,050	2,333
Trade Balance	3,199	2,556	2,159	1,429	446

than we export. However, in agriculture, the opposite is true; we export more agricultural products to China than we import. It should be noted, however, that this trade balance has been declining since 1995. The declining imports are predominately in bulk commodities (grains, cotton and oilseeds).

Colorado's exports to China have followed the U.S. trend, with a decrease in exports since a high in 1995 of \$52.8 million. The major reason for the decline from Colorado has been the decrease in exports of wheat. Exports of meats and hides, while small in value, have grown during this period from \$16.2 million in 1995 to \$18.4 million in 1997. From 1996 to 1998, Colorado has also seen a growth in exports to China of sunflower seeds and a variety of other plant seeds, such as melon, squash and sugarbeet seeds.

COLORADO AG EXPORTS TO CHINA		
Value in U.S. \$ million		
1995	1996	1997
52.8	48.0	37.9
Primary export areas: wheat, meat and hides		

The further opening of Chinese markets for both agricultural products and goods and services of all types from the U.S. and, specifically, Colorado, could create significant new opportunities. The City of Denver is planning to open an office in Shanghai in 2001 to assist Denver and Colorado businesses in exploring these new opportunities in China.

Trade Issues:

The recently-negotiated terms for China’s ascension to the WTO have addressed many of the trade issues with China. With global approval forthcoming, the trade issues for agriculture will have made good progress. U.S. Representative Earl Pomeroy, addressing the U.S. International Trade Commission’s June 6th hearing on Canadian Wheat Board trade practices, stated, “It is ironic that when China enters the WTO, it will have agreed to more disciplines on its STEs, including the introduction of private-sector imports, than Canada -- our largest trading partner --- has ever entertained.”

EUROPE

The U.S.-European Union (EU) relationship continues to be marred by a large number of agricultural trade-related disputes, including the EU’s WTO-illegal ban of beef from cattle treated with growth hormones and its WTO-illegal import regime for bananas. Differences over biotechnology are also a major concern. The EU approval process for new biotech varieties has broken down, effectively blocking trade in corn, and raising concerns for other products. EU regulations on labeling present problems for food processors. Other U.S.-EU issues include EU wheat gluten exports to the U.S. and the WTO case regarding the U.S. use of foreign sales corporations.

The EU closed the market for U.S. beef products in 1989, based on unsubstantiated health claims relating to the U.S. industry practice of using implants in U.S. cattle. The EU was forced to submit this ban to a WTO panel with the passage of the Uruguay Round of GATT, which created the WTO structure. The EU has subsequently lost their case at the WTO and continues to delay opening the market. The lack of access for the U.S. in Europe is \$300-500 million in annual exports. This includes not only the muscle cuts, but also the varietal meat sales.

Issue: Closure of EU market to U.S. beef products

Since 1989, the EU market has been closed to U.S. beef exports. In addition to the undefendable hormone issue, the EU is now proposing bans on imports (from U.S. and other markets) of animal material for non-food uses (pet food, etc.) that do not meet the same standards that apply to animal products for human consumption.

Action:

Support the NCBA in their efforts to have the USTR maintain their efforts to end the ban on imports of U.S. beef products.

Issue: Standards, testing, labeling and certification that impact U.S. exports

The EU issued directive 92/46, which contains the rules for the production and sale of raw milk, heat-treated milk and milk-based products. For importation into the EU, the current health certificate requires 400,000 somatic cells per ml and 100,000 bacterial per ml in raw milk. This directive applied to the member states and all non-EU countries. In response to the EU's actions, the USDA has established an EU health certification program to facilitate exports of U.S. dairy products. However, EU member countries export milk products that have not met these requirements. For instance, 35% of milk supplied from Spain does not meet the above-stated quality standards. The EU directive allows for member countries to request an exemption under current health certificate regulations. However, this exemption is NOT offered to U.S. exporters.

Action:

Urge the USTR to address this issue immediately in bilateral negotiations.

KOREA

Korea is a growing market for U.S. beef products. 2000 beef exports totaled \$568 million and represent the 3rd largest market for U.S. meat exports. This market has more than doubled in imports of U.S. beef in the past five years.

Issue: Restrictive retail beef marketing regulations and high import duties

The Koreans have developed a restrictive market system, modeled after the Japanese system prior to 1989. The WTO has ruled in favor of the U.S.'s objection to this system. The next steps are the review of the Korean appeal and a final resolution through the WTO. The current import duty is also restricting further export volume at 41.6%, which will decline to 40% in 2004, and not be reduced further unless negotiated in future trade accords. Duty rates at this level restrict the growth of exports from the U.S. to this market.

Action:

Support the NCBA in their efforts to have the USTR include lower beef import duty rates in any future bilateral or multilateral trade agreements. Continue to support the efforts to pursue the ruling at the WTO requiring revisions to the Korean import system.

DAIRY

Korea is a major market for U.S. exports of cheese and other dairy products. The U.S. supplied about 20% of Korea's total dairy imports of \$115 million in 1998.

Issue: Import policies

Korea's dairy market remains protected by tariffs in the general range of 40% or more. Until recently, Korea maintained a preferential TRQ of 20% for cheese used as a raw ingredient for further processing into other cheese. The TRQ quantity for this category was 2,000 m.t. for the period January 1, 1998 – June 30, 1998. Cheese imported into Korea outside this TRQ was assessed at Korea's maximum WTO-bound rate of 38.7% (1998). Negotiations have resulted in Korea's abolishment of this preferential TRQ.

Action:

Support U.S. Dairy Export Council (USDEC) and NMPF initiative to urge the U.S. government to seek a reinstatement of this preferential TRQ, and expand the TRQ to remove the previous restriction of its applicability to cheese for further processing.

Issue: High tariffs on whey and whey products

Korea also maintains a TRQ on imports of whey and modified whey. In 2004, this TRQ will have a final quantity of 54,233 metric tons, with an in-quota tariff of 20% and an out-of-quota tariff of 49.5%.

Action:

Support industry efforts to have the USTR increase (or eliminate) the TRQ and reduce out-of-quota tariff.

Issue: Korean standards, testing, labeling and certification restrict U.S. access

The Korean government has regulations that are counter to global trends and result in reduced export opportunities for the U.S. dairy industry. One example is the exclusion of whey products in the definition of nonfat milk solids for the purposes of manufacturing yogurt and ice cream, which if changed would permit manufacturers to use whey products in ice cream and yogurt. Another example is a regulation requiring that Parmesan cheese must be refrigerated. This requirement increases the cost of exported product. A third example is the enforcement of

cheese-testing methods in Korea which are different from those in the U.S. and other countries. This issue is an emerging problem as the U.S. ships more product to Korea. The different testing methods have forced exporters to dump container loads of product that did not meet Korean test requirements, although they passed U.S. testing requirements.

