Chapter 3
Food and Agricultural Products

Introduction

The TPP Agreement would increase U.S. exports and provide significant benefits for the U.S. agriculture sector, primarily through new market access in Japan, Vietnam, Malaysia, New Zealand, and Brunei—countries where the United States does not currently have free trade agreements.[98] Under TPP, the Commission's model estimates that by 2032, U.S. agricultural exports would be $7.2 billion higher than the baseline in the absence of TPP, while U.S. agricultural imports would be $2.7 billion higher than the baseline estimate. The increase in export opportunities as a result of preferential market access to new TPP markets would be larger than the effect of increased imports resulting from the additional market access the United States would provide to TPP partners, as the new access granted by the United States is primarily in products that are not import sensitive or that already have low tariffs. If TPP is adopted, total U.S. agricultural output would rise by $10.0 billion (0.5 percent) by 2032, relative to the baseline; this would be associated with 0.5 percent higher U.S. agricultural employment.

Many U.S. agricultural industries are currently at a competitive disadvantage in certain TPP markets due to tariff preferences provided through agreements already in force, such as the Japan-Australia Economic Partnership. While in some limited cases a tariff advantage currently enjoyed by the United States through FTAs would be eliminated, most in the U.S. agriculture sector view TPP as a critical advance, because it will eliminate numerous tariff advantages enjoyed by other TPP partners and, in the judgment of many observers, will level the playing field for U.S. exporters.[99]

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[98] Agricultural products discussed in this chapter are those that fall within the description of products covered by the WTO Agreement on Agriculture, part XIII, article 21, plus fish and fish products. These products are classified in the World Customs Organization's Harmonized System (HS) in HS chapters 1 to 24, except for certain additional products in other HS chapters, such as milk proteins (HS chapter 35), hides, skins, and furs (HS chapters 41 and 43), wool (HS chapter 51), and cotton (HS chapter 52).

[99] For example, Chilean and Australian wine receive preferential tariff treatment in Japan due to trade agreements that are already in place. Through these agreements, tariffs on wine from both Chile and Australia have been reduced to 4.6 percent and 11.3 percent, respectively, compared to the 15 percent tariff that U.S. bottled wine faces. USITC, hearing transcript, February 14, 2016, 390, 443 (testimony of Kevin Kester, National Cattleman's Beef Association); USITC, hearing transcript, February 14, 2016, 415 (testimony of Devry Boughner Vorwerk, Cargill); Wine Institute, written submission to the USITC, February 12, 2016, 2.

The TPP's effects on the agricultural sector stem primarily from market access provisions, such as reduced or eliminated tariffs or tariff-rate quotas (TRQs).[100] In addition, TPP's chapter on sanitary and phytosanitary (SPS) measures builds on the WTO's SPS Agreement, establishing rules to ensure that SPS measures are science- and risk-based and not being used to unjustifiably restrict trade. TPP's technical barriers to trade (TBT) chapter also includes annexes on wine and distilled spirits and on formulas for food products that lay out sector-specific commitments on issues such as labeling and proprietary information.[101] Another set of TPP provisions impacting agriculture are those related to modern biotechnology.[102] TPP is the first U.S.-signed agreement to include provisions specific to trade in both biotechnology products and modern biotechnology products (box 3.1).

In addition to reducing tariffs and accepting new SPS, TBT, and biotechnology provisions, TPP countries would commit to eliminating export subsidies on agricultural products sold in TPP markets. TPP countries also would collaborate on developing disciplines on exports by state trading enterprises, as well as export credits and insurance programs in the WTO, and would limit the timeframes allowed for food export restrictions by TPP members intended to respond to concerns about food security. The TPP also outlines procedures for the administration of TRQs. In the area of geographical indications (GIs), new due-process and transparency requirements were particularly important to the U.S. dairy sector.

Box 3.1: TPP's Modern Biotechnology Provisions

TPP is the first U.S. agreement to include provisions specific to trade in both biotechnology products and modern biotechnology products.[a] The biotechnology provisions would likely directly benefit U.S. agribusinesses engaged in modern biotechnology products and technology, as well as U.S. farmers and firms using that technology to grow and export U.S. agricultural goods. The agreement would commit parties to provide transparency on government measures related to modern biotechnology trade, including lists of authorized modern biotechnology products, summaries of any risk or safety assessments, and documentation required for completing authorization applications. It would provide information-sharing procedures for parties to follow when the low-level presence (LLP) of biotech material is detected in a food or agricultural shipment. TPP would also establish a working group on products of modern biotechnology under the Committee on Agricultural Trade that would encourage information exchange and cooperation on trade-related matters.[b]

[100] Tariff-rate quotas permit a specific quantity of an imported product to enter at a reduced tariff rate. Quantities that enter in excess of the quota quantity for that period are subject to higher duty rates, typically the WTO most-favored-nation rate.

[101] The TBT chapter also includes an "Organic Products" annex that encourages TPP partners to exchange information related to organics, participate in technical exchanges, cooperate on international organics guidelines and standards, and expeditiously consider requests for recognition or equivalency of technical regulations related to organics.

[102] In TPP Chapter 2, discussion of modern biotechnology applies to agricultural goods, as well as fish and fish products, but not medicines and medical products. Agriculture is defined as those items under the Uruguay Round Agreement, Article 2 of the WTO *Agreement on Agriculture.*

The Commission received markedly divided views regarding these provisions. Proponents generally stated that they would foster transparency while reaffirming member governments' rights to adopt science-based measures necessary to ensure food safety and animal and plant health.[c] Proponents are encouraged by the establishment of a working group, a process for sharing information on risks and standards of LLP, and procedures for parties to follow when the LLP of a biotech material is detected in a shipment of agricultural commodities or food products.[d]

Other stakeholders expressed concerns about TPP's provisions on modern biotechnology as they relate to food safety, the right to regulate, biotech labeling, and unintended consequences to the environment and biological systems, among other issues. These stakeholders expressed the fear that under TPP, biotech companies could challenge laws requiring preapproval or testing for contamination, thereby threatening farmers raising crops without genetically modified/engineered organisms (non-GMO/GEO crops). Biotech companies might also challenge popular, consumer-driven laws for GMO/GEO labeling.[e] Other critics believe that the agreement sets a low standard for the use of scientific data in risk assessment.[f]

[a] "Modern biotechnology" is a new term in trade policy. As defined by TPP Article 2.21, the definition includes the application of *in vitro* nucleic acid techniques, including recombinant deoxyribonucleic acid (rDNA) and direct injection of nucleic acid into cells or organelles, or the fusion of cells beyond the taxonomic family, that overcome natural physiological reproductive or recombinant barriers and that are not techniques used in traditional breeding and selection.
[b] TPP Article 2.29:9.
[c] ATAC for Trade in Processed Foods, *Trans-Pacific Partnership Agreement,* December 3, 2015; Cargill, written testimony to the USITC, January 15, 2016.
[d] U.S. Grains Council and the National Corn Growers Association, written submission to the USITC, February 15, 2016.
[e] Farm and Ranch Freedom Alliance, written submission to the USITC, February 10, 2016.
[f] Institute for Agriculture and Trade Policy, written submission to the USITC, February 16, 2016.

Overall, the U.S. agricultural sector has been supportive of the agreement, and there is particular optimism about potential new access to the Japanese and Vietnamese markets.[103] This chapter provides information on the effect of the TPP on the U.S. food and agricultural industries, as indicated by the Commission model, the public hearing and written submissions, and communication with industry representatives. The chapter first provides a brief overview of current trade patterns with TPP partners before turning to a summary of the provisions contained in the agriculture chapter of the TPP Agreement. Model results are presented for the agriculture sector as a whole. The chapter then turns to an analysis of effects by sector, focusing on the sectors for which effects are anticipated to be most significant and including an analysis of model results by sector where possible.

[103] Statement by Bob Stallman, president, American Farm Bureau Federation, "Regarding AFBF Support for TPP," December 16, 2015; USITC, hearing transcript, February 14, 2016, 399–402 (testimony of Stephen M. Sothman, U.S. Hide, Skin, and Leather Association); USITC, hearing transcript, February 14, 2016, 405–6 (testimony of Michael Brown, National Chicken Council); USITC, hearing transcript, February 14, 2016, 411–15 (testimony of Devry Boughner Vorwerk, Cargill).

Trade Overview

The United States has well-established trade relationships in food and agricultural products with many of the TPP countries. This is in part due to existing FTAs that have fostered integration with Canada, Mexico, Australia, Chile, Peru, and Singapore. Additionally, in the case of trade under the North American Free Trade Agreement (NAFTA) with Canada and Mexico, which accounts for the large majority of the United States' existing trade in food and agricultural products with TPP countries, the effect of the trade agreement is enhanced by the logistical advantages inherent in trading with bordering countries. These advantages are especially pronounced for food and agricultural products, which sometimes have a short shelf life or require specialized logistics, such as refrigeration.

