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December 10, 2018

Office of the United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Re: Docket Number: USTR-2018-0035 Comments by the U.S. Meat Export Federation Regarding Negotiating Objectives for a U.S.-European Union Trade Agreement

The U.S. Meat Export Federation (USMEF) appreciates the opportunity to submit comments on Docket Number USTR-2018-0035 concerning negotiating objectives for a U.S.-European Union (EU) Trade Agreement. USMEF is a non-profit trade association that represents the export interests of the U.S. beef, pork, and lamb industries through its network of offices and representatives in foreign markets. USMEF's membership includes a broad cross-section of American agriculture and includes farmers; meat packers, processors, purveyors and traders; agribusinesses with an interest in U.S. meat exports; and other agricultural organizations. In addition, USMEF works closely with the United States Department of Agriculture and is a long-standing partner of the Foreign Agricultural Service through the Market Access and Foreign Market Development programs.

The members of USMEF share the U.S. government's ambitions in negotiations with the EU, to address both tariff and non-tariff barriers and to achieve fairer, more balanced trade. There is tremendous potential to grow U.S. red meat exports to the EU, but currently the market is heavily protected by a combination of long-standing sanitary and phytosanitary (SPS) barriers, high tariffs and restrictive quotas. These obstacles effectively limit the volume of U.S. beef and pork that could enter the EU market to less than 1 percent of total consumption. Import protection has allowed the EU to become a major net exporter of agricultural products, and specifically a net exporter of red meat to the U.S. due to the absence of similar U.S. import quotas on EU meat imports, especially pork. With more reciprocal market access and adherence to international standards on residues of safe veterinary drugs and food safety technologies, there is potential for significant growth in U.S. red meat exports to the EU.

USMEF commends the Trump administration's efforts thus far to ensure that expanding access for U.S. agricultural products and red meat is included in the U.S.-EU trade agreement negotiations, and this is the top immediate priority of U.S. red meat exporters. Through the negotiations, tariffs and quotas on red meat should be eliminated and the EU's long-standing SPS issues, as detailed below, should be addressed.

Although not directly part of the broader U.S.-EU trade negotiations, agreement on the next phase of the Memorandum of Understanding on the hormones case must be reached immediately to ensure continued U.S. beef exports to the EU. Without implementation of a U.S.-specific share of the duty-free High-Quality Beef (HQB) quota in the very near term, the sustainability of U.S. beef exports to the EU - now valued at about $200 million with the potential for exports closer to $400 million - will be at risk.

Need for more reciprocal trade

The U.S. is the largest importer of EU agricultural products, while also being the EU's top export market for all goods. Even though the U.S. has an overall surplus in agricultural trade, the U.S. is a major net importer of agricultural products from the EU. For January to September 2018, U.S. net imports of agricultural products from the EU were valued at $8.2 billion. Reflecting soaring imports of European pork, the U.S. is a growing net importer of European red meat, and net imports climbed to 108,900 metric tons (mt) valued at $395 million in January–September 2018.

Please see the appendix for a table summarizing the U.S. and EU beef, pork and lamb production, trade and market access situations.

Beef

Deeply rooted SPS barriers and related restrictive quotas have worked hand in hand to keep the U.S. a niche supplier of beef to Europe. The EU ban on beef imports derived from cattle to which any of six hormones have been safely administered for growth promotional purposes has effectively blocked most U.S. beef from being eligible to enter the EU since 1989. Both a WTO panel and the Appellate Body have ruled the ban is inconsistent with the EU's WTO obligations under the SPS agreement. In May 2009, the U.S. and the EU reached a Memorandum of Understanding under which the EU agreed to create a new duty-free quota for imports of beef produced without EU banned hormone residues. Since 2009, in exchange for the elimination of increased U.S. tariffs on EU imports, the agreement has provided an opportunity for U.S. producers to export additional beef to the EU market under the duty-free HQB (EC 481/2012) quota.

Currently, U.S. beef exports enter the EU under two quotas: mostly through the HQB quota which caps imports at 45,000 mt per year at zero duty and is operated on a first-come-first-served basis with quarterly allocations. The HQB is shared with other eligible suppliers meeting the HQB product definition, including Uruguay, Australia, Argentina, New Zealand and Canada. The second quota is the U.S./Canada Hilton quota for 11,500 mt, where imports are subject to a 20 percent duty and import licenses are required. Through the EU-Canada Comprehensive Economic and Trade Agreement (CETA), Canada can export under the shared Hilton quota at zero duty. The out-of-quota rate for beef exports to the EU varies by cut, but for most cuts it is 12.8 percent plus 3 euros/kg, and is therefore trade prohibitive. Given the high costs of producing to EU requirements (premiums for non-hormone treated cattle average around $250 per head), U.S. beef exports to the EU under the Hilton quota, at 20 percent duty, are not profitable for EU end users. The Hilton is only used in emergency situations when the HQB quarterly allocation is exhausted and U.S. beef is needed in the EU before the next quarterly allocation is opened (i.e. to ensure chilled U.S. beef is available during the 2.5 months when no HQB quota is available between quarterly allocations).