Action:

Support industry efforts to have the USTR negotiate standards, labeling and certification standards that are consistent with the global industry.

POTATOES

Since 1988, when Korea lifted its import ban on frozen french fries, U.S. exports of fries and other processed potatoes have entered the market, but at a slower pace than expected.

Issue: Korea's continued policy of discouraging imports that compete with domestic production through high tariffs and non-transparent policies, such as restrictive drug and cosmetic laws. Access for dehydrated forms of potatoes is restricted by unjustified phytosanitary concerns.

Current U.S. potato shipments to Korea are valued at over \$16.8 million. The majority of these exports are frozen french fries. With meaningful tariff reductions, exports of potato products to Korea would increase by up to \$5 million annually.

Action:

Encourage the USDA/FAS and the USTR to include potato market issues in trade negotiations with Korea.

Issue: Unjustified import ban on potato flour, meal, pellets and flakes

Imports of U.S. potato flour, meal, pellets and flakes have in the past been denied entry into the Korean market due to vague and unsubstantiated laws under Korea's Drugs, Cosmetics and Medical Instruments Act and the Food Grain Management Act. The ban has been raised by U.S. officials in the context of numerous bilateral discussions but, to our knowledge, there has been no official revision to Korea's Drugs and Cosmetics Law.

Action:

Urge the USTR to address this issue immediately in bilateral negotiations.

Issue: Restrictive tariffs and TRQs (import policies)

In the Uruguay Round Agreement, Korea offered only limited tariff concessions on potato products and on several products put in place restrictive TRQs. For fresh potatoes (H.S. 0701.90), Korea established a TRQ with the initial quota set at a restrictive 11,286 metric tons

that will increase to only 18,810 metric tons over ten years. The in-quota duty is still high at 30%, the initial over-quota duty was set at a prohibitive 338%, dropping to only 304% over ten years. In 1999, the over-quota duty was 321%.

Similar restrictive TRQs were adopted for potato flour, meal, pellets and flakes. Under Uruguay Round commitments, Korea established a limited TRQ of 60 metric tons for all four products classified in the harmonized system under H.S. 1105. The in-quota tariff is being reduced from 9% to a final rate of 5.4%. Over-quota product, if entered, initially is assessed a prohibitive tariff of 338%, falling after ten years to an equally prohibitive GATT-bound rate of 304%. Compounding the TRQ problem, the Korean Customs Service (KCS) has severely restricted trade from the U.S. by misclassifying dehydrated potato products that should be classified under H.S. 2005.20, which category has no restrictive TRQ, in the Chapter 11 categories that have a restrictive TRQ and prohibitive over-quota tariff. This misclassification means the TRQ is filled much sooner than otherwise would be the case and the prohibitive over-quota tariff is unfairly applied.

The tariff on frozen french fries (H.S. 2004.10) will drop from 30% to 18% by the year 2006. The tariff on other prepared or preserved potatoes (H.S. 2005.20) will fall to 31.5% from a bound rate of 35% over a ten-year period. In this case, the Uruguay Round rate is greater than the currently-applied 20% rate.

Action:

A key priority for the upcoming negotiations in agriculture should be to seek significant reductions in peak tariffs on potato products in Korea and other Asian markets.

MAJOR TRADE ISSUES FACING COLORADO COMMODITY GROUPS

BEEF

The Colorado and U.S. beef industry has developed a strong and vital market for U.S. beef in overseas markets. In 1999, exports reached a record high of \$4.39 billion. These exports now represent 8-9% of the U.S. beef industry and offer an important growth opportunity. A report from the U.S. Meat Export Federation states that elimination of current trade barriers could increase U.S. beef exports by up to \$2 billion.

The Japanese market has grown from a non-importing country in the 1970s to the largest market

LEADING WORLD MARKETS	1995	1996	1997	1998	1999	2000
Red meat exports value in U.S. \$ million						
All Countries	4,159	4,131	4,085	3,914	4,391	4,905
Japan	2,667	2,655	2,309	2,195	2,369	2,560
North America	576	656	852	938	985	1,226
Korea		277	328	167	378	569
China & Hong Kong	86	112	126	112	98	132
European Union-15	104	99	100	104	78	63
REPUBLICS OF FORMER USSR	142	104	126	128	174	58

for U.S. beef representing over 50% of the U.S. export market.

Unfortunately, the Japanese market has

been declining for the past five years from the record exports of 1995. The strong U.S. dollar, versus the Japanese yen, and the Japanese recession have had a significant impact on U.S. beef sales. The North American (NAFTA) market has grown 113% during the last six years as the second largest market for the U.S.

When the NAFTA market is reviewed by country, the Mexican market is identified as the area of growth within this market. The growth in the Mexican market is linked to the passage of the

TOP 10 COUNTRY MARKETS	1995	1996	1997	1998	1999	2000
Japan	2,667	2,655	2,309	2,195	2,369	2,560
Mexico	191	294	477	606	675	876
Korea	360	276	328	166	378	569
Canada	385	362	374	331	309	349
Russian Federation	140	103	121	115	166	47
China & Hong Kong	85	112	126	112	98	132
Taiwan	55	60	51	53	91	100
Egypt	22	14	24	30	37	30
France	27	29	19	13	15	11

NAFTA accord which eliminated import duties and stabilized the market, which has encouraged the industry to invest in long-

term market development efforts. The Canadian market has decreased during this time. The U.S. meat industry has identified over 34 countries which have barriers to U.S. exports of beef. While the top five markets represent 91% of the total markets, each of these markets has been identified as having trade barriers which restrict U.S. sales.

JAPAN

While Japan has been the largest market for Colorado and U.S. beef, the industry has had to fight for every market entry concession. The largest break came in 1989 when a bilateral agreement ended the limits to importing beef to Japan, based on restricting the right to import beef to a small number of companies and conducting imports through the SBS (simultaneous buy-sell) program. When this accord was reached, an initial import duty of 70% was established, with annual reductions through 2000 that reduced the import duty to 38.5%. Japan does retain the right to issue safeguard duty rates bringing the duty back to 50%, which disrupts exports.

Issue: High import duties

The Japanese import duties remain very high at 38.5%. No further reductions are scheduled unless they are negotiated in upcoming and future trade agreements. Japan also bases import duties on CIF value (cost of goods, plus insurance and freight) versus the global norm of basing duties on FOB value (free on board).