In general, the most important U.S. agricultural trade flows with TPP countries fall into one of four categories: longstanding trade with Canada and Mexico, characterized by close proximity and deep integration; trade with other existing FTA partners; trade with Japan, an important consumer of U.S. food and agricultural exports and a potential expansion market for U.S. exports; and trade with other new TPP partners, which is already expanding rapidly and is likely to continue to grow, especially with Vietnam and Malaysia. Trade between the United States and its existing FTA partners accounts for the majority of the TPP total, and has already been liberalized under the prior agreements. U.S. imports from and exports to these countries generally face low or zero tariffs and fewer nontariff measures than with non-FTA partners. As a result, the major existing trade patterns described in this section do not always correspond closely to the sectors that are profiled in the sector-level effects section that follows. The sector sections focus on changes that are likely to happen under the TPP Agreement as well as new trade opportunities that it would create.

Exports

TPP partner countries consistently accounted for just over 40 percent of U.S. food and agricultural product exports annually between 2011 and 2015 (table 3.1). NAFTA partner countries accounted for about two-thirds of this trade. Among all TPP partners, exports to Vietnam and Chile grew the most quickly during the period, with their value rising about

40 percent. This growth occurred despite Vietnam's high tariffs on a number of food and agricultural products, suggesting that U.S. exports to Vietnam in this sector may see continued expansion under TPP as Vietnamese incomes continue to rise.[104]

Table 3.1: U.S. exports of food and agricultural products to TPP partners and the world, by country, 2011–15, million dollars

Country	2011	2012	2013	2014	2015
Canada	21,267.8	22,939.5	23,751.6	24,419.1	23,033.6
Mexico	18,600.1	19,176.9	18,422.4	19,710.7	17,980.8
Japan	15,445.5	14,768.1	13,414.9	14,346.1	12,425.7
Vietnam	1,707.3	1,702.1	2,208.4	2,443.3	2,384.4
Australia	1,376.2	1,478.7	1,599.0	1,730.2	1,603.8
Peru	887.5	632.1	804.3	1,260.3	1,121.5
Chile	587.5	717.5	926.4	885.0	841.6
Malaysia	1,007.0	886.6	1,037.3	960.0	834.0
Singapore	707.0	756.9	813.2	871.8	746.4
New Zealand	336.9	408.5	429.3	492.7	429.1
Brunei	5.0	5.4	5.7	5.5	4.8
All TPP	61,927.7	63,472.3	63,412.5	67,124.6	61,405.8
World	147,722.9	151,409.6	154,175.4	160,422.2	142,884.6

Source: USITC DataWeb/USDOC (accessed February 17, 2016).

The United States exported a wide variety of food and agricultural products to TPP partner countries between 2011 and 2015. The largest export product category was processed foods, primarily to Canada, followed by corn and pork (table 3.2). Japan and Mexico were the largest TPP importers of U.S. corn.[105] Japan was also the most important destination for U.S. pork exports, followed by Mexico and Canada. Japan is an important market for U.S. exports because it generally offers high prices to producers and demands agricultural products that the United States can competitively supply. Significant export flows to other TPP partners with which the United States has no FTA include soybeans to Malaysia and Vietnam. Exports of soybeans to Vietnam more than doubled in value between 2011 and 2015, despite relatively low prices in 2015, as rising incomes in Vietnam led to greater demand for animal feed and its components as inputs for its livestock sector.

[104] Vietnam has high tariffs (between 15 and 40 percent) on food products intended for direct consumption, such as processed foods, but low tariffs on agricultural inputs such as soybeans, which have been a major U.S. export to Vietnam (Arita and Dyck, *Vietnam's Agri-Food Sector*, October 2014). Certain Vietnamese tariffs and potential benefits from their reduction or elimination are highlighted as relevant for particular commodities in the sections below.

[105] Japan and Mexico have large livestock sectors, and U.S. corn is an input into these industries.

Table 3.2: U.S. exports of food and agricultural products to TPP partners, by product group, 2011–15, million dollars

Product group	2011	2012	2013	2014	2015
Processed foods	12,482.3	13,768.2	14,289.3	14,625.1	14,128.9
Corn	6,867.3	5,875.2	4,039.1	5,977.9	5,122.4
Pork	3,961.7	4,188.0	4,165.0	4,539.0	3,802.5
Beef	3,089.5	3,231.2	3,550.8	3,802.0	3,283.4
Fresh fruit	3,135.1	3,453.1	3,553.7	3,451.0	3,162.2
Soybeans	3,017.3	3,644.8	3,151.4	3,504.1	3,058.6
Dairy	2,382.4	2,533.6	3,033.7	3,441.6	2,640.3
Nuts	1,333.0	1,650.0	2,010.4	2,190.0	2,321.5
Fresh vegetables	2,187.0	2,221.0	2,367.8	2,341.9	2,270.8
Seafood	1,994.2	1,988.6	2,001.1	2,145.2	2,160.9
Poultry	1,566.0	1,814.1	1,980.9	2,084.5	1,821.1
Alcoholic beverages	1,425.1	1,672.8	1,724.0	1,771.8	1,750.9
Wheat	3,151.3	2,480.1	2,467.9	2,204.8	1,695.6
Soybean meal	1,216.0	1,418.6	1,496.6	1,703.4	1,442.7
Other sweeteners	1,205.8	1,403.0	1,273.0	1,156.8	1,167.0
Cotton	1,578.4	877.2	1,051.5	1,013.2	1,159.2
Non-alcoholic beverages	821.0	904.4	983.0	1,035.0	1,103.7
Ethanol	954.9	976.2	995.4	1,019.1	810.2
Rice	847.3	789.5	807.8	784.7	752.8
All other	8,712.3	8,582.8	8,470.1	8,333.4	7,751.2
Total	61,927.7	63,472.3	63,412.5	67,124.6	61,405.8

Source: USITC DataWeb/USDOC (accessed February 17, 2016).

Imports

On average, TPP partner countries supplied 46.7 percent of total U.S. imports of food and agricultural products between 2011 and 2015 (table 3.3). Most of these imports were from Canada and Mexico, which together accounted for almost three-fourths of U.S. imports from TPP countries during the 2011–15 period. In addition to preferences under NAFTA, Canada and Mexico enjoy logistical advantages in shipping products to the United States due to their proximity, and the food supply chains of the three countries have become closely integrated as a result.[106]

While trade with NAFTA partners accounted for a stable majority share of U.S. imports in 2011–15, imports from several of the other TPP countries grew quickly during this period. The value of imports of food and agricultural products from existing FTA partners Chile and Australia grew by 30 and 80 percent, respectively, between 2011 and 2015. The value of imports from Vietnam

[106] Zahniser et al., *NAFTA at 20*, February 2015. After accounting for inflation, NAFTA implementation resulted in a 233 percent increase between 1993 and 2013 in intraregional agricultural trade between the United States, Canada, and Mexico, with increased trade particularly pronounced in three sectors: grains and oilseeds, fruits and vegetables, and processed foods.

and New Zealand, countries with which the United States does not yet have an FTA, grew by 38 percent and 42 percent, respectively, over the same period (table 3.3).

Table 3.3: U.S. imports of food and agricultural products from TPP partners and the world, by country, 2011–15, million dollars

Country	2011	2012	2013	2014	2015
Canada	21,998.8	23,324.4	25,065.3	26,504.0	25,331.2
Mexico	17,110.1	17,698.3	19,051.6	20,938.8	22,757.4
Australia	2,406.1	2,709.0	2,789.4	3,937.1	4,329.7
Chile	3,291.2	3,513.2	4,284.9	4,471.3	4,294.1
Vietnam	2,273.7	2,421.4	2,763.5	3,355.8	3,140.4
New Zealand	2,118.7	2,360.5	2,313.0	2,752.7	3,011.7
Peru	1,524.7	1,477.6	1,552.4	1,917.0	1,958.0
Malaysia	2,593.4	2,075.3	1,689.9	1,735.7	1,290.6
Japan	782.1	808.9	799.2	817.1	852.9
Singapore	139.2	121.2	111.5	113.3	113.7
Brunei	0.0	0.0	1.8	1.7	0.3
All TPP	54,237.9	56,509.9	60,422.5	66,544.4	67,079.9
World	118,713.0	125,466.5	129,081.6	138,946.7	139,876.8

Source: USITC DataWeb/USDOC (accessed February 17, 2016).