U.S. beef exports to the EU grew with the opening of the HQB quota, but EU imports of U.S. beef peaked in 2015 at $272 million. As other suppliers were approved under the duty-free quota, U.S. share of the quota eroded. The duty-free HQB has been fully subscribed each quarter since 2014, restricting U.S. beef export volume growth. EU imports of U.S. beef from January through September 2018 were down 15 percent from the previous year due to the challenging situation (and totaled 10,860 mt valued at $141 million). The rapid utilization of the quota each quarter translates into huge logistical challenges throughout the supply chain, from U.S. producers managing EU-

specific cattle on feed, to supermarket and retail end-users in the EU who must manage inventories and sales of chilled U.S. beef through months where there are no new supplies arriving. Negotiations for a solution to the duty-free HQB quota are ongoing, and USMEF remains optimistic that they may offer potential to again grow U.S. beef exports to the EU. But, larger volume access through a U.S.-EU trade agreement could offer significant additional export potential.

There is room to grow Europe's per capita beef consumption, which is low at just 11 kg. For the EU N-13 member states, consumption is just 3.9 kg per capita. Consumption in the new member states dropped dramatically after entering the EU, as third-country imports declined due to the restrictive EU import requirements, high tariffs and complex TRQs. Quotas have limited EU beef imports from all suppliers and imports account for less than 4 percent of consumption. Overall beef consumption has therefore been constrained by available supplies, especially of high-quality beef, and high prices relative to quality. Based upon USMEF observations and discussions with major restaurant and retail chains throughout the EU, USMEF has concluded that U.S. exports to the EU would increase significantly with additional duty-free access. Importantly, the U.S. could also invest in growing overall EU beef consumption and U.S. beef production for Europe could scale-up, resulting in lower costs and prices.

CETA established separate TRQs for Canadian chilled and frozen beef and did not address SPS barriers such as growth promotant use and pathogen reduction technology (PRT) approvals. Although new market access was created, with duty-free TRQs for bison, chilled beef, and frozen beef (adding up to about 52,000 mt in year six) and chilled/frozen pork (adding up to about 67,000 mt in year six, product weight), out-of-quota tariff rates remain at trade-prohibitive levels and TRQ volumes are capped at the year six volume. Thus, no future growth is provided after the TRQs are phased in over six years. For U.S. access to be meaningful, any new trade agreement must include terms that go well beyond what was agreed to in CETA.

Pork

Europe has become a growing competitor to U.S. pork in most markets around the world, and European pork benefits from the open U.S. market, paying essentially zero tariffs on exports to the U.S., which will total around $700 million in 2018. Unlike the U.S., which is both a top importer and exporter of pork, Europe does not import any meaningful volume of pork. Trade is one-way.

The EU has several TRQs for pork imports, of which the most relevant are the boneless hams and loins quota for 35,265 mt and the U.S.-specific TRQ for the same products at 4,922 mt. Imports under both TRQs are subject to a duty of 250 euros/mt. Out-of-quota tariffs are trade prohibitive (for example, at 869 euros/mt for boneless hams and loins) and vary by cut.

The relatively high tariffs and the complexity of the TRQs, including import license requirements and product restrictions, limit the volume of U.S. pork exports to the EU, along with the fact that pork must be produced under the USDA Pork for the EU (PFEU) program and be harvested, processed, stored and exported though EU-eligible establishments. If tariffs were eliminated and market access issues were addressed, there would be new opportunities for U.S. pork in Europe, just as European producers have found success in the U.S. market, even though we have a surplus of pork. As noted above, even though the EU opened a new duty-free quota for Canadian pork through the CETA agreement, which was implemented in September 2017, EU

imports of Canadian pork totaled just 189 mt ($454,000) in January through September 2018. This compares to Canadian imports of European pork at 18,670 mt ($89 million) over the same period. Again, a U.S.-EU trade agreement must go well beyond what was agreed in CETA.