Action:

Support the NCBA in their efforts to have the USTR assign a high priority to efforts to reduce beef import duties in all trade negotiations with Japan.

MEXICO

Mexico is the second largest market for beef and has grown over 250% in the past five years. This growth is attributed to the elimination of import duties with the signing of the NAFTA accord. While this new market is projected to continue to grow, barriers are appearing that restrict Colorado and U.S. beef exports to Mexico.

Issue: Application of anti-dumping duties on U.S. beef

Mexico has introduced anti-dumping and certification requirements on beef shipments to Mexico effective May 28, 2000. This establishes duties on beef trade that has previously been duty free. These duties range up to 80 cents per kilo. The industry feels that these duties and increased certification requirements are designed to reduce the U.S. market in Mexico.

Issue: A variety of inspection and certification requirements that restrict trade

Mexico has implemented a variety of requirements that are restricting trade and making the sale of U.S. beef in Mexico more difficult. These actions include: slaughter facility and hygiene requirements on U.S. plants that restrict the U.S. plants' ability to export to Mexico; restrictive standards on U.S. products that do not apply to Mexican products; and special import inspection requirements at the border.

Action:

Support the NCBA in their efforts to include the U.S. government in ongoing efforts of exporters who are currently pursuing legal remedies through the Mexican justice system and seek changes through NAFTA arbitration procedures on trade-restricting action.

EUROPE

The EU closed the market for U.S. beef products in 1989, based on unsubstantiated health claims relating to the U.S. industry practice of using implants in U.S. cattle. The EU was forced to submit this ban to a WTO panel with the passage of the Uruguay Round of GATT, which created the WTO structure. The EU has subsequently lost their case at the WTO and continues to delay opening the market. The lack of access for the U.S. in Europe is \$300-500 million in annual exports. This includes not only the muscle cuts, but also the varietal meat sales.

Issue: Closure of EU market to U.S. beef products

Since 1989, the EU market has been closed to U.S. beef exports. In addition to the undefendable hormone issue, the EU is now proposing bans on imports (from U.S. and other markets) of animal material for non-food uses (pet food, etc.) that do not meet the same standards that apply to animal products for human consumption.

Action:

Support the NCBA in their efforts to have the USTR maintain their efforts to end the ban on imports of U.S. beef products.

KOREA

Korea is a growing market for U.S. beef products. 2000 beef exports totaled \$568 million and represent the 3rd largest market for U.S. meat exports. This market has more than doubled in imports of U.S. beef in the past five years.

Issue: Restrictive retail beef marketing regulations and high import duties

The Koreans have developed a restrictive market system, modeled after the Japanese system prior to 1989. The WTO has ruled in favor of the U.S.'s objection to this system. The next steps are the review of the Korean appeal and a final resolution through the WTO. The current import duty is also restricting further export volume at 41.6%, which will decline to 40% in 2004, and not be reduced further unless negotiated in future trade accords. Duty rates at this level restrict the growth of exports from the U.S. to this market.

Action:

Support the NCBA in their efforts to have the USTR include lower beef import duty rates in any future bilateral or multilateral trade agreements. Continue to support the efforts to pursue the ruling at the WTO requiring revisions to the Korean import system.

OTHER MARKETS

The U.S. beef industry faces a wide range of trade barriers and high tariffs throughout the world. Elimination of these tariffs and barriers would greatly expand U.S. exports of beef products.

Issue: High import duty rates in world markets

The U.S. industry faces high duty rates throughout the world. These include:

Barbados	40%	Poland	- In-quota 30%, above quota 60%
Brazil	13%	Romania	45%
Chile	11%	Russia	15%
Egypt	5-10%	Slovenia	- In-quota 7%, out-of-quota 10.9%
El Salvador	30%	Thailand	54%
Hungary	-In-quota 25%, above quota 77.5%	Vietnam	15%
Israel	- Out-of-quota 192%		
Norway	344%		

Action:

Support the NCBA and industry in insisting that all future trade accords address the high duties facing U.S. beef in world markets.

DAIRY

The U.S. dairy industry has grown in exports to \$1 billion in 1999. The primary issues facing the dairy industry are persistent trade barriers and the heavy use of dairy subsidies by competitors in the EU and Canada. According to a National Milk Producers Federation/U.S. Dairy Export Council report, "Without subsidies, the EU world dairy share could be expected to fall, which would have represented a trade value of between \$1.3 and \$2.0 billion per year. U.S. dairy exports would likely gain a significant portion of the world market share vacated by the EU in the wake of export subsidy elimination."

THE WORLD

Issue: Dairy export subsidies from the EU, other European countries and Canada displace U.S. exports

When the WTO accord was finalized, 16 of the 132 members of the WTO were allowed to maintain dairy export subsidies. The EU, the European Free Trade Association region and Central and Eastern Europe have 86.5% of the total milk equivalent subsidy rights. This subsidy displaces and competes with U.S. dairy products in every major world market and continues to distort trade. The U.S. retains 3%, which allows some programs to offset EU programs in contested markets. Australia and Canada have 9.9% of the subsidizable quantities.

Action:

The USTR must continue to emphasize elimination of high tariffs and trade-distorting subsidies in all international trade accords.

Issue: TRQ restrictions on dairy exports to Canada and high duties outside of TRQ

Canada has restricted U.S. shipments of dairy products to Canada through a TRQ program. The import of cheese has a low TRQ set, with no provision to increase or ultimately eliminate the TRQ. For shipments above the TRQ rate, the import duty is over 270%.

Action:

Encourage the USDA and the USTR to negotiate for the reduction and eventual elimination of the TRQ for dairy products to Canada.

JAPAN

Issue: Import policies restrict imports of U.S. dairy products

Japan maintains a series of trade barriers, including high tariffs and TRQs that restrict imports of U.S. dairy products. Japan imposes separate TRQs on the following categories of dairy products and products containing dairy components:

- a) Skimmed milk powder for school lunches
- b) Skimmed milk powder for other purposes
- c) Evaporated milk
- d) Whey and modified whey for feeding purposes
- e) Prepared whey for infant formula
- f) Butter and butteroil
- g) Mineral concentrated whey
- h) Prepared edible fat

- i) Other dairy products for general use
- j) Designated dairy products for general use

Japan's final Uruguay Round-bound tariff levels will exceed 20% for virtually all dairy products; in many cases, these tariffs will remain substantially in excess of 20%. The major U.S. dairy exports that are negatively affected by ordinary tariffs are cheeses, including processed cheese, pizza cheese, Monterey Jack cheese, cream cheese and grated/powdered cheese.