Processed foods, seafood, fresh fruit and vegetables, beef, and alcoholic beverages accounted for nearly 70 percent of the total value of food and agricultural products that the United States imported from TPP countries in 2015 (table 3.4). Most processed foods imports came from Canada, followed by Mexico. Canada was also the largest supplier of seafood, followed by Chile and Vietnam. Fresh fruit was primarily sourced from Mexico and, to a lesser extent, Chile. Fresh vegetables were predominantly supplied by Mexico, with Canada a distant second. Beef imports came from Australia, Canada, and New Zealand, and alcoholic beverages were largely imported from Mexico.

Table 3.4: U.S. imports of food and agricultural products from TPP partners, by product group, 2011–15, million dollars

Product group	2011	2012	2013	2014	2015
Processed foods	11,593.7	11,788.4	12,326.6	12,832.9	13,453.0
Seafood	5,908.5	6,061.0	6,776.0	7,671.8	7,226.2
Fresh fruit	4,309.8	4,644.0	5,402.2	6,230.9	7,018.3
Fresh vegetables	5,522.2	5,554.2	6,348.3	6,445.3	6,584.0
Beef	2,754.6	3,302.5	3,351.5	5,133.6	6,064.9
Alcoholic beverages	4,287.3	4,558.1	4,737.1	5,470.8	5,783.9
Live animals	1,971.1	2,274.9	2,281.6	3,123.0	2,774.1
Other vegetable oils	2,125.5	2,032.9	1,777.5	1,792.7	1,692.9
Other sweeteners	1,342.1	1,430.7	1,542.8	1,637.6	1,611.0
Nuts	821.2	862.7	981.2	1,265.4	1,543.4
Pork	987.2	965.4	1,087.4	1,303.2	1,157.2
Dairy	821.8	978.9	859.5	1,019.4	1,047.9
Sugar	1,391.5	992.7	1,150.4	830.9	872.8
Palm oil	1,637.4	1,309.6	1,067.4	842.1	628.0
All other	8,764.0	9,754.0	10,733.2	10,944.8	9,622.1
Total	54,237.9	56,509.9	60,422.5	66,544.4	67,079.9

Source: USITC DataWeb/USDOC (accessed February 17, 2016).

Among TPP countries that are not U.S. FTA partners, the largest product flows were of beef and dairy products from New Zealand, seafood from Vietnam, and palm oil from Malaysia. New Zealand has generally received lower tariff rates than some of its competitors in the U.S. market for beef and dairy products because the amounts it has shipped have been below its TRQ limits.[107] Palm oil and seafood imports, meanwhile, are a result of low or zero U.S. most-favored-nation (MFN) rates that benefit globally competitive producers in Malaysia and Vietnam, respectively.[108]

Overview of Agricultural Market Access Provisions

The United States and its 11 TPP partner countries would provide expanded agricultural market access through reduced or eliminated tariffs and expanded TRQs. The United States would allow limited new access for sensitive products, but would gain significant new access to previously protected markets in export-competitive sectors, including beef, pork, and dairy. While other provisions in TPP, such as those related to SPS (examined in chapter 6) and biotechnology (below), would likely affect trade in agricultural goods, liberalization through

[107] The exception is butter and butter oil, where U.S. TRQ limits are more restrictive for New Zealand. In general, New Zealand has oriented its dairy industry toward serving Asian markets rather than the United States; its exports to the United States are a fairly small share of its overall exports.
[108] Palm oil imports are duty free, and most seafood products have either no tariffs or very low tariffs.

expanded TRQs and tariff reductions would have the most immediate and direct impact on U.S. imports and exports.

The staging and speed of tariff liberalization provided by TPP partners varies depending on the product and country, but many tariffs that have historically been trade prohibitive would be eliminated. These tariff reductions would provide significant export opportunities for U.S. products, particularly in Japan and Vietnam, where the agricultural sectors are currently protected by high tariffs. However, not all tariffs would be eliminated. For sensitive products, such as rice and dairy, TPP would establish 13 new country-specific TRQs for the United States in Japan and 69 TRQs for all TPP countries in Canada, Vietnam, Japan, and Malaysia. Despite significant new market access for U.S. agricultural exporters, export growth in certain sectors, such as horticulture and meats, would still likely be restricted by SPS measures in particular markets.

Most U.S. agricultural imports from TPP partners either already enter duty-free or would do so as soon as the agreement enters into force.[109] The United States would eliminate tariffs upon TPP's entry into force mainly on non-sensitive agricultural sectors where tariffs are currently low, such as grains, oilseeds, and horticultural products, as well as on imported products that are not competitively produced in the partner country. For products that are sensitive to competition from imports, many tariffs will be eliminated gradually. Alternatively, new TRQs will be established for some goods, such as sugar and certain dairy products. The United States will create 37 new TRQs under TPP (table 3.5).

[109] Many agricultural products already enter the United States duty free because either the MFN rate is free or the tariff has already been eliminated under existing FTAs with TTP partners (i.e., Canada, Mexico, Chile, Australia, Peru, and Singapore).

Table 3.5: U.S. tariff rate quotas to TPP members, metric tons (mt) except where noted

Quota code	Country	Quota name	Admin	Year 1	Final year	Number of years	Permanent	Growth	Notes
CSQ-US1	Australia	Raw sugar	FCFS	60,500	60,500	na	y		Provides 14.7 percent of any volumes of raw sugar allocated above WTO commitments.
CSQ-US2	Australia	Raw and refined sugar and sugar containing products	FCFS	4,500	4,500	na	y		
CSQ-US3	Australia	Creams and ice cream (1,000 liters)	FCFS	10,356.5	na	na	y	6% pa	Reduced 3,880,500 liters from U.S.-AUS FTA. Perpetual growth. Ice cream duty free after 15 years.
CSQ-US4	Australia	Condensed milk	FCFS	695	na	na	y	6% pa	Reduced 5,000 mt from U.S.-AUS FTA. Perpetual growth.
CSQ-US5	Australia	Butter	FCFS	2,076	na	na	y	3% pa	No change from U.S.-AUS FTA. Perpetual growth.
CSQ-US6	Australia	Milk powders	FCFS	6,296	na	na	y	2% pa	Perpetual growth declines from U.S.-AUS FTA, from 4% to 2%.
CSQ-US7	Australia	Other dairy products	FCFS	2,847	na	na	y	6% pa	Duty-free infant formula volumes excluded starting year 15. Perpetual growth.
CSQ-US8	Australia	American and cheddar cheeses	FCFS	6,230	na	na	y	3% pa	Increased 4,500 mt from U.S.-AUS FTA. Perpetual growth.
CSQ-US9	Australia	Swiss-type, European-type and other cheeses	FCFS	14,762	na	na	y	5% pa	Increased 4,500 mt from U.S.-AUS FTA. Perpetual growth.
CSQ – US10	Canada	Cheese	FCFS	3,000	20,486	19	y	Fixed at yr 19	High value cheese packaged 10 kgs or less is duty-free and excluded from TRQ in year 10.
CSQ – US11	Canada	Skim milk powder	FCFS	2,000	17,622	19	y	Fixed at yr 19	
CSQ – US12	Canada	Whole milk powder	FCFS	667	4,552	19	y	Fixed at yr 19	
CSQ – US13	Canada	Dried yogurt, sour cream, whey, and products of milk constituents	FCFS	2,083	14,226	19	y	Fixed at yr 19	
CSQ – US14	Canada	Concentrated milk	FCFS	333	2,587	19	y	Fixed at yr 19	
CSQ – US15	Canada	Cream, sour cream, ice cream, and milk beverages (liters)	FCFS	1,416,667	9,673,793	19	y	Fixed at yr 19	
CSQ – US16	Canada	Butter and butter substitutes	FCFS	750	5,121	19	y	Fixed at yr 19	Package size requirement (over 55 pounds or more) for most of the TRQ volume.
CSQ – US17	Canada	Other dairy products	FCFS	1,250	8,536	19	y	Fixed at yr 19	Starting year 5, HS 1517.90.60 is duty free and volumes excluded from the TRQ.