SPS Issues Impacting U.S. Red Meat Access to the EU

Beyond tariffs and quotas, other persistent and well-documented SPS barriers have significantly hindered market access. An overview of the top priority issues for U.S. beef and pork, outside of tariffs and quotas, are as follows:

Live Animal Requirements – Growth Promotants, Traceability, and Antimicrobial Use

The EU's ban on growth promotants (hormones and beta agonists) and the requirement for third countries to comply, continues to be non-compliant with the WTO SPS agreement, as well as inconsistent with international standard setting bodies like the Codex Alimentarius. To ensure compliance with the EU requirements, the USDA Non-Hormone Treated Cattle (NHTC) and PFEU programs have robust traceability components. Individual site approval and traceability of animals at each location from birth to slaughter add significant costs to those already accrued from not being able to use these production technologies. Complex segregation and "non-commingle ment" protocols also add further complexity and costs for the producers of NHTC and PFEU-compliant animals. These existing requirements make beef produced for the EU the most expensive beef produced and exported from the U.S.

Although the exact impact is still not known as the implementing legislation is currently being drafted in the EU, the reciprocity clause requiring third country compliance with the EU's pending antimicrobial use legislation again shows a disregard for the WTO SPS Agreement and will have further impacts on NHTC and PFEU program costs and eligible supply – further limiting market access.

Plant Requirements – Pathogen Reduction Technologies and Non-Comminglement

The EU does not allow the vast majority of PRTs eligible for use in the U.S. under FSIS Directive 7120.1 to be used during "EU mode" runs for EU-destined production in eligible slaughter plants. Lactic acid is the only acid PRT eligible for use for the EU, and only for beef carcasses. Use at a non-slaughter processing plant, on pork carcasses, and on beef cuts/trimmings is not allowed. The U.S. has the most stringent *E. coli* standards on raw beef (non-intact and components) in the world, and not allowing use of all PRTs approved by FDA and FSIS a) severely limits the interest for packers to pursue EU plant approval and b) causes complications for using/selling cuts and trimmings produced from EU-compliant carcasses that aren't shipped to the EU. Applications to the EU for additional PRT approvals for beef, other species, and by other countries have been put forward in the past decade. However, to date, none of these applications have been approved (even with favorable assessments by the European Food Safety Authority (EFSA), due to the highly political and non-science-based approval process in the EU.

Due to the high cost of producing animals under the NHTC program, combined with the need to run in "EU mode" without use of all their HACCP-approved PRTs, beef exporters typically require their EU importers to take "full sets," meaning a list of 13-20 cuts from the chuck to the round. For cuts, trimmings, and offal derived from EU-compliant carcasses, but not sent to the EU, there is typically a loss to the packer as

they market these products that may not meet the food safety technology use and testing requirements dictated by their domestic buyers. Lack of PRT approvals and vague non-comminglement requirements continue to deter interested packers from becoming eligible.

The EU also continues to require trichinae mitigation (freezing or testing) for U.S. pork exports to the EU, again adding further cost to the PFEU-compliant pork being produced for the EU.

USMEF considers the growth promotant restrictions and recognition and/or approval of additional, industry relevant PRTs as priorities for technical engagement with the EU. Without addressing these restrictions, U.S. beef and pork exports to the EU will continue to be limited, even if all tariff and quota barriers are removed through a comprehensive trade agreement.

Lamb

U.S. lamb is currently not eligible for direct export to the EU but goes to the continent for transit to non-EU countries, ship's stores, and U.S. military bases. U.S. lamb exports to these users in Europe will total over 100 mt, valued at more than $1 million, in 2018. Although the U.S. lamb industry does not use hormonal growth promotants, the technology is approved for use in U.S. sheep production. Therefore, a non-hormone use program, similar to the NHTC program, would need to be developed to certify sheep as EU-eligible. For various reasons, including the extra costs added to trace such sheep through the program, creation of this program has not been an industry priority. If changes to the EU's policy on growth promotant use in third countries is achieved, this could provide an incentive for the industry to pursue and finalize a lamb certificate. U.S. lamb is grain-finished, so like U.S. beef, would provide a unique option for European consumers compared to domestic lamb or lamb imported from Australia and New Zealand.

Geographic Indication Rules

The EU's protectionist push for recognition of a long list of geographic indications (GI) for various food and drink products has resulted in extensive GI lists being incorporated into the EU's recently negotiated trade agreements, including CETA and the modernized EU-Mexico trade agreement. Although U.S. processed meat opportunities in the EU are limited now due to the high cost of sourcing NHTC or PFEU raw materials and utilizing EU approved establishments, inclusion of such lengthy lists of GI products afforded protections into a final agreement could continue to impact U.S. processed meat export opportunities, as well as impact their sale and labeling in the U.S. market.