In the Uruguay Round, the U.S. negotiated a simultaneous buy-sell (SBS) arrangement for whey. This arrangement has worked satisfactorily for U.S. exporters by gradually increasing the quantity of whey that can be sold directly to Japan end users. However, this arrangement should be phased out and the associated mark-up eliminated, so that all U.S. whey exports can be made directly to end users.

Action:

The USTR must use trade accords to negotiate less restrictive access for U.S. dairy products in Japan.

Issue: Export subsidies (that displace U.S. dairy exports)

The EU and Canada subsidize exports of dairy products, including cheese, to Japan, thus limiting growth of U.S. commercial exports of such products in that market.

Action:

The USTR must continue to emphasize elimination of trade-distorting subsidies in all international trade accords.

MEXICO

Issue: Export subsidies (that displace U.S. dairy exports)

Mexico continues to take advantage of import subsidies from third countries, particularly the EU and Canada, to import dairy products such as skim milk powder. This requires the U.S. to rely on export bonuses provided under the Dairy Export Incentive Program (DEIP) to supply this product to its NAFTA partner. Limitations placed on such bonuses pursuant to the U.S.'s commitments to reduce export subsidies under the WTO Agreement on Agriculture, together with continued subsidy use by competing suppliers, will thus limit growth of U.S. commercial exports of skim milk powder to Mexico.

Action:

The USTR must continue to emphasize elimination of trade-distorting subsidies in all international trade accords.

KOREA

Korea is a major market for U.S. exports of cheese and other dairy products. The U.S. supplied about 20% of Korea's total dairy imports of \$115 million in 1998.

Issue: Import policies

Korea's dairy market remains protected by tariffs in the general range of 40% or more. Until recently, Korea maintained a preferential TRQ of 20% for cheese used as a raw ingredient for further processing into other cheese. The TRQ quantity for this category was 2,000 m.t. for the period January 1, 1998 – June 30, 1998. Cheese imported into Korea outside this TRQ was assessed at Korea's maximum WTO-bound rate of 38.7% (1998). Negotiations have resulted in Korea's abolishment of this preferential TRQ.

Action:

Support the USDEC and NMPF initiative to urge the U.S. government to seek a reinstatement of this preferential TRQ and expand the TRQ to remove the previous restriction of its applicability to cheese for further processing.

Issue: High tariffs on whey and whey products

Korea also maintains a TRQ on imports of whey and modified whey. In 2004, this TRQ will have a final quantity of 54,233 metric tons, with an in-quota tariff of 20% and an out-of-quota tariff of 49.5%.

Action:

Support industry efforts to have the USTR increase (or eliminate) the TRQ and reduce out-of-quota tariff.

Issue: Korean standards, testing, labeling and certification restrict U.S. access

The Korean government has regulations that are counter to global trends and result in reduced export opportunities for the U.S. dairy industry. One example is the exclusion of whey products in the definition of nonfat milk solids for the purposes of manufacturing yogurt and ice cream, which if changed would permit manufacturers to use whey products in ice cream and yogurt. Another example is a regulation requiring that Parmesan cheese must be refrigerated. This requirement increases the cost of exported product. A third example is the enforcement of cheese-testing methods in Korea which are different from those in the U.S. and other countries. This issue is an emerging problem as the U.S. ships more product to Korea. The different testing methods have forced exporters to dump container loads of product that did not meet Korean test requirements, although they passed U.S. testing requirements.

Action:

Support industry efforts to have the USTR negotiate standards, labeling and certification standards that are consistent with the global industry.

EUROPE**Issue: Standards, testing, labeling and certification that impact U.S. exports**

The EU issued Directive 92/46, which contains the rules for the production and sale of raw milk, heat-treated milk and milk-based products. For importation into the EU, the current health certificate requires 400,000 somatic cells per ml and 100,000 bacterial per ml in raw milk. This directive applied to the member states and all non-EU countries. In response to the EU's actions, the USDA has established an EU health certification program to facilitate exports of U.S. dairy products. However, EU member countries export milk products that have not met these requirements. For instance, 35% of milk supplied from Spain does not meet the above-stated quality standards. The EU directive allows for member countries to request an exemption under current health certificate regulations. However, this exemption is NOT offered to US exporters.

Action:

Urge the USTR to address this issue immediately in bilateral negotiations.

POTATOES

Exports of potatoes, as frozen fries, dehydrated potatoes and fresh potatoes, now consume 11% of the total U.S. potato production, with a value of nearly \$780 million. Further growth potential exists in the fast-growing markets of Asia and Latin America. To achieve the full potential of these markets, global trade negotiations must address the high tariffs, TRQs and import bans based on dubious phytosanitary issues.

JAPAN**Issue: Fresh potatoes – golden nematode and potato wart**

Japan bans importation of fresh potatoes from the U.S. Japan's Ministry of Agriculture, Forest and Fisheries (MAFF) officials maintain that the ban is necessary to prevent introduction of golden nematode and potato wart into Japan. The U.S. has challenged Japan's position, demonstrating that golden nematode and potato wart disease are not found in Colorado, the Pacific Northwest, California, and other U.S. potato-exporting areas. The U.S. has urged Japan to immediately lift the ban on fresh potatoes from areas not infested by golden nematode and

potato wart. In the most recent communication from Japan in July 1999, MAFF repeated its position prohibiting importation and raised new concerns regarding a number of viruses that would necessitate post-entry quarantine of imported potatoes even if approval were granted.

Action:

Encourage the USDA/FAS and the USTR to urge Japan to eliminate golden nematode and potato wart from the list of quarantine concerns for fresh potatoes.

CANADA

The U.S. government has held numerous bilateral discussions with Canadian officials on the issues, many at high levels, but meaningful relief has not been forthcoming. In 1997, the International Trade Commission investigated the competitive conditions between the U.S. and Canadian potato industries under Section 332(g) of the 1930 Trade Act. That report confirmed the existence of several trade-distorting Canadian practices that continue to disadvantage U.S. potato growers and processors.

On December 4, 1998, the U.S. and Canadian governments signed an agreement on a Record of Understanding Regarding Areas of Agricultural Trade, which agreement sought to resolve the most contentious U.S.-Canadian agricultural issues. On the issue of potato trade, the governments could not agree on how to resolve the outstanding concerns over subsidies and other discriminatory regulatory practices and restrictions. An ad hoc industry committee was formed and submitted its report to the governments on September 1, 1999. That report identifies the continuing concerns of U.S. potato growers and processors about Canada's restrictions on bulk shipments, and onerous requirements for inspection and certification.