Quota code	Country	Quota name	Admin	Year 1	Final year	Number of years	Permanent	Growth	Notes
CSQ-US18	Canada	Sugar	FCFS	9,600	9,600	na	y		Provides 20 percent of any volumes of refined sugar allocated above WTO commitments.
CSQ-US19	Canada	Sugar-containing products	FCFS	9,600	9,600	na	y		
CSQ – US20	Chile	Sugar and sugar containing products	FCFS	0	0	na	y		Annual CSQ volumes are equal to Chile's trade surplus in these products. The SCQ adopts the access provided in U.S.-Chile FTA. The volume is currently zero because Chile traditionally runs a trade deficit in these products.
CSQ-US21	Japan	Beef	FCFS	3,000	6,250	15	n	250 mt pa	Unlimited in year 15.
CSQ-US22	Japan	Sugar and sugar containing products	FCFS	100	100	na	y		
CSQ-US23	Malaysia	Raw and refined sugar and sugar containing products	FCFS	500	500	na	y		
CSQ – US24	New Zealand	Cheese	FCFS	10,000	na	na	y	3% pa	Starting year 20, HS 0406.90.97 volumes excluded from the TRQ and duty-free.
CSQ – US25	New Zealand	Skim milk powder	FCFS	1,000	1,702	19	n	na	Unlimited duty-free access starting year 20.
CSQ – US26	New Zealand	Whole milk powder	FCFS	3,000	8,996	29	n		Unlimited duty free access starting year 30.
CSQ – US27	New Zealand	Concentrated milk	FCFS	1,000	na	na	y	3% pa	Perpetual growth.
CSQ – US28	New Zealand	Creams (liters)	FCFS	8,000,000	na	na	y	6% pa	Perpetual growth.
CSQ – US29	New Zealand	Butter and butter substitutes	FCFS	4,000	na	na	y	3% pa	Perpetual growth. 3,000 mt allocated to AMF, phased out starting year 15.
CSQ – US30	New Zealand	Organic butter	FCFS	500	na	na	y	3% pa	Perpetual growth.
CSQ – US31	New Zealand	Other dairy products	FCFS	5,500	na	na	y	5% pa	Perpetual growth.
CSQ-US32	Peru	Cheese	FCFS	5,527	13,684	9	n		Unlimited volumes starting in year 10.
CSQ – US33	Peru	Condensed and evaporated milk	FCFS	13,264	32,841	9	n		Unlimited volumes starting in year 10.
CSQ – US34	Peru	Processed dairy products	FCFS	3,897	6,905	7	n		Unlimited volumes starting in year 8.

Quota code	Country	Quota name	Admin	Year 1	Final year	Number of years	Permanent	Growth	Notes
CSQ – US35	Peru	Raw and refined sugar and sugar containing products	FCFS	10,260	11,520	na	y	180 mt pa	This CSQ adopts the access provided in U.S.-Peru FTA and does not provide new access. CSQ volume can be no larger than Peru's trade surplus in these products.
CSQ – US36	Peru	Raw and refined sugar and sugar containing products	FCFS	2,000	2,000	na	y		This CSQ adopts the access provided in U.S.-Peru FTA and does not provide new access.
CSQ – US37	Vietnam	Raw and refined sugar and sugar containing products	FCFS	1,500	1,500	na	y		

Source TPP Agreement, USTR, December 15, 2015.

Impact of TPP on U.S. Agriculture

As discussed in chapter 2, the modeling analysis begins by generating a projection of the global economy through 2032, with detailed projections for the 12 countries in the TPP and for major non-TPP trading partners. This projection provides a baseline against which the effects of policy changes from the TPP Agreement can be compared. The modeling includes three types of liberalization: removing or reducing tariffs and expanding TRQs, removing certain nontariff measures (NTMs) on goods and on traded (cross-border) services, and investment liberalizations that improve market access for U.S.-owned foreign affiliates. For agricultural sectors, investment liberalizations were generally not considered due to the prevalence of practical barriers (such as the varying suitability of the climate in TPP countries to certain crops) that limit what products can be produced on agricultural land. In some cases, there are also legal restrictions that limit the availability of land for agricultural investments.

Estimates of the effects of liberalizing trade in agriculture relative to the baseline changes expected to take place through 2032 are presented below. While the model simulates the dynamic market changes in the economy through 2032, the model also imposes important limitations on the growth of individual economies. In particular, it ensures that growth or contraction across all sectors within a country generates aggregate output equal to the productive capacity of that economy. As a result, output and employment in sectors with relatively less liberalization in the TPP may decline as sectors with greater growth opportunities expand. Specifically for agriculture, increases in the production of certain crops or livestock may crowd out, or reduce, production of other products that rely on similar types of land or other agricultural inputs.

The Commission's model estimates a significant increase in total trade in agriculture products and a slight increase in the U.S. agricultural output and employment through 2032, as compared to the baseline changes in the absence of TPP (table 3.6). If TPP is adopted, the model estimates that U.S. agricultural exports would increase by $7.2 billion (2.6 percent) relative to the baseline, while total U.S. agricultural imports would increase by $2.7 billion (1.5 percent). According to the model, U.S. agricultural output and employment would each increase by 0.5 percent relative to the baseline. Model results for selected food and agricultural sectors are presented below.

Table 3.6: Estimated effects of TPP on U.S. food and agricultural output, employment, and trade: Changes relative to baseline in 2032

	Exports		Imports		Output		Employment
	Million $	Percent	Million $	Percent	Million $	Percent	Percent
Agriculture and food (total)	7,226.9	2.6	2,733.9	1.5	10,014.9	0.5	0.5
Selected industry sectors:							
Sugar, sweeteners, and SCP[a]	129.6	4.3	132.1	2.4	517.7	0.4	0.4
Dairy products	1,845.5	18.0	348.6	10.3	1,839.3	1.3	1.1
Beef meat	876.1	8.4	419.0	5.7	614.6	0.5	0.4
Pork meat products	219.3	1.9	94.4	4.4	180.3	0.3	0.3
Poultry meat products	173.9	1.3	-16.6	-3.6	265.8	0.6	0.6
Rice	-12.5	-0.3	15.3	1.6	-17.7	-0.1	0.0
Wheat	-1.5	0.0	18.2	1.5	-7.9	0.0	-0.7
Corn grain	-31.3	-0.1	2.5	1.3	206.7	0.3	0.4
Processed foods	1,540.0	3.8	427.2	1.1	2,396.5	0.8	0.7
Fresh fruit, vegetables, and nuts	574.9	2.0	119.2	0.5	172.1	0.2	0.3
Seafood	74.1	2.2	231.9	0.9	-51.5	-0.2	-0.2

Source: USITC estimates.
Notes: Dollar values are in 2017 prices. N.e.c. = not elsewhere classified.
[a] Sugar-containing products.

Sector-specific Analysis

The impact of the additional market access provided by TPP would vary by product due to the variety of factors shaping trade in those sectors, such as tariffs that restrict trade, an uneven playing field with other TPP countries that already have preferential access, or SPS measures that currently restrict trade regardless of tariff levels. The sectors analyzed below include products for which concessions are significant, products for which the United States is export competitive, and products for which demand is strong and/or growing. Because TPP is expected to benefit U.S. agriculture overall and in particular to increase exports, this section primarily focuses on exports for most sectors. In contrast, box 3.2 describes the effects of TPP on U.S. sugar imports.

Box 3.2: Access to the U.S. Sugar Market in TPP

Previous U.S. FTAs have provided varying degrees of access to the U.S. sugar market. Through TPP, the United States would provide 86,300 metric tons (mt) (or less than 1 percent of annual U.S. consumption) of access for raw sugar, refined sugar, and sugar-containing products through seven new country-specific TRQs. The United States would also eliminate certain tariffs on sugar and sugar-containing products. While the U.S.-Australia FTA provided no additional access to sugar for the U.S. market, Australia would receive more than 75 percent of the new access under TPP. In addition, in years when the U.S. Department of Agriculture (USDA) determines that there is a need to import additional raw sugar above the WTO minimum allocations, the United States would commit to permit Australia to supply 14.7 percent of any additional raw sugar that needs to be imported. Canada would also be allocated 20 percent of any additional refined sugar import needs.

The additional market access is unlikely to result in an overall increase of sugar in the U.S. market, because the total supply of sugar is restricted by the U.S. sugar program. Through a combination of measures—WTO and FTA TRQs for imported sugar, export limits on Mexican sugar established in line with the 2014 countervailing duty investigation suspension agreement, and marketing allotments for domestic producers—the total supply of sugar in the U.S. market is restricted to the country's estimated annual total sugar use, as calculated by USDA. This program will not change with the adoption of TPP. Additional raw cane sugar from Australia and other TPP TRQ holders is likely to merely displace supplies from Mexico. In addition, because tariffs were eliminated only on sugar or sugar-containing products from countries that are not significant producers or exporters, the impact on the U.S. market is likely to be minimal.

The Commission received divided views on the market access for sugar provided in TPP. For example, the American Sugar Alliance preferred that no additional market access be provided through TPP, but has stated that it believes that the final agreement is acceptable because it does not undermine the U.S. sugar program or provide the excessive market access volumes initially requested by TPP partner countries.[a] On the other hand, while the Sweeteners Users Association (SUA) generally supports trade agreements that move toward markets that, in its view, distort trade less, it stated that the access provided through TPP would be negligible and does little to liberalize sugar trade. SUA also stated that additional sugar access beyond that provided by TPP would have helped ensure more reasonably priced sugar and reliable supplies of raw sugar in the U.S. market for domestic cane sugar refiners that are operating at low levels of capacity utilization.[b]

[a] ASA, written submission to the USITC, February 12, 2016, 1–9.
[b] USITC, hearing transcript, January 14, 2016, 426–31 (testimony of Tom Earley); SUA, written submission to USITC, January 22, 2016.

