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The Trans-Pacific Partnership (TPP) and U.S. Agriculture

The Trans-Pacific Partnership (TPP) is a potential free trade agreement (FTA) being negotiated among 12 countries of the Asia-Pacific region: the United States, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. The TPP negotiations, which the United States joined in 2008, cover a broad range of trade topics from government procurement to foreign investment to trade in services, to cite just a few. Negotiations over market access for agricultural products have figured prominently in the discussions as one of a number of agricultural topics under negotiation.

Exports a Critical Pillar for U.S. Agriculture

Trade is vital for U.S. agriculture, absorbing about 20% of total agricultural production, with exports claiming a far larger portion than that of the output of a number of important commodity crops, including cotton, rice, wheat, soybeans, almonds, and pecans, to cite a few. By adding to the demand for U.S. farm products, exports support commodity prices and contribute materially to higher farm income. U.S. consumer demand for food is growing slowly, while exports allow farm products to tap into higher growth foreign markets. Given that some 95% of the world's population resides outside the United States, and that this population controls 80% of the world's consumer purchasing power, the importance to U.S. agriculture and food industries of capturing a share of the faster growth of demand for food in developing countries is imperative. Moreover the U.S. Department of Agriculture (USDA) has pointed out that most of the expected increase in middle-class households—those with real purchasing power parity incomes in excess of $20,000 a year—numbering some 300 million between 2013 and 2023 is expected to occur in developing countries. Furthermore, the Organization for Economic Cooperation and Development projects that by 2030, 66% of the world's middle class will reside in Asia.

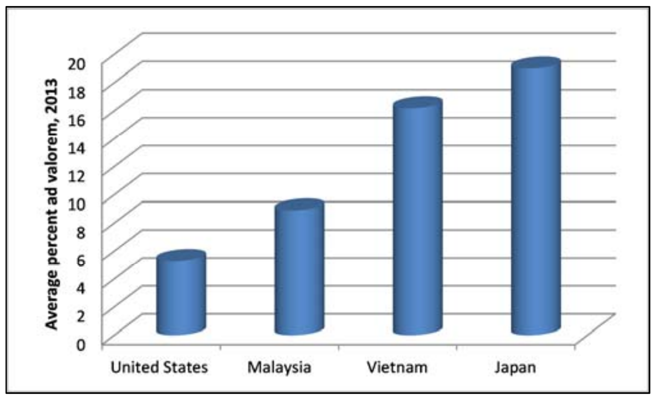
Tariff Reduction Could Favor U.S. Farm Exports

The extent to which a TPP agreement might boost U.S. farm exports is difficult to quantify since the terms of an agreement have not been finalized, nor have negotiating details been made public. But, there appears to be the potential for material gains for U.S. food and agricultural interests. For one, the United States does not have an FTA with Japan, the country with the second richest economy and the second largest population in the TPP group, nor with Vietnam, which has the fourth largest population in the TPP and is projected to have the fastest economic growth.

Also, while TPP countries accounted for 42% of all U.S. agricultural exports during the reference period of 2010-2012, applied tariff rates on imports of agricultural products are higher in a number of key TPP countries than those applied by the United States. This suggests there is potential for U.S. farm exports to expand if tariffs and tariff-rate quotas (TRQs) are substantially lowered. A TRQ is a quota for a volume of imports at a lower tariff. When the quota is reached, a higher tariff is applied on additional imports.

Existing tariff peaks within TPP countries exceed 20% in a number of product categories, and can be much higher. Examples include dairy and poultry imports into Canada; bovine meat, rice, and dairy products into Japan; and Vietnamese tariffs across a number of food categories. **Figure 1** compares average applied tariffs on agricultural products in 2013 with TPP countries with which the United States does not have an FTA and where higher average tariffs on agricultural products prevail. An agreement that results in lower tariffs and TRQs across the board should tend to favor an increase in sales of U.S. farm products.

Figure 1. Applied MFN Tariffs, Agricultural Products



Source: World Trade Organization Tariff Profiles

Notes: Most Favored Nation (MFN) tariffs rates are normal non-discriminatory tariffs

USDA Sees Potential Gains for U.S. Farm Exports

In a study from October 2014, USDA modeled the effects on agricultural trade by the year 2025 of a TPP agreement that eliminated all tariffs and TRQs on agricultural products as compared with a baseline scenario without a TPP agreement. Among its conclusions are the following:

1. In the baseline scenario of no-TPP agreement, intraregional agricultural trade is projected to expand by $12 billion, or 9%, in 2025 compared with 2014. The U.S. share of this increase amounts to $3.4 billion in 2025, a gain of 7%, while U.S. imports from TPP countries also are projected to rise by $3.4 billion, an increase of 8%.
2. In the TPP scenario, agricultural trade among TPP countries expands by an additional $8.5 billion in 2025, or 6% above the no-TPP outcome.
3. About one-third of the expansion in agricultural exports under the TPP scenario accrues to the

United States. U.S. exports increase $2.8 billion more in 2025, or 5%, versus a no-TPP result.