Issue: Prohibition on bulk shipments (import policies)

Canada's standard container prohibits U.S. exports of fresh potatoes for processing in bulk quantities (over 50 kilograms) unless a special ministerial exemption is granted. Because the exemptions are under the authority of the marketing boards in Canada and are granted on a shipment-by-shipment basis, and only if equivalent Canadian product is not available, the exemptions and underlying prohibition on bulk shipments are trade restrictions. The restrictions do not apply to potatoes traded within Canada's provinces and therefore violate the national treatment requirements of GATT/WTO. In contrast, low-priced potatoes from Canada enter the U.S. market with no similar restrictions.

Action:

Continue through the USTR to insist that the ministerial exemptions be issued freely upon request and not used by Canada as trade barriers.

Issue: Phytosanitary testing (standards)

A principal problem is that Canadian authorities do not accept USDA certifications and testing results to meet their certification requirements. Canada's "seed law" provides that only Canadian laboratory results are acceptable. In contrast, the U.S. government continues to accept Canadian government-issued phytosanitary certifications without additional testing in the U.S. This double standard is unfair and has no scientific basis. A related issue concerns Canada's requirement that U.S. seed planted for table stock and processing stock be tested for bacterial ring rot before a phytosanitary certificate is issued. There is no similar Canadian requirement for Canadian-grown seed.

Action:

It is critical that the U.S. government insist on harmonized procedures at both borders.

Issue: Prohibition on consignment sales (import policies)

Canada's Agricultural Products Act prohibits consignment sales of imported fresh potatoes and potatoes traded between provinces without a pre-arranged buyer. The law does not apply this restriction to potatoes traded within Canadian provinces. By permitting Canadian producers to sell on consignment within a province without first securing a buyer, the law affords Canadian producers more favorable treatment than it gives to U.S. potato exporters. This violates the national treatment obligation of GATT/WTO, which requires that Canada provide the same treatment to imports as it does to domestic product.

Action:

Urge the USTR to address this issue immediately in bilateral negotiations.

CHINA

Access to the Chinese market for all U.S. potato products is restricted by excessive tariffs. In addition, fresh potatoes are prohibited by a phytosanitary ban. In the context of U.S.-China negotiations on China's WTO accession, the U.S. potato industry requested that the U.S. seek reductions in China's tariffs on frozen potato products, including french fries, dehydrated potatoes and fresh potatoes, to 10% or below and the removal of China's unjustified phytosanitary restriction for fresh potatoes. The bilateral agreement with China signed on November 15, 1999 reduces the duties to 13% or 15% by the year 2004.

Issue: Excessive tariffs (import policies)

Hotel and restaurant management in China report that high Chinese tariffs are the primary constraint to their using imported U.S. potato products. Significantly-reduced tariffs for frozen french fries are of primary interest since this is the U.S. industry's leading export product. Dehydrated potato products are of next importance because Chinese trade contacts have

expressed interest in these products. As to fresh potatoes, the U.S. potato industry's interest lies in exporting U.S. fresh potatoes to China for both consumption and further processing. Although the U.S. potato industry had wanted tariffs to go below 10%, the reductions from 25% to 13% for frozen fries and from 30% to 15% for potato flakes, flour and meal by January 1, 2004 will help to encourage U.S. exports.

Action:

With China's accession to the WTO in the near future, the U.S. industry's main interest is that China fully and timely implement its tariff commitments in the time periods stipulated in the bilateral agreement. We also urge the U.S. government to seek further reductions in China's tariffs on potato products in the context of the WTO agriculture negotiations.

Issue: Unjustified phytosanitary import ban (standards)

China bans entry for U.S. fresh potatoes. The policy is based on the presence of unclarified and unsubstantiated concerns over potato diseases and pest contamination. The Chinese import policies are vague and non-transparent.

Action:

Continue to work with the USTR on potato issues in the Chinese market. Chinese government officials have indicated a willingness to open up the Chinese market to tablestock potatoes from Washington and Oregon, and seed potatoes from Alaska, but have yet to follow through on that. The USTR should continue to work bilaterally with China to achieve entry of U.S. fresh potatoes.

KOREA

Since 1988, when Korea lifted its import ban on frozen french fries, U.S. exports of fries and other processed potatoes have entered the market, but at a slower pace than expected. This is because of Korea's continued policy of discouraging imports that compete with domestic production through high tariffs and non-transparent policies, such as restrictive drug and cosmetic laws. Access for dehydrated forms of potatoes is restricted by unjustified phytosanitary concerns.

Current U.S. potato shipments to Korea are valued at over \$16.8 million. The majority of these exports are frozen french fries. With meaningful tariff reductions, exports of potato products to Korea would increase by up to \$5 million annually.

Issue: Unjustified import ban on potato flour, meal, pellets and flakes

Imports of U.S. potato flour, meal, pellets and flakes have in the past been denied entry into the Korean market due to vague and unsubstantiated laws under Korea's Drugs, Cosmetics and Medical Instruments Act and the Food Grain Management Act. The ban has been raised by U.S.

officials in the context of numerous bilateral discussions but, to our knowledge, there has been no official revision to Korea's Drugs and Cosmetics Law.

Action:

Urge the USTR to address this issue immediately in bilateral negotiations.

Issue: Restrictive tariffs and TRQs (import policies)

In the Uruguay Round Agreement, Korea offered only limited tariff concessions on potato products and on several products put in place restrictive TRQs. For fresh potatoes (H.S. 0701.90), Korea established a TRQ with the initial quota set at a restrictive 11,286 metric tons that will increase to only 18,810 metric tons over ten years. The in-quota duty is still high at 30%, the initial over-quota duty was set at a prohibitive 338%, dropping to only 304% over ten years. In 1999, the over-quota duty was 321%.

Similar restrictive TRQs were adopted for potato flour, meal, pellets and flakes. Under Uruguay Round commitments, Korea established a limited TRQ of 60 metric tons for all four products classified in the harmonized system under H.S. 1105. The in-quota tariff is being reduced from 9% to a final rate of 5.4%. Over-quota product, if entered, initially is assessed a prohibitive tariff of 338%, falling after ten years to an equally prohibitive GATT-bound rate of 304%. Compounding the TRQ problem, the Korean Customs Service (KCS) has severely restricted trade from the U.S. by misclassifying dehydrated potato products that should be classified under H.S. 2005.20, which category has no restrictive TRQ, in the Chapter 11 categories that have a restrictive TRQ and prohibitive over-quota tariff. This misclassification means the TRQ is filled much sooner than otherwise would be the case and the prohibitive over-quota tariff is unfairly applied.