As noted, TPP would have an overall positive effect on U.S. agricultural trade, with exports to the world increasing more than imports relative to projected baseline levels of trade in 2032. The expansion in total U.S. exports would range widely across products (table 3.7). If TPP were enacted, U.S. exports of food and agricultural products to TPP countries would expand more by 2032 than U.S. exports of these products to the world: in that year, such exports to TPP countries would be $11.1 billion higher than without TPP, compared to a $7.2 billion increase in exports to all countries. This result reflects trade diversion of some U.S. exports from non-TPP members to the TPP region. By sector, the largest increases would be beef exports to Japan ($840 million), dairy exports to Canada ($1.2 billion) and Japan ($534 million), processed foods to Japan ($1.2 billion), and fresh fruits, vegetables, and nuts to Vietnam ($721 million). By country, agricultural exports to Japan and Vietnam would account for much of the growth, increasing by $3.6 billion and $3.3 billion, respectively.

Table 3.7: Estimated effects of TPP on U.S. food and agricultural product exports: Changes relative to baseline in 2032

Sector	All TPP		NAFTA partners		Other existing FTA partners		New FTA partners		Rest of the world		All countries	
	Million $	Percent	Million $	Percent	Million $	Percent	Million $	Percent	Million $	Percent	Million $	Percent
Agriculture and food (total)	11,115.2	10.7	2,920.9	4.6	243.6	2.2	7,950.6	26.8	-3,888.3	-2.2	7,226.9	2.6
Selected industry sectors:												
Sugar, sweeteners, and SCP [a]	129.6	5.9	46.0	2.5	0.0	0.0	83.5	39.0	0.0	0.0	129.6	4.3
Dairy products	1,973.7	37.0	1,200.3	40.4	18.3	2.3	755.1	48.4	-128.1	-2.6	1,845.5	18.0
Beef meat	995.4	18.4	12.8	0.4	10.1	3.3	972.6	61.2	-119.3	-2.4	876.1	8.4
Pork meat products	386.8	5.0	116.4	2.8	16.0	2.0	254.4	9.2	-167.5	-4.2	219.3	1.9
Poultry meat products	588.4	15.7	150.6	5.7	105.6	17.5	332.2	70.2	-414.5	-4.2	173.9	1.3
Rice	81.5	6.9	-8.5	-1.1	3.7	2.8	86.3	27.6	-94.0	-3.0	-12.5	-0.3
Wheat	-46.5	-1.3	43.9	3.1	32.9	4.9	-123.3	-7.9	45.1	0.5	-1.5	0.0
Corn grain	133.2	1.4	57.5	1.3	-6.1	-0.4	81.8	2.4	-164.5	-1.3	-31.3	-0.1
Processed foods	1,915.9	9.1	96.8	0.7	36.2	1.1	1,782.9	39.3	-375.9	-1.9	1,540.0	3.8
Fresh fruit, vegetables, and nuts	990.3	8.3	-1.3	0.0	-3.2	-0.3	994.8	30.8	-415.4	-2.4	574.9	2.0
Seafood	115.7	8.7	0.3	0.0	0.5	1.4	114.9	26.5	-41.6	-2.0	74.1	2.2

Source: USITC estimates.
Notes: Dollar values are in 2017 prices. N.e.c. = not elsewhere classified.
[a] Sugar-containing products.

Commission model results estimate that U.S. agricultural imports would increase by an additional $2.7 billion (or 1.5 percent) by 2032, as compared to the baseline projection without TPP (table 3.8). Among the most significant import changes are increases in beef meat imports from New Zealand ($437 million), processed foods from Mexico ($400 million), and dairy imports from New Zealand ($253 million) and Canada ($119 million).

Table 3.8: Estimated effects of TPP on U.S. food and agricultural product imports: Changes relative to baseline in 2032

Sector	All TPP		NAFTA partners		Other existing FTA partners		New FTA partners		Rest of the world		All countries	
	Million $	Percent	Million $	Percent	Million $	Percent	Million $	Percent	Million $	Percent	Million $	Percent
Agriculture and food (total)	2,023.6	2.1	323.8	0.5	207.6	1.4	1,492.3	12.8	710.4	0.9	2,733.9	1.5
Selected industry sector:s												
Sugar, sweeteners, and SCP[a]	132.1	3.6	74.8	2.2	57.3	30.6	0.0	0.0	0.0	0.0	132.1	2.4
Dairy products	369.1	31.2	114.6	46.2	0.1	0.2	254.3	29.8	-20.4	-0.9	348.6	10.3
Beef meat	437.9	6.4	-11.2	-0.3	6.8	0.4	442.3	27.7	-18.9	-4.4	419.0	5.7
Pork meat products	93.8	6.2	93.6	6.2	0.1	1.0	0.0	10.3	0.6	0.1	94.4	4.4
Poultry meat products	-18.9	-4.2	33.2	10.8	-52.2	-36.9	0.0	39.1	2.3	28.1	-16.6	-3.6
Rice	10.5	14.9	0.7	4.4	0.4	1.7	9.4	28.7	4.9	0.6	15.3	1.6
Wheat	19.1	1.6	19.1	1.6	0.0	4.4	0.0	11.1	-0.9	-3.3	18.2	1.5
Corn grain	2.1	1.5	2.0	1.5	0.1	1.6	0.0	7.5	0.4	0.7	2.5	1.3
Processed foods	-202.7	-1.0	-587.8	-3.5	111.3	5.7	273.7	23.2	629.9	3.3	427.2	1.1
Fresh fruit, vegetables, and nuts	132.7	0.7	52.9	0.4	16.1	0.4	63.6	6.4	-13.5	-0.3	119.2	0.5
Seafood	332.2	2.9	70.5	1.4	10.9	0.3	250.8	9.0	-100.3	-0.7	231.9	0.9

Source: USITC estimates.

Notes: Dollar values are in 2017 prices. N.e.c. = not elsewhere classified.

[a] Sugar-containing products.

Dairy Products[110]

Assessment

In the aggregate, the Commission's results show that the TPP Agreement would have a positive effect on U.S. dairy exports and a positive but more limited impact on U.S. dairy imports. Opportunities for added U.S. exports are likely in Canada for milk and milk powders, whey, butter and butter oil,[111] yogurt and other soft dairy products, infant formula, and cheese for ingredient use; in Japan, for cheese, whey, skim milk powder, and lactose; and in Vietnam, primarily for milk powders. But U.S. exporters would still face restrictive TRQs for certain products in large TPP markets such as Japan and Canada that would limit the growth of U.S. exports even after full TPP implementation.

On the import side, dairy producers in Australia, Canada, and New Zealand would be granted additional access to the U.S. market under TPP with new dairy TRQs.[112] With two exceptions—butter and butter oil, and whole milk powder—imported dairy products no longer routinely fill U.S. import TRQs.[113] New TRQ volumes under TPP would not likely be filled, nor would TPP members be expected to significantly increase exports to the United States from current volumes. Canada and Peru are net importers of dairy products; exports to the United States from these two TPP members would be limited to niche products, such as artisan cheeses or condensed and evaporated milk. For reasons explained in more detail below, net dairy exporters Australia and New Zealand are also unlikely to ship significantly more dairy products to the United States if TPP is implemented. Overall, additional market access granted to TPP members in the U.S. market, largely through expanded TRQs, is unlikely to result in large volumes of additional dairy imports, except for butter and butter oil.

The Commission's model estimates that U.S. producers' output of dairy products would be about 1.3 percent higher in 2032 if TPP is adopted, compared to the baseline projection. U.S.

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[110] Dairy products include HS 0401 (milk and cream), 0402.10 (nonfat dry milk/skim milk powder), 0402.21 and 0402.29 (dry whole milk/whole milk powder), 0402.91 (evaporated milk), 0402.99 (sweetened condensed milk), 0403.10 (yogurt), 0403.90 (buttermilk), 0404.10 (whey and modified whey), 0404.90 (milk protein concentrates), 0405 (butter, dairy spreads, and butter fats and oils), 0406 (cheese), 1702.11 and 1702.19 (lactose), 1901.10 (infant formula), 2105.00 (ice cream), 3501.10 (casein), 3501.90 (caseinates), and 3502.20 (milk albumin).

[111] Butter oil is also known as anhydrous milkfat or anhydrous butter oil.

[112] Peru kept the same U.S. import TRQ volumes under TPP that applied under the U.S.-Peru TPA.

