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TPP: Selected Commodity Impacts for U.S. Agriculture

In evaluating the potential implications of the proposed Trans-Pacific Partnership (TPP) free-trade agreement for U.S. food and agriculture, an important consideration is that exports make a substantial contribution to the sector. Exports absorb about 20% of total farm output, thereby contributing materially to higher commodity prices and farm income. The positive ripple effects from farm trade to the sector extend beyond farmers and ranchers to rural communities; farm input industries that provide seed, fertilizer, and machinery; and commodity processors and food manufacturers with a stake in foreign markets. Exports may also contribute to higher input prices for food to the extent that additional foreign demand is not met by an increase in domestic supplies, although commodity costs amount to a fraction of overall retail food prices. Rising farm productivity, market-oriented U.S. farm policies, and the prospect of competing for faster-growing food markets in many developing countries contributed to broad support in U.S. agriculture for pursuing a TPP agreement.

On initial read, it appears the TPP agreement reached in October 2015 would significantly improve market access for many U.S. food and agricultural products, potentially enhancing U.S. competitiveness in a number of markets. It also would provide TPP partners with greater access to U.S. product markets. TPP participants are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. Congress would need to pass implementing legislation for the agreement to enter into force for the United States.

The text below identifies three considerations around the TPP agreement that are particularly relevant for U.S. food and agricultural interests. This is followed by a partial snapshot of some of the higher-profile improvements in market access for agricultural products in the agreement.

Key Considerations for Food, Agriculture

1. An overarching consideration is that among significant TPP markets, the United States lacks free trade agreements (FTAs) with Japan, Vietnam, and Malaysia. As such, these countries likely offer the greatest potential for boosting U.S. farm and food exports via lower tariff, or expanded tariff rate quotas (TRQs). Under a TRQ, lower tariffs are applied to in-quota imports with higher rates for over-quota product. Japan is likely the leading market opportunity in the TPP due to its highly protected farm and food markets, large population, and high per capita gross domestic product.

2. Also significant is that potential key export expansion opportunities for U.S. food and agriculture interests, such as beef and pork to Japan and dairy products to Japan, Canada, and Vietnam, generally are to be phased in over a period of years, if not decades. For certain products in certain countries, such as Japan for beef, pork, and whey powder, safeguard measures allow for additional tariffs to be imposed if imports should exceed designated quantities.

3. If the United States chooses not to implement the TPP agreement, U.S. agricultural export competitors would have an opportunity to gain a competitive edge over U.S. exports of certain products to Japan and elsewhere. This could occur as a result of existing preferential tariff arrangements—such as Australia's FTA with Japan—or by ratifying an agreement similar to TPP without U.S. participation. Also, while the European Union is not party to the TPP, it is negotiating FTAs with Japan, Malaysia, and Vietnam that could enhance its competitive position in those markets.

Specific Market Access Commitments

The TPP agreement would affect market access for a broad range of agricultural commodities and food products. The list below is a selection of some of the notable changes included in the agreement. It is in no way comprehensive.

- **Beef:** Japan ranks as the largest U.S. export market for beef and beef products, according to the U.S. Department of Agriculture (USDA). Under the TPP agreement, Japan would drop its current tariff on fresh, chilled, and frozen beef from 38.5% to 27.5% in year one, with subsequent annual reductions to 9% by year 16. Japan would lower tariffs on other beef products as well, while Vietnam would eliminate such tariffs over three to eight years. The United States, for its part, would eliminate tariffs on beef and beef products that range as high as 26.4% in no more than 15 years and in fewer than 10 years in most instances.

- **Pork:** Japan, which also ranks as the leading market for U.S. pork and pork product exports, would immediately cut its tariff of 4.3% on fresh, chilled, and frozen pork cuts to 2.2%, phasing out the residual over nine years. A separate duty on pork cuts under Japan's "gate price system," which acts as a minimum import price, would be lowered immediately to 125 yen per kilogram, from 482 yen now. This duty would then be cut to 70 yen in year five and subsequently lowered each year to reach 50 yen in year 10. A special U.S.-specific safeguard would allow Japan to temporarily increase the duty during this transition period if imports were to exceed a trigger level. Vietnam would eliminate tariffs that are as high as 34% on pork and pork products within 10 years, while the United States would immediately eliminate most such tariffs.

- **Poultry:** Canada would allow incremental increases in access to its highly protected poultry and egg markets over five years via new duty-free TRQs amounting to 2.3% of domestic production for eggs, 2.1% for chicken, 2% for turkey, and 1.5% for broiler hatching eggs. Thereafter, the quotas would be raised moderately each year, plateauing in year 19. Vietnamese tariffs on poultry of up to 40% would be eliminated within 13 years. U.S. tariffs of up to 18.6% ad valorem equivalent would be eliminated within 10 years.