The tariff on frozen french fries (H.S. 2004.10) will drop from 30% to 18% by the year 2006. The tariff on other prepared or preserved potatoes (H.S. 2005.20) will fall to 31.5% from a bound rate of 35% over a ten-year period. In this case, the Uruguay Round rate is greater than the currently-applied 20% rate.

Action:

A key priority for the upcoming negotiations in agriculture should be to seek significant reductions in peak tariffs on potato products in Korea and other Asian markets.

MEXICO

Market access commitments negotiated under NAFTA have not been as quick to increase access for U.S. potato products to Mexico as hoped. Tariff commitments are subject to a ten-year phase out for many potato items. Efforts to accelerate the phase-out periods using NAFTA's accelerated tariff procedures have been blocked by Mexico. Current efforts include working

with Mexican government officials to improve access through adjustments to the TRQ for french fries.

Phytosanitary restrictions still block access for U.S. fresh and seed potatoes, as Mexico has moved slowly to comply with WTO and NAFTA requirements. In the meantime, Mexico has allowed access for Canadian seed potatoes.

Because consumer demand and market potential for frozen fry and processed potato products in Mexico is high, the industry estimates short-term gains of several million dollars if tariffs are reduced and TRQs expanded more quickly than currently scheduled under the terms of NAFTA. Delaying unrestricted access will disadvantage U.S. processors by giving infant industries in Mexico time to become competitive. The market for U.S. fresh and seed potatoes in Mexico is also significant. The timely conclusion of a U.S.-Mexican workplan to allow access for U.S. potatoes is critical since Mexico is already allowing access for competitive Canadian seed potatoes.

Issue: Phytosanitary restrictions (standards)

Fresh potatoes for consumption are prohibited from Colorado as well as Washington, Oregon, Idaho, California, New Mexico, Nebraska, Utah, Nevada and a growing number of other states due to unsubstantiated phytosanitary concerns. For the same reason, seed potatoes are prohibited. Several years ago, the Mexican government agreed to document the scientific basis for these restrictions and to develop a workplan to allow access to U.S. fresh potatoes.

Action:

Encourage the USDA/FAS and the USTR to continually raise this issue in meetings and trade negotiations with Mexican officials.

Issue: TRQ - Fresh potatoes

NAFTA replaced Mexico's import license regime for fresh potatoes with a TRQ. Roughly 17,391 metric tons of fresh U.S. table potatoes were permitted to enter Mexico duty-free in 1999, with the quota increasing by 3% compounded annually. Any U.S. exports over the quota amount are subject to a tariff of \$269 per metric ton, but not less than 206.7% of value of shipment. The tariff is to be phased out over ten years, under a formula that limits reduction of the tariff in the first six years to only 207%. The excessive over-quota tariff of 207% or more for the first six years of the phase-out period effectively precludes competitive access to the Mexican market during this time. Although the NAFTA-implementing legislation directs the administration to give priority to consulting with Mexico on a more rapid tariff reduction schedule for potatoes in the context of the accelerated tariff elimination provisions, Mexico has successfully defeated these efforts.

The quota level provided for in NAFTA is restrictive in its own right since the level does not reflect anticipated growth. The extraordinarily high over-quota tariff effectively prohibits access for over-quota potatoes.

Action:

The industry should work with the USTR to insure that the quota level is expanded; or at minimum, U.S. fresh potato exports to Mexico targeted specifically for potato chip processing in Mexico should not be counted as part of the 17,391 metric ton fresh potato quota.

Issue: TRQ - Processed potatoes

Under NAFTA, Mexico adopted safeguard TRQs on almost all processed potato products, including frozen potatoes, dried potatoes, french fries, potato chips and other prepared or preserved potatoes. The TRQs are unduly restrictive in that the quota amounts are small (based on anticipated exports) and the ten-year phase-out period of the TRQs is excessive. The 1999 TRQ on frozen french fries was 3,593 MTS at an 8% duty, which accounts for roughly 20% of total Mexican demand. When the TRQ was filled by March in 2000, a 20% over-quota tariff was applied. Here again, the U.S. industry has twice requested the accelerated elimination of these TRQs under the NAFTA accelerated tariff removal process. Both times, Mexico has successfully blocked the request. Given that there is no domestic processed potato industry (except chip) in Mexico, the TRQ should be removed.

Action:

The industry should work with the USTR to pursue more favorable trade access and elimination of TRQs on products that are not processed in Mexico.

TAIWAN

In 1997, Taiwan offered minimal tariff reductions on some potato products, some for immediate implementation and most based on Taiwan's entering the WTO. The duties, however, are still high and continue to be the main impediment to trade. The rates include: fresh potatoes at 25%, down to 20% in 2002; frozen potatoes at 28%, down to 15%; various meals, flakes, etc., from 15 to 10%. Unfortunately, with Taiwan entering the WTO, the duty on french fries will increase to 20% from the current 18% rate.

Issue: Small import quota for fresh potatoes

Taiwan restricts imports of fresh potatoes with a 5,000 metric ton quota. The quota is too small. For example, although Taiwan has approved some 9,000 acres of potato fields in Washington and Oregon for entry, only about 5% of those potatoes can enter under the 5,000 metric ton quota. Limited access under the quota discourages Colorado producers from seeking approval.

Action:

Taiwan has agreed to remove the quota upon WTO accession. U.S. government resolve is needed to ensure Taiwan abides by this commitment and lifts the quota immediately once WTO

membership is achieved.

WHEAT

There is no other agricultural product in Colorado that is more dependent on the export market than wheat. While 60% of all U.S. wheat is exported, Colorado industry grain flow studies have shown that over 80% of Colorado wheat is exported. With such a high level of export dependence, the price of wheat in Colorado is literally determined by the world market for wheat. Trade barriers, third country export support payments and state trading enterprises, and in-country subsidization of wheat products often determine the price Colorado wheat farmers receive for their product.

JAPAN

As a result of the Uruguay Round, Japan agreed to convert all import bans and quotas to tariffs (except rice). TRQs replaced the import quotas on wheat, barley, starches and other products, while retaining state trading authority and price stabilization schemes for these products. Japan remains a \$400 million market for U.S. wheat. The TRQ system does significantly restrict growth for wheat. Wheat and other products are viewed as competitors to rice, so price stabilization schemes are built to protect the Japanese rice industry. The Japanese state trading authority effectively imports U.S. and world wheat at the global market price and resells the wheat to millers at the target support price.