[113] U.S. dairy import TRQs are typically only partially filled, with fill rates below 80 percent. The TRQs do not fill for many reasons. Exporters such as New Zealand produce dairy goods more suited to China and other Asian markets, such as whole milk powder, a product not demanded in high volumes in the United States. U.S. producers are also highly competitive in other products, such as skim milk powder, cheddar cheese, and whey; they price goods below the prices of competitive imports once transportation costs are taken into account. Even when producing dairy products in high demand in the United States, large volume exporter Australia does not fill U.S. TRQs with duty-free access for in-quota volumes. With its dairy market largely integrated with Australia's, New Zealand exporters are also unlikely to fill TRQ volumes in the near term.

employment in the sector would grow roughly 1.1 percent relative to the baseline over the same period.[114] If TPP is implemented, the model estimates that U.S. dairy exports to TPP member countries would increase $2.0 billion relative to the baseline.[115] Nearly all of the increase would be exported to Canada ($1.2 billion) and Japan ($534 million). Because of the close proximity of northern U.S. dairy-producing regions to Canadian consumers, U.S. dairy exports would capture most of Canada's additional TRQ access granted under TPP. The product mix of U.S. exports would likely be diverse—milk, cream, butter and butter oil, whey products, yogurt, cheese and cheese ingredients, and infant formula. The product mix of U.S. dairy exports to Japan would be more limited, primarily whey products, lactose, and cheese.

The Commission's models estimate that dairy imports from all TPP members would increase $369 million after full implementation.[116] All of the increased imports would come from New Zealand ($253 million) and Canada ($119 million). New Zealand's product mix would largely be high-protein powders, whey products, butter and butter oil, and casein. Canada's increased shipments to the United States would largely be whey products, and soft dairy products such as yogurt, ice cream, and buttermilk.[117]

U.S. dairy industry representatives noted two chapters in TPP related to NTMs as particularly important—the SPS chapter and the intellectual property chapter's geographical indication (GI) provisions. They generally stated that the TPP's SPS chapter goes beyond the SPS provisions of the WTO and would hold TPP members to higher standards for risk analysis and scientific data when imposing SPS measures on dairy imports. In addition, cooperative technical consultations would require members to discuss SPS problems quickly and provide recourse through TPP dispute settlement procedures. The TPP's GI provisions are viewed by the U.S. dairy industry as an important tool in establishing intellectual property rights for GIs and resolving future disputes among TPP members.[118]

[114] While most TPP concessions would be phased in over 15 years or less, certain dairy concessions are phased in over a longer period. Thus, the trade effects for dairy products are slightly understated.
[115] Commission model results indicate that trade diversion in U.S. exports would be limited. Total U.S. dairy exports would be about $1.8 billion higher than the baseline estimate. U.S. dairy exports to TPP members would be about $2.0 billion higher than the baseline and trade diversion from other U.S. trading partners would total -$128 million, including from China, Indonesia, and Korea.
[116] Commission modeling indicates that trade diversion in U.S. imports would be limited. Total U.S. dairy imports would be about $349 million higher than the baseline. U.S. dairy imports from TPP members would be $369 million higher and trade diversion from other U.S. trading partners would total -$20 million.
[117] The model does not estimate increases in U.S. imports from Australia.
[118] National Milk Producers Federation and the U.S. Dairy Export Council, written submission to the USITC, December 22, 2015, 6-7.

Overview of U.S. Trade with TPP Partners

U.S. Imports

The United States imports small volumes of dairy products relative to domestic production, and roughly 35–40 percent come from TPP member countries (table 3.9).[119] Most U.S. imports from TPP partners are high-value dairy powders from New Zealand, primarily milk protein concentrates and casein. NAFTA members Canada and Mexico export a wider variety of dairy products to the United States than other suppliers, including products (e.g., creams and yogurt) with high water content and, therefore, higher shipping costs than other dairy products.

Table 3.9: U.S. imports of dairy products from world and TPP partners, average 2013–15, million dollars

		U.S. imports from TPP countries			
Product and selected subproducts (HS subheading)	**U.S imports from world**	**All**	**New partners**	**NAFTA**	**Other existing FTA partners**
Dairy products: total	2,667.1	975.6	683.1	187.7	104.8
Selected subproducts					
High value dairy powders (including Infant formula)[a]	1,063.4	669.4	615.0	6.8	47.5
Cheese[b]	1,237.0	89.4	27.7	47.0	14.7
Whey, modified whey, and lactose[c]	52.2	38.6	9.1	27.9	1.6
Butter, butter oils, and dairy spreads[d]	98.9	42.0	19.5	17.0	5.5

Source: USITC DataWeb/USDOC (accessed February 17, 2016).
[a] HS 0404.90, 1901.10, 3501.10, 3501.90, 3502.20.
[b] HS 0406.
[c] HS 0404.10, 1702.11, 1702.19.
[d] HS 0405.10, 0405.20, 0405.90.

Market access for foreign dairy suppliers to the United States is subject to WTO import TRQs with prohibitively high over-quota tariffs. When the TRQs fill, imports represent roughly 1–7 percent of U.S. consumption, by quantity, on items such as nonfat dry milk/skim milk powder, cheddar cheese, or butter.[120] Other less-traded dairy products, such as milk protein concentrates (HS 0404.90), casein (HS 3501.10), and milk albumin (HS 3502.20), are not subject to TRQs and face low U.S. import tariffs even without the tariff reductions negotiated under TPP.

In recent years, U.S. dairy import TRQs have not filled.[121] This is because U.S. prices for dairy products are generally the same as or lower than prices for similar goods in Asia (e.g., China and countries in the Association of Southeast Asian Nations, or ASEAN) and Oceania (Australia and

[119] GTIS, Global Trade Atlas database (accessed February 4, 2016).
[120] USDA, FAS, *Dairy: World Markets and Trade,* December 2015; Dobson and Jesse, "Opening Up Global Dairy Trade," April 2003, 4.
[121] USDA, FAS, *Dairy Monthly Imports*, January 2016; USDA, FAS, *Dairy Monthly Imports*, January 2015; USDA, FAS, *Dairy Monthly Imports*, January 2014.

New Zealand). This is particularly true when transportation costs to the United States are taken into account.[122] A recent exception is high U.S. prices for butter and butter oil (also known as anhydrous milkfat, or butter oil) during the hot summers of 2014 and 2015. Domestic prices spiked as U.S. creameries shipped their butterfat to ice cream manufacturers for higher profit margins rather than produce butter. As a result, the U.S. TRQs for imported butter and butter oil effectively filled in both years.[123]

U.S. Exports

The United States exports about half of its traded dairy products to TPP member countries. Roughly 60 percent ($1.9 billion) of U.S. dairy exports to TPP member countries are shipped to NAFTA countries, primarily skim milk powder (nonfat dry milk) and cheese. U.S. exports to new TPP partners are fairly evenly split by value between Japan, Vietnam, Malaysia, and New Zealand, but the product mix to the four countries is very different. Japan consumes large volumes of U.S. cheese, Vietnam and Malaysia import U.S. skim milk powder and whey, and New Zealand imports U.S. lactose as a manufactured food additive (table 3.10).

Table 3.10: U.S. exports of dairy products to world and TPP partners, average 2013–15, million dollars

		U.S exports to TPP countries			
Product and selected subproducts (HS subheading)	**U.S exports to world**	**All**	**New partners**	**NAFTA**	**Other existing FTA partners**
Dairy products: total	6,040.6	3,038.5	817.6	1,865.9	355.0
Selected subproducts					
Milk powders[a]	1,980.8	1,061.7	276.5	709.0	76.2
Cheese[b]	1,480.8	763.2	196.5	445.7	121.0
Whey, modified whey, and lactose[c]	1,183.8	540.1	237.5	206.8	95.9
High-value dairy powders (including infant formula)[d]	708.9	400.4	59.7	311.1	29.6

Source: USITC DataWeb/USDOC (accessed February 17, 2016).
[a] HS 0402.10, 0402.21, 0402.29.
[b] HS 0406.
[c] HS 0404.10, 1702.11, 1702.19.
[d] HS 0404.90, 1901.10, 3501.10, 3501.90, 3502.20.

U.S. exports to large dairy-consuming TPP members Canada and Japan are heavily restricted by TRQs managed by the respective governments. For example, Japan is a major importer of butter to satisfy consumer demand for bakery goods in certain months of the year. Rather than allow market forces to determine import volumes and prices, the government's Agriculture and Livestock Industries Corporation (ALIC) imports butter through a tendering process when

[122] GTIS, Global Trade Atlas database (accessed February 5, 2016); USDA, AMS, *Market News—Dairy*, CME Nonfat Dry Milk (NFD) and butter prices, and Oceania Skim Milk Powder (SMP) and butter prices (accessed February 5, 2016).
[123] USDA, FAS, *Dairy Monthly Imports*, January 2015.

domestic prices rise significantly.[124] Canada maintains a dairy supply management system based on planned domestic production, administered pricing, and import controls based on estimated dairy requirements calculated by the Canadian Dairy Commission.[125]

Summary of TPP Provisions Affecting U.S. Imports

Concessions: U.S. Tariffs and Safeguards

Under the TPP, the United States would remove most tariffs on dairy products not subject to TRQs and would eliminate in-quota tariffs. Phase-in periods for tariff elimination differ by country and by product, but most tariffs are eliminated upon entry into force (EIF) of the agreement. Exceptions include imports from Japan, which have phase-in periods of 5–20 years, and Vietnam, with phase-in periods of 3 years (table 3.11). Most U.S. import tariffs on dairy products from TPP members with existing FTAs are already duty-free. However, certain products are subject to TRQs and safeguards, as discussed below.