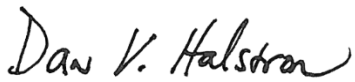
Summary

There is tremendous potential for growth in the largely untapped EU market for U.S. beef and pork, but this growth will only be possible through market access gains that are within reach through a new U.S.-EU trade agreement. USMEF is cognizant of the stalled Transatlantic Trade and Investment Partnership (TTIP) talks and the EU's resistance to including agriculture in the current discussions with the U.S. We therefore emphasize that there is potential for growth in two-way, reciprocal trade in red meat. Importantly, the goal of the U.S. industry is not to displace or damage EU farmers. USMEF also understands that the European market is challenging and is not one market, but rather many markets within the diverse countries that comprise the EU. There is room to grow European red meat consumption, and USMEF is prepared

to contribute to this effort by investing more resources in marketing and education. But we cannot do this without meaningful access for U.S. red meat in the European market.

The U.S. Meat Export Federation looks forward to the great opportunities to be uncovered in a U.S.-EU trade agreement that includes agriculture. We appreciate the opportunity to comment on the objectives for the U.S.-EU trade agreement. Please do not hesitate to contact USMEF if you have additional questions.

Sincerely,



Dan V. Halstrom
President and CEO
U.S. Meat Export Federation

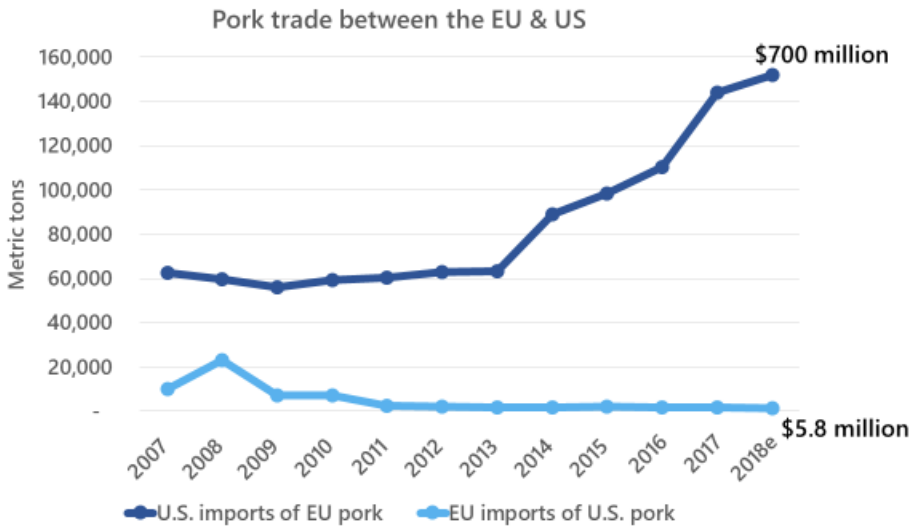
APPENDIX

Comparison of the Red Meat Situation and Market Access in the U.S. and EU

2018e	Production	Exports	Imports	From U.S./EU	Per Cap Cons	Tariffs	Quotas
U.S. Pork	11,940	2,490	490	145	23	0 duty or 1.4 cents/kg	no quota
EU Pork	24,015	3,500	30	1	33	250 euros/mt in-quota; out-quota 869 euro/mt, varies by cut	35,265 mt boneless hams & loins; U.S. specific 4,922 mt
U.S. Beef	12,237	1,364	1,070	4	26	4.4 cents/kg in quota; 26.4% out of quota	64,805 others TRQ
EU Beef	7,994	460	250	15	11	20% Hilton; 0% HQB; 12.8% + 3 euros/kg out-quota	11,500 U.S./Canada Hilton; 45,000 mt HQB
U.S. Lamb*	60	13	110	0	<1	0.7 or 2.8 cents/kg	no quota
EU Lamb	862	30	140	-	2	zero duty in-quota	200 mt others TRQ
Data notes	*Thous mt carcass wt*	*Thous mt product wt. including variety meats*		*Thous mt*	*kg/capita*	*most commonly traded products*	*relevant TRQs*