Issue: Continued control and restriction of market for wheat through the creation of very high prices for wheat

Action:

Encourage the USDA and the USTR to aggressively negotiate increased access through reduced tariffs on wheat to Japan in upcoming trade negotiations.

CANADA

Issue: State trade enterprise for wheat (Canadian Wheat Board)

Canada utilized a state trading enterprise system which is a government-sanctioned monopoly status organization that controls all wheat marketing. This restricts U.S. access to any cross-border trade and, more significantly, competes with U.S. wheat globally.

Action:

Encourage the USDA and the USTR to address the state trade enterprise issues in upcoming trade negotiations.

CHINA

Issue: Reduce Chinese domestic subsidies and liberalize access for U.S. wheat to Chinese market

China is the largest producer of wheat in the world. The Chinese market for U.S. wheat has changed dramatically over the last ten years. Throughout the early 1990s, China imported from one to five-and-a-half million metric tons (MMT) of U.S. wheat each year. More recently, Chinese imports from the U.S. have declined significantly, to 195,000 metric tons in the most recent marketing year.

Chinese grain policies are also facing changes in preparation for China's entry into the WTO and to address China's overproduction. The Chinese government has lowered their wheat prices and begun to phase out government purchases of low-quality wheat.

When China accedes to the WTO, it will establish a TRQ at 7.3 million tons, rising to 9.6 million tons in 2004. In 1999, China imported only 258,000 metric tons of U.S. wheat. Ten percent of this market opportunity is reserved for the private sector. The U.S. and China have agreed on specific rules for TRQ administration to maximize the possibility that quotas are filled. Unutilized quota amounts will be reallocated to other importers.

Action:

Encourage the USDA and the USTR to insist on changes to improve U.S. access to the Chinese market as a condition for China joining the WTO.

CORN

While Colorado does not directly export corn, the global market for corn establishes the U.S. and Colorado market for corn.

The global market for corn is now impacted by the use of GMO seedstock in the U.S. and the varied acceptance in the global market.

The USDA and the USTR must be diligent in global negotiations to insure access of all U.S. agricultural commodities in the world market. Various markets are restricting U.S. product

access based on GMO issues. The USDA and USTR must work to establish a global standard for these crops and protect the global market for these commodities.

ORGANIC PRODUCTS

Colorado and U.S. organic products, whether commodities or processed products, have a growing international market. The primary markets are Japan and Europe.

Issue: New Japanese and European regulations on accepting state and private “organic certification” are limiting sales

The U.S. has finally completed the U.S. National Organic Standards, which will be phased in by August 2002. Presently, shipment of organic products is harmed because of burdensome regulations placed on U.S. producers. For Europe, the certifier must become ISO 65-accredited, which requires additional paperwork and other regulations, which do not address the organic nature, but rather the bureaucracy of how the certifier creates and maintains their records. The burden of this certification has limited compliance to just 8 of the over 45 U.S. certifiers. The state of Colorado has decided not to change their procedures to be compliant.

The Japanese have adopted new regulations effective April 1, 2001, which are vague and confusing to both Japanese and U.S. industry. Numerous growers and buyers have withheld programs for this year for fear of not being able to qualify as “organic” by the Japanese standards.

Action:

Encourage the USDA/FAS and the USTR to negotiate a certification recognition system that would allow Colorado and U.S. organic products to be shipped and sold in Japan and Europe.

APPLES

Most apples are exported from the Pacific Northwest (PNW). When the PNW is restricted from overseas markets, they sell these apples in the U.S., competing with Colorado apples and reducing domestic prices.

The one trade barrier directly impacting Colorado apple producers are the phytosanitary barriers for the export of Colorado apples to Mexico, where Colorado has a transportation advantage over the PNW.

Issue: Restricted access to the Mexican market for Colorado apples based on phytosanitary requirements

Current Mexican regulations prohibit shipment of Colorado apples to Mexico. The Mexican government has established regulations that are not economically feasible for the Colorado apple industry to comply with to receive approval for exporting to Mexico. The Mexican government requires a full-time Mexican government staff to be resident in the apple production area, to inspect orchards, and monitor the storage and packing of apples. All costs for this staff are the obligation of the apple growers. This is the program that Mexico has for apples from Washington, but with the low volume in Colorado compared to Washington, the pro-rated costs of this program are prohibitive for Colorado growers, thus preventing Colorado apples from entering the Mexican market.

Action:

Encourage the USDA/FAS and the USTR to negotiate alternative certification programs for smaller apple-shipping states.

DRY BEANS

Colorado bean growers predominantly produce pinto beans, which represent a majority of the beans that are imported by Mexico. Mexico is the largest market for U.S. dry beans, purchasing up to 40% of all dry beans. The fluctuations in this market from year to year have had an impact on the U.S. market price.

U.S. DRY BEAN EXPORTS

Millions of Dollars

	1996	1997	1998	1999	2000
All Countries	262,093	260,024	336,938	263,843	233,811
Mexico	72,067	42,154	113,672	48,855	35,107
United Kingdom	40,322	43,880	34,603	34,109	21,909
Canada	8,353	8,856	12,706	28,254	16,959
Japan	18,624	13,996	9,359	10,483	15,298
Spain	10,474	9,871	11,486	9,688	12,710
Italy	9,105	13,270	11,683	14,643	10,861
Algeria	1,478	2,517	2,966	5,404	10,698
Haiti	7,404	8,338	13,794	11,226	9,913
Russian Federation	443	300	41	1,248	8,954
Angola	5,071	8,144	1,518	3,528	7,604

Issue: Mexican import regulations hamper the smooth and regular marketing of U.S. beans to Mexico

The NAFTA accord provides for a systematic reduction of trade barriers and restrictions on dry beans to be phased in over the maximum-allowed 15 years. While the allowable quantity allowed into Mexico within the TRQ continues to increase, the administration of the import permits for these imports has had a significant market-disrupting impact on the Mexican and U.S. markets.

The industry supports the concept that all TRQ quota permits be auctioned at the beginning of the year. In recent years, the auctions have been sporadic, causing market disruption. In addition, these permits should have a minimum of 90 days validation, preferably a full year. The current auction system for permits increases the cost of U.S. product and thus acts as a tariff or duty. In the last two auctions, this represented 50-100% of the cost of the product. Other issues include lack of transferability of these permits to allow traders to fulfill demand, and the purchase of these permits by non-traders and packers, which hold the permits to prevent U.S. beans from entering Mexico.