- **Dairy:** Opening dairy markets to greater import competition was among the most difficult agricultural issues to resolve. Under the agreement, Canada would allow incremental additional access to its highly protected dairy markets amounting to 3.25% of its current annual output under TRQs that would be phased in over five years, with moderate annual increases thereafter. Canadian TPP-wide TRQs for products, including fluid milk, butter, cheese, and yogurt, would be increased for between 14 and 19 years and then remain fixed. In-quota dairy products would enter Canada duty free. Canada also would eliminate its over-quota tariff of 208% on whey powder over 10 years. Japan would eliminate many tariffs it imposes on cheese imports within 16 years and on whey within 21 years. The United States, in part, would gradually phase out tariffs and establish TRQs for dairy products from Australia and New Zealand that would be increased annually. Existing preferential access for Australian dairy products under the U.S.-Australia FTA would be transferred to perpetual TRQs. New U.S. TRQs for Canadian dairy products would be raised gradually each year until year 19, at which point the quantities would remain fixed.

- **Rice:** Japan, the second-largest overseas market for U.S. rice, would establish a new duty-free quota for U.S. rice of 50,000 tons initially, rising to 70,000 tons in year 13. Japan also would allow a broader range of domestic entities to participate in tenders on this additional quota, as well as on 60,000 tons of rice under an existing quota. But Japanese officials indicate that the "minimum mark-up" Japan imposes on rice imports—equivalent to a 15-20% duty according to USA Rice—would continue to be applied to all imports. U.S. tariffs on rice products of up to 11.2% would be eliminated within 15 years.

- **Cotton:** U.S. tariffs on cotton that range up to $0.314 per kg generally would be eliminated by 2022, and in some cases would be removed immediately.

- **Sugar:** Access to the U.S. sugar market would be expanded incrementally by establishing new TRQs for sugar and sugar-containing products totaling 86,300 tons annually, or 2.4% of U.S. sugar imports in 2014/2015. Australia and Canada would immediately receive new duty-free quotas of 65,000 tons and 19,200 tons per year, respectively. The residual would be split between Japan, Malaysia, and Vietnam. The Australian and Canadian TRQs include the potential for expansion in years when additional U.S. sugar imports are required. Japan would provide new TRQs that would expand access to its market for sugar and sweetener-related processed products on a duty-free or preferential-tariff-rate basis, including chewing gum, chocolates and products containing chocolate, confectionery goods and other such products, and would eliminate tariffs on various sweetener products over time.

- **Tobacco:** U.S. tariffs on tobacco of up to 350% would be eliminated within 10 years, while Japan would eliminate tariffs on smoking tobacco and cigars over 11 years, and Malaysia would eliminate all tariffs on tobacco and tobacco products over 16 years. Vietnam would create a TRQ for unmanufactured tobacco imports that increases gradually for 20 years, while eliminating in-quota tariffs over 11 years. Vietnamese tariffs on blended tobacco, cigars, and other tobacco products would be eliminated over 16 years.

Tariff Elimination Schedule for Selected Other Food and Agricultural Products in Selected TPP Countries

Product	Acting Country	Timetable
Frozen French fries	Japan	Within 6 years
Peanuts and peanut products	United States	Within 10 years
Grapes, avocados, strawberries	Japan	Immediate
Fresh/chilled broccoli, tomatoes, lettuce, and garlic	Japan	Immediate
Tree nuts, fresh/dried	Japan	Mostly immediate, but within 5 years
Tree nuts, fresh/dried	United States	Mostly immediate, but within 5 years
Wine	Japan	Within 11 years

Source: TPP Agreement released November 2015

USDA has compiled summaries with additional detail on what the agreement contains in terms of market access for the foregoing farm commodities and for other commodity groups at http://www.fas.usda.gov/data/tpp-benefits-specific-agricultural-commodities-and-products.

SPS Measures and Tobacco Exception

As tariff rates have been lowered for food and agricultural products in recent decades, non-tariff barriers have gained greater visibility as obstacles to such trade. Among the non-tariff measures the TPP seeks to address are sanitary and phytosanitary measures (SPS), which consist of actions taken to protect human, animal, and plant health. The SPS commitments provided for in the agreement include, in part: the establishment of an SPS committee composed of TPP member representatives; an obligation to base SPS measures either on international standards or objective scientific evidence and to select risk management measures that are no more trade-distorting than necessary; a commitment to allow for public comment on the development of SPS measures; and the obligation to provide rapid notification of shipments held on importation. SPS disputes are to be resolved through consultations among the relevant governmental authorities and, if still unresolved, are to be addressed under dispute settlement procedures provided in that chapter of the agreement.

A potential controversy surrounds a provision in the Exceptions chapter of the agreement under which countries may deny recourse to protections under investor state dispute settlement (ISDS) to tobacco product manufacturers for claims directed at tobacco control measures. This optional exclusion would not apply to leaf tobacco, although to the extent that tobacco product sales could be blunted by this provision it would appear to have the potential to indirectly affect sales of leaf tobacco.

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