Table 3.11: Dairy products: Selected U.S. concessions to TPP partners

Product	Australia	Canada	Japan	New Zealand	Peru	Vietnam	Other
Milk powders	In-quota tariffs as high as 17.5% eliminated immediately.	In-quota tariffs as high as 17.5% eliminated immediately.	In-quota tariffs as high as 17.5% eliminated in 10 or 15 years.	In-quota tariffs as high as 17.5% eliminated immediately.	In-quota tariffs as high as 17.5% eliminated immediately.	In-quota tariffs as high as 17.5% eliminated in 3 years or immediately.	Import tariffs for Brunei, Chile, Malaysia, Mexico, and Singapore eliminated immediately or no duty existed.
Cheese	In-quota tariffs as high as 25% eliminated immediately or in 20 years.	In-quota tariffs as high as 25% eliminated immediately.	In-quota tariffs as high as 25% eliminated in 5, 10, 15 or 20 years.	In-quota tariffs as high as 25% eliminated immediately.	In-quota tariffs as high as 25% eliminated immediately.	In-quota tariffs as high as 25% eliminated in 3 years or immediately.	Import tariffs for Brunei, Chile, Malaysia, Mexico, and Singapore eliminated immediately or no duty existed.

[124] USDA, FAS, *Japan: Dairy and Products Annual*, October 15, 2015, 6; ALIC, "What We Do," October 15, 2015.
[125] USDA, FAS, *Canada: Dairy and Products Annual*, October 15, 2015, 7.

Product	Australia	Canada	Japan	New Zealand	Peru	Vietnam	Other
Whey, modified whey, and lactose	In-quota tariffs as high as 13% eliminated immediately or in 20 years.	In-quota tariffs as high as 13% eliminated immediately.	In-quota tariffs as high as 13% eliminated in 5, 10, or 15 years.	In-quota tariffs as high as 13% eliminated immediately.	In-quota tariffs as high as 13% eliminated immediately or in 21 years.	In-quota tariffs as high as 13% eliminated immediately, in 3 years, or in 10 years.	Import tariffs for Brunei, Chile, Malaysia, Mexico, and Singapore eliminated immediately or no duty existed.
Butter, butter oils, and dairy spreads	In-quota tariffs as high as 10% eliminated immediately (or 20 years for dairy spreads).	In-quota tariffs as high as 10% eliminated immediately.	In-quota tariffs as high as 10% eliminated in 10, 15, or 20 years.	In-quota tariffs as high as 10% eliminated immediately.	In-quota tariffs as high as 10% eliminated immediately.	In-quota tariffs as high as 10% eliminated in 3 years or immediately.	Import tariffs for Brunei, Chile, Malaysia, Mexico, and Singapore eliminated immediately or no duty existed.

Source: USTR, TPP full text, December 15, 2015.

All six country-specific U.S. agricultural safeguards negotiated under TPP are for dairy products—Swiss cheese and milk powders from Australia, cheddar-style cheese and whole milk powder from New Zealand, and condensed and evaporated milk and cheese from Peru. The volumes triggering the safeguards vary by product, but the safeguards trigger at ever-higher import volumes each year until they phase out entirely.[126] The two safeguards for Peru are in effect for 10 years; the safeguards for Australia and New Zealand last for 25 years for cheese and 35 years for powders. For Australia and New Zealand, the safeguard duty is calculated as a percentage of the MFN rate and decreases over the period for which each safeguard is in place. For Peru, the safeguard tariffs are calculated according to a complex formula, but like the other safeguards, they decrease over the period during which the safeguards are in effect. In general, the six country-specific safeguard trigger volumes would not initially be very large and could trigger in

[126] Swiss cheese imports from Australia trigger the U.S. safeguard at 800 mt; the safeguard trigger increases 3 percent annually until year 24. Milk powder imports from Australia trigger the safeguard at 700 mt beyond Australia's TRQ volume, with the trigger volume increasing 2 percent annually until year 35. Cheese imports from New Zealand trigger the safeguard at 4,000 mt in year 1 of the agreement, with the trigger volume rising to 10,000 mt in year 12, and increasing 3 percent annually after that time until year 24. Whole milk powder imports from New Zealand trigger the safeguard at 3,000 mt in year 1 of the agreement, with the trigger volume rising to 7,000 mt in year 12 and increasing 3 percent annually after that time until year 34. Volume triggers for the safeguards covering imports of condensed and evaporated milk and certain cheeses from Peru are 130 percent of the TRQ quantity for those goods.

an unusual year. The safeguards thus set a limit on U.S. dairy imports in the early years of the TPP Agreement.

Concessions—U.S. Tariff-rate Quotas

Under TPP, the United States would expand market access for dairy imports through TRQs for four parties—Australia, Canada, New Zealand, and Peru (table 3.12).

Australia: Australian dairy products have limited access to the United States under the bilateral FTA enacted in 2005. In the TPP Agreement, U.S. market access for Australia's dairy products is best characterized as a reallocation of the market access already granted under the bilateral FTA. Australia and the United States agreed to reduce volumes of duty-free access for U.S. imports of Australian creams and ice cream, condensed milk, and milk powders in return for higher TRQ volumes of Australian cheddar cheese, European-type cheeses, and infant formula. Australia's TRQ volume for U.S. imports of butter is unchanged from the bilateral FTA.

Canada: Under TPP, the United States would provide Canada with country-specific TRQs on a wide variety of dairy products, including cheese, skim milk powder, whole milk powder, butter and butter substitutes, milk proteins, and milk beverages.[127]

New Zealand: Without a bilateral FTA with the United States, the New Zealand dairy industry currently uses U.S. dairy import TRQs established when the WTO was created in 1995. In the TPP Agreement, New Zealand would gain additional duty-free access to U.S. markets for most dairy products, but in particular large volumes of cheese, whole milk powder, creams, butter and butter oil, infant formula, and dairy ingredients. For most of these products, New Zealand already has significant TRQ access that goes unfilled. The exceptions are two quotas—butter and butter substitutes, and organic butter.

[127] The TPP agreement represents a departure for bilateral dairy trade between the United States and Canada. Under NAFTA, Canada and the United States mutually excluded dairy trade from any tariff reductions and additional market access. Outlaw et al., *NAFTA and U.S. Dairy Industry*, April 1994, 1.

Table 3.12: U.S. dairy tariff-rate quotas to TPP members, metric tons (mt) except where noted

Quota code	Country	Quota name	Admin	Year 1	Final year	Number of years	Permanent	Growth	Notes
CSQ-US3	Australia (AUS)	Creams and ice cream (1,000 liters)	FCFS	10,356.5	15,172.5	6	yes	6% pa	Reduced 3,880,500 liters from U.S.-AUS FTA. Perpetual growth.
CSQ-US4	Australia	Condensed milk	FCFS	695	2,621	6	yes	6% pa	Reduced 5,000 mt from U.S.-AUS FTA. Perpetual growth.
CSQ-US5	Australia	Butter	FCFS	2,076	2,407	6	yes	3% pa	No change from U.S.-AUS FTA. Perpetual growth.
CSQ-US6	Australia	Milk powders	FCFS	6,296	7,652	6	yes	2% pa	Perpetual growth declines from U.S.-AUS FTA, from 4% to 2%.
CSQ-US7	Australia	Other dairy products	FCFS	2,847	3,811	6	yes	6% pa	Duty-free infant formula volumes excluded starting year 15. Perpetual growth.
CSQ-US8	Australia	American and cheddar cheeses	FCFS	6,230	6,506	6	yes	3% pa	Increased 4,500 mt from U.S.-AUS FTA. Perpetual growth.
CSQ-US9	Australia	Swiss-type, European-type and other cheeses	FCFS	14,762	17,597	6	yes	5% pa	Increased 4,500 mt from U.S.-AUS FTA. Perpetual growth.
CSQ – US10	Canada	Cheese	FCFS	3,000	20,486	19	yes	Fixed at yr 19	High value cheese packaged 10 kgs or less is duty-free and excluded from TRQ in year 10.
CSQ – US11	Canada	Skim milk powder	FCFS	2,000	17,622	19	yes	Fixed at yr 19	
CSQ – US12	Canada	Whole milk powder	FCFS	667	4,552	19	yes	Fixed at yr 19	
CSQ – US13	Canada	Dried yogurt, sour cream, whey, and products of milk constituents	FCFS	2,083	14,226	19	yes	Fixed at yr 19	
CSQ – US14	Canada	Concentrated milk	FCFS	333	2,587	19	yes	Fixed at yr 19	
CSQ – US15	Canada	Cream, sour cream, ice cream, and milk beverages (liters)	FCFS	1,416,667	9,673,793	19	yes	Fixed at yr 19	
CSQ – US16	Canada	Butter and butter substitutes	FCFS	750	5,121	19	yes	Fixed at yr 19	Package size requirement (over 55 pounds or more) for most of the TRQ volume.
CSQ – US17	Canada	Other dairy products	FCFS	1,250	8,536	19	yes	Fixed at yr 19	Starting year 5, HS 1517.90.60 is duty free and volumes excluded from the TRQ.