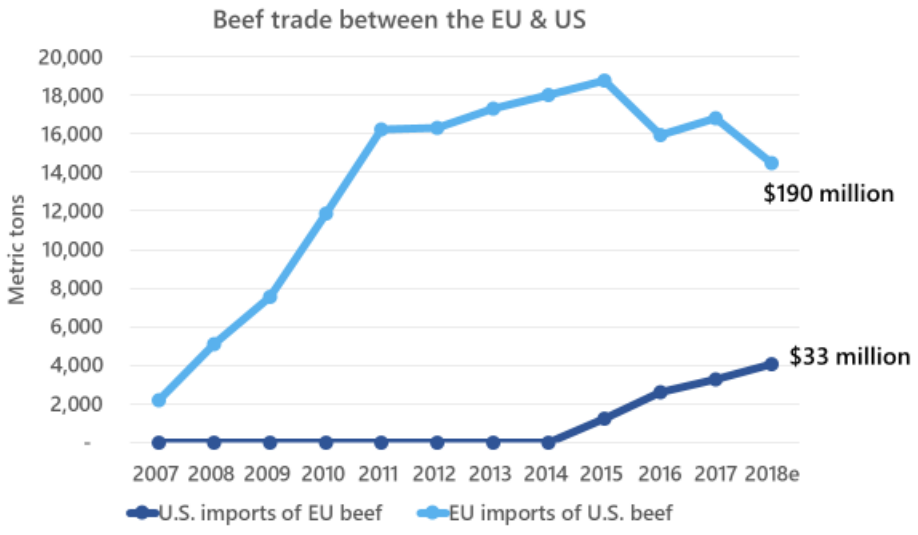
* U.S. lamb is currently ineligible for direct export to the EU. U.S. lamb is eligible only for transit through the EU and/or to ship stores and U.S. military bases in the EU.

Pork Trade between the EU & U.S.



Source: GTA, USMEF estimates

Beef Trade between the EU & U.S.



Source: GTA, USMEF estimates

Other notes for reference:

Most of the ag trade between the U.S. and the EU is in the "horticultural products" category, with U.S. imports from the EU exceeding $10 billion (up 10 percent year/year) and U.S. exports to the EU reaching $4.3 billion (steady with last year) in January – September 2018. The other primary category for U.S. exports to the EU is soybeans and other feeds, totaling $3.54 billion in January - September, up 46 percent from last year, as Brazil's exports shifted to China and U.S. shifted to the EU, following the Section 301 tariffs and China's retaliatory duties on U.S. soybeans.

Of the major producers and exporters, the EU arguably has the most protected red meat market in the world. The EU is the second-largest producer of pork, after China, and is the largest exporter, ahead of the U.S. But EU imports of pork are minimal, due to a combination of restrictive quotas, high tariffs and SPS barriers. In contrast, the U.S. is the third largest producer of pork, behind China and the EU, the second-largest exporter behind the EU and the fifth largest importer of pork. Imported pork accounts for 5 percent of U.S. consumption and less than 1 percent of EU consumption.

The EU is the third-largest global beef producer, after the U.S. and Brazil and is a top ten exporter and importer. On a volume basis, the EU has been a net exporter of beef since 2010. Even with the loss of the Russian market, due to economic counter sanctions imposed in August 2014, EU beef and variety meat exports were record-large in 2017 (465,000 mt), led by growing exports to Hong Kong. U.S. imports of beef from the EU have been gaining momentum, and in January through September 2018, were up 24 percent from 2017, led by Ireland and the Netherlands. At the same time, EU total imports of beef have been steady over the past five years, at about 250,000 mt, limited by restrictive tariffs, quotas and SPS barriers. The U.S. share of EU beef imports is just 6 percent.

EU beef exports enter the U.S. under the "others" TRQ for 64,805 mt with a duty of 4.4 cents/kg. Out of quota exports would face a duty of 26.4 percent. The U.S. out of quota rate of 26.4 percent is therefore only modestly higher than the EU in-quota rate of 20 percent, for the Hilton quota. EU beef exports to the U.S. compete mainly with Central American beef suppliers for the "others" quota, and the quota has recently been fully used before the end of the year. Since the U.S. "others" quota is heavily used, there is arguably potential to grow EU beef exports to the U.S. through expanded access in a U.S.-EU trade agreement. In this sense, reciprocal market access could benefit both U.S. and EU beef producers.

EU beef production dropped below 8 million mt in 2012 but after bottoming at 7.38 mmt in 2013, has rebounded to an expected 7.99 mmt in 2018 and 7.987 mmt in 2019. Most EU beef production is derived from dairy animals and is therefore impacted by dairy market dynamics. At the end of last year, the EU beef cowherd totaled 12.3 million head while dairy cows numbered 23 million (Dec 2017 census).

EU beef exports account for about 3 percent of production. This contrasts with the U.S. where beef exports account for nearly 14 percent of production and imports account for about 11 percent of consumption. The EU could benefit from greater trade, with potential to grow both imports and exports of beef, while offering European consumers more choices.