Action:

Encourage the USTR to include dry bean issues in discussions with Mexico on NAFTA, to resolve these issues and allow for regular and open trade in dry beans with Mexico.

BREEDSTOCK

Breedstock exports offer a safety valve of sales for Colorado ranchers. Unfortunately, while exports of live breedstock, semen and embryos represent a \$228.7 million export market for the U.S., most target markets continue to maintain trade barriers which reduce overall sales.

Over 30 countries, representing the primary markets for U.S. genetics, have trade barriers and onerous requirements that reduce access for the U.S. industry. In all cases, the action is the same -- all future trade accords should address these trade barriers.

Action:

Work with the USTR to insure that future trade accords include liberalizing import restrictions and lowering duties for U.S. genetics.

ARGENTINA

Issue: Import duties and onerous documentation requirements restrict sales

Argentina charges from 30-50% import duty on imported semen. In addition, an Argentinean beef producer must pay high certification fees on imported semen while no fees are charged for domestic semen. Finally, while the world standard for pedigree certification is for three generations, Argentina requires four generations, and requires an original certification rather than a copy. All these requirements collectively make U.S. genetics more expensive in this market.

BRAZIL

Issue: A variety of regulations and restrictions that restrict trade and increase costs of U.S. genetics

Brazil imposes several regulations on imported breedstock that are not required of domestic bulls. This includes establishing genetic standards for imported bulls, while no standards exist for domestic bulls, and bluetongue restrictions on imported semen, while no requirements for testing exist for domestic bulls.

CHINA

Issue: Health requirements restrict imports

Health requirements for AI (artificial insemination) require all AI facilities be IBR-negative and these facilities must be inspected by Chinese veterinarians at the cost of the exporters. China also refuses to accept U.S. embryo protocols, which eliminates the Chinese market for embryos.

FRANCE

Issue: Restrictive distribution systems and standards applied to U.S. product, which are not applied to other EU countries, limit U.S. sales

In France, the government controls the inseminations of cows through the exclusive licensing of co-ops that purchase and inseminate cows. This eliminates direct purchases by farmers, increasing the final costs and selection available to the farmer. In addition, the co-op, as a monopoly, charges additional fees and competes with U.S. semen for business, providing the co-op with unfair advantages in the market and the ability to control and increase U.S. semen costs. France also imposes a minimum reliability standard on U.S. semen, which does not apply to semen from other EU countries selling in France.

GERMANY

Issue: Germany establishes regulations for AI that prohibit U.S. companies from competing in the German market

Germany requires that for a company to become an officially-acknowledged AI station, 50% of the sales must be generated from bulls housed in Germany and owned by the AI station. This requirement puts prohibitive costs for setting up a bull stud service in Germany. German law also establishes local monopolies for AI and prohibits direct purchases by end users. The monopoly also determines the price that foreign semen has to be sold for to the farmer.

JAPAN

Issue: Import control is consigned to Japanese industry, which competes with U.S. semen sales

The Semen Import Council controls approval for imports of semen. This group is also selling semen in competition with U.S. semen providers. This system includes several surcharges that increase the cost of U.S. semen. This system prevents U.S. industry from obtaining direct access to end users without all the surcharges and delays.

ADDITIONAL COUNTRY BARRIERS

High duties, burdensome import regulations and control by local competitors restrict U.S. industry access to semen markets in the following countries, as well as those individually highlighted.

Australia	Ecuador	Italy	Switzerland
Canada	Greece	Korea	Thailand
Colombia	Hungary	New Zealand	Tunisia
Czech Republic	India	Poland	Turkey
Cyprus	Ireland	South Africa	Zimbabwe
Denmark	Israel	Sweden	

LIST OF FREQUENTLY-USED ACRONYMS

AI	Artificial Insemination
AML	Antimonopoly Law
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ATPA	Andean Trade Preferences Act
BIT	Bilateral Investment Treaty
CACM	Central American Common Market
CARICOM	Caribbean Common Market
CBERA	Caribbean Basin Economic Recovery Act
CBI	Caribbean Basin Initiative
CFTA	Canada Free Trade Agreement
CIF	Cost of Goods, Insurance and Freight
CITT	Canadian International Trade Tribunal
CTE	Committee on Trade and the Environment
CTG	Council for Trade in Goods
CVD	Countervailing Duty
CWB	Canadian Wheat Board
DEIP	Dairy Export Incentive Program
DSB	Dispute Settlement Body
EFTA	European Free Trade Association
EU	European Union
FAS	Foreign Agricultural Service
FDI	Foreign Direct Investment
FOB	Free on Board
FSL	Japan's Food Sanitation Law
FTAA	Free Trade Area of the Americas
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GEC	Global Electronic Commerce
GSP	Generalized System of Preferences
IPR	Intellectual Property Rights
IQ	Import Quota
ITA	Information Technology Agreement
KCS	Korean Customs Service
LDBDC	Least Developed Beneficiary Country
LDP	Loan Deficiency Payment
MAFF	Japan's Ministry of Agriculture, Forest and Fisheries
MAI	Multilateral Agreement on Investment
MCGA	Manitoba Corn Growers Association
MERCOSUL/MERCOSUR	Southern Common Market
MFA	Multifiber Arrangement
MHW	Japan's Ministry of Health & Welfare
MOU	Memorandum of Understanding
MRA	Mutual Recognition Agreement
NAFTA	North American Free Trade Agreement
NCBA	National Cattlemen's Beef Association

NDWC	North Dakota Wheat Commission
NIS	Newly Independent States
NMPF.....	National Milk Producers Federation
NTR	Normal Trade Relations Status
OECD.....	Organization for Economic Cooperation and Development
PFCF	Priority Foreign Country Practice
PNTR	Permanent Normal Trade Relations Status
PNW.....	Pacific Northwest
ROU	Record of Understanding
SACU.....	Southern African Customs Union
SADC.....	Southern African Development Community
SBS	Simultaneous buy-sell
SPS.....	Sanitary and Phytosanitary
TAA	Trade Adjustment Assistance
TEP	Transatlantic Economic Partnership
TRIMS	Trade Related Investment Measures
TRIPS.....	Trade Related Intellectual Property Rights
TRQ	Tariff-Rate Quota
URAA	Uruguay Round Agreements Act
USDA.....	U.S. Department of Agriculture
USDEC	U.S. Dairy Export Council
USITC.....	U.S. International Trade Commission
USTR.....	U.S. Trade Representative
WTO	World Trade Organization