4. U.S. agricultural imports are projected to climb by an additional $908 million, or 2%, with TPP.
5. The TPP scenario projects Japan will absorb the lion's share of the increase in agricultural trade, boosting its imports by $5.8 billion, or 14%.

A central assumption of the study is that all tariffs and TRQs will be eliminated. That outcome is far from certain, and a less ambitious result could temper the gains that may accrue to U.S. farm exports compared with the projections. Any agreement to reduce or eliminate tariffs and TRQs may well be implemented progressively over time. To view the study, go to http://www.ers.usda.gov/publications/err-economic-research-report/err176.aspx.

Meat, Grains, Dairy to Lead U.S. Farm Trade Gains

The USDA study projects changes in U.S. farm exports and imports across broad commodity categories in 2025 under a tariff and TRQ elimination scenario versus a no-TPP agreement. The product categories that are projected to post the largest export gains are meat products, cereals, dairy products, and fruits and vegetables. Gains on the import side of the trade ledger are led by meat and dairy products and are more limited in scope (see **Table 1**).

Table 1. Projected Increases in U.S. Farm Trade with TPP Countries in 2025 Versus No-TPP Baseline

Exports	$U.S. Millions	Percent Change
Meat Products	$1,000	+11%
Cereals	$664	+6.9%
Dairy Products	$580	+32.2%
Fruits/Vegetables	$221	+3.7%
Total Agriculture	$2,827	+5.4%
Imports		
Meat Products	$247	+3%
Dairy Products	$187	+20.5%
Fruits/Vegetables	$10	+0.1%
Total Agriculture	$908	+2%

Source: USDA Economic Research Service

Farm Groups Mostly Supportive, But with Caveats

Numerous U.S. farm organizations and major commodity groups have expressed support for concluding a TPP agreement that significantly expands market access for agricultural products. Among these are the American Farm Bureau Federation, North American Meat Institute, and many others. In contrast, the National Farmers Union has warned against vague promises of market access, asserting that some past free trade agreements have resulted in U.S. jobs being shipped abroad, thereby weakening the domestic market that constitutes the largest outlet for U.S. farm products. Major U.S. dairy groups have asserted that any agreement must deliver net trade benefits by delivering greater access to foreign dairy markets, particularly Canada and Japan. Representatives of the American Sugar Alliance, representing sugar production interests, have expressed concern about opening the U.S. market to additional sugar imports, whereas the Sweetener Users Association, representing candy makers and other sugar-consuming industries, has advocated for expanding access to all TPP sugar markets, including the U.S. market.

Key Elements to Monitor in a TPP Agreement

Japanese imports are projected to account for 70% of the agricultural trade gains in USDA's TPP scenario. As such, the extent to which potential export gains are translated into actual opportunities to increase U.S. export sales may hinge substantially on the degree to which Japan agrees to remove tariffs and TRQs on its "sensitive" products: pork, beef, rice, wheat, barley, dairy products, and sugar.

Also important in achieving the export gains projected for meat and dairy products, according to USDA, is the extent to which Canada agrees to reduce or eliminate its over-quota tariffs on dairy and poultry products that protect supply management regimes for these commodities, and the degree to which Vietnam lowers its import tariffs on meats.

Beyond tariffs and TRQs, the removal of non-tariff measures (NTMs) may facilitate additional growth in trade. Sanitary and phytosanitary (SPS) measures are among the most significant NTMs for agricultural trade and one that has been a topic of the negotiations. SPS measures include actions taken to protect human, animal, and plant health. Such measures are consistent with countries' obligations under the World Trade Organization as long as they are science-based, implemented with adequate risk assessment, and do not discriminate against foreign producers. But SPS measures can also be disproportionate to actual risk levels and can be configured to shield domestic producers from foreign competition, or both, thereby suppressing trade. The United Fresh Produce Association has identified NTMs as a growing problem for fresh fruit and vegetable exports and has called for a timely dispute settlement process to resolve such incidents. Others have called for rules that will strengthen the role of science in resolving SPS disputes, while still other voices have cautioned that new rules must not trample on national regulatory sovereignty.

Another high-profile issue for TPP concerns geographical indications (GIs). GIs protect the quality and reputation of distinctive products from a particular region of a country. U.S. dairy product manufacturers are keen to see that what they view as the overly broad application of GIs by the European Union to food names U.S. companies consider to be generic or common—"feta" and "parmesan" are two examples—will not impede U.S. exports in TPP markets.

Mark A. McMinimy, mmcminimy@crs.loc.gov, 7-2172

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