Quota code	Country	Quota name	Admin	Year 1	Final year	Number of years	Permanent	Growth	Notes
CSQ – US24	New Zealand	Cheese	FCFS	10,000	34,049	30	yes	3% pa	Starting year 20, HS 0406.90.97 volumes excluded from the TRQ; duty-free starting year 23.
CSQ – US25	New Zealand	Skim milk powder	FCFS	1,000	1,702	19	no	na	Unlimited duty-free access starting year 20.
CSQ – US26	New Zealand	Whole milk powder	FCFS	3,000	8,996	30	no		Unlimited volume access starting year 30; Duty-free starting year 24.
CSQ – US27	New Zealand	Concentrated milk	FCFS	1,000	2,357	30	yes	3% pa	Perpetual growth.
CSQ – US28	New Zealand	Creams (liters)	FCFS	8,000,000	43,347,103	30	yes	6% pa	Perpetual growth.
CSQ – US29	New Zealand	Butter and butter substitutes	FCFS	4,000	21,503	30	yes	3% pa	Perpetual growth. 3,000 mt allocated to butter oil, phased out starting year 15.
CSQ – US30	New Zealand	Organic butter	FCFS	500	1,178	30	yes	3% pa	Perpetual growth.
CSQ – US31	New Zealand	Other dairy products	FCFS	5,500	22,639	30	yes	5% pa	Perpetual growth.
CSQ-US32	Peru	Cheese	FCFS	5,527	13,684	9	no		Unlimited volumes starting in year 10.
CSQ – US33	Peru	Condensed and evaporated milk	FCFS	13,264	32,841	9	no		Unlimited volumes starting in year 10.
CSQ – US34	Peru	Processed dairy products	FCFS	3,897	6,905	7	no		Unlimited volumes starting in year 8.

Source: USTR, TPP Agreement, December 15, 2015.
Note: “FCFS” means “first come, first served.” “PA” means “per annum.”

Estimated Effects of TPP on U.S. Dairy Imports

Additional market access granted to TPP members in the U.S. market, largely through expanded TRQs, is unlikely to result in additional dairy imports, except for butter and butter oil. The Commission model estimates that dairy imports from all TPP members would be $369 million higher after full implementation, relative to the baseline. All of the increased imports would come from New Zealand ($253 million) and Canada ($119 million). New Zealand's product mix would largely be high-protein powders, whey products, butter and butter oil, and casein.[128] Canada's increased shipments to the United States would largely be whey products, and soft dairy products such as yogurt, ice cream, and buttermilk.

Several important factors lead to limited additional U.S. imports of dairy products under TPP. First, the cost of milk in Australia and New Zealand increasingly tracks U.S. milk costs, but transportation costs to the United States are significant (roughly $200 per mt, though varying somewhat by product).[129] Therefore, dairy products imported from Australia and New Zealand face a cost disadvantage in the U.S. market but not in Asian markets closer to home. Second, U.S. prices for many dairy products, such as skim milk powder, whole milk powder, cheddar cheese, and mozzarella, are routinely lower than prices in Asia and Oceania, even accounting for differences in product specifications.[130] The result is that both Australia and New Zealand tend to ship only dairy products that U.S. companies underproduce in lieu of shipping higher-value goods for U.S. consumers, in accordance with the seasonal demand patterns described in the import overview above.

Third and most importantly, Australia and New Zealand have not filled most of their U.S. import TRQ volumes for the past three years, except for butter and butter oil in 2014 and 2015 and whole milk powder in 2015.[131] Exporters from both countries leave millions of metric tons of quota unclaimed for skim milk powder, American-type cheese (e.g., cheddar), Italian-type cheese (e.g., mozzarella), and other dairy products. Even in the case of butter and butter oil, additional imports to the United States under TPP will not displace U.S.-produced goods because the demand for butter in the United States (and in high-priced export markets like Japan) outstrips supply.[132] U.S. dairies skim off cream during the summer months and ship it to

[128] High-protein powders, casein, and some whey products from New Zealand are not subject to U.S. import TRQs.
[129] Hemme et al., "Milk Prices and Production Costs World Wide," October 5, 2015; Hemme et al., "Overview on Milk Prices and Production Costs," 2013; USITC estimate for transportation costs, based on GTIS trade data.
[130] Demand for dairy products in rapidly developing countries, particularly in Asia, accounts for the upward pressure on prices. USDA, AMS, CME and Oceania Dairy Prices (accessed January 22, 2016); AgWeb, "Asia's Growing Appetite for Meat, Milk Seen Driving Up Costs," July 1, 2015.
[131] In the USITC analysis, if New Zealand fills its country-specific TRQ for a particular product but significant volumes of the TRQ remain unfilled which could be filled by any country, the TRQ for the product in question is considered unfilled. USDA, FAS, Dairy Monthly Imports, January 2016.
[132] However, additional U.S. imports of butter and butter oil will likely lower U.S. prices during periods when prices peak, normally in the summer when the demand for ice cream is strongest.

domestic ice cream manufacturers for higher profits than they can realize producing butter. As for U.S. imports of whole milk powder from New Zealand and milk powders from Australia, U.S. safeguard volumes in the TPP Agreement would provide an effective barrier to import surges into the U.S. market if global prices change relative to prices in the United States.

Impact of Changes to U.S. Tariff-rate Quotas

Except for butter and butter oil, the impact of additional market access on the U.S. dairy industry is likely to be very small because the TRQs are unlikely to fill. Although Australia and New Zealand are large dairy producers and net exporters, production costs in both countries are similar to, or in some cases higher than, those of U.S. producers. Imports from both countries face significant transportation costs to the United States; Australia and New Zealand therefore face a cost disadvantage in the U.S. market compared to the closer Asian markets.[133] New Zealand, however, is likely to fill the new quota volumes of butter and butter oil, at least in the early years of the agreement. U.S. butter prices are normally far higher than global butter prices during the summer months because U.S. creameries sell their cream to domestic ice cream manufacturers rather than produce butter.[134] The price disparity made it profitable for a limited time in 2014 and 2015 for New Zealand producers to ship butter to the United States.

Canada and Peru are large net importers of dairy products.[135] As a result, additional exports to the United States from those countries due to expanded TRQs under TPP would likely be limited to niche products, such as artisan cheeses in the case of Canada or condensed and evaporated milk from Peru. U.S. imports of Canadian high-value cheeses would likely substitute for other U.S. imports from non-TPP countries.[136]

Summary of TPP Provisions Affecting U.S. Exports

Under the TPP, U.S. trading partners without prior bilateral FTAs would remove import tariffs facing most commonly traded U.S. dairy products. Phase-in periods for tariff elimination differ by country and by product, but most in-quota tariffs are eliminated upon entry into force (table 3.13). Important TPP markets Japan and Canada would lower selected tariffs over long phase-in periods, but both countries would remain highly managed markets even after TPP implementation because their TRQs nearly always fill. For many dairy products not facing import TRQs, Japan would maintain non-zero duties after full implementation, such as ice

[133] Estimated by USITC to be roughly $200 per metric ton, based on Global Trade Atlas, Informa's Dairy Markets, and other sources.
[134] Mulvany, "Butter Surges to 16-Year High," July 24, 2014.
[135] GTIS, Global Trade Atlas database (accessed January 22, 2016).
[136] Although Canada is a net importer of dairy products, it should be noted that there may be niche or specialized dairy products Canada would ship under the TPP agreement. This is particularly true of products intended for ingredient use in food manufacturing.

cream (HS 2105) at 7–10 percent. In addition, Japan also maintains safeguard volume measures for imports of whey protein concentrate and whey powder, which may hinder U.S. exports to Japan in the early years of TPP implementation until safeguard trigger volumes expand well beyond current export levels.

Table 3.13: Dairy products: Selected TPP partner country concessions to the United States

Product	Australia	Canada	Chile	Japan	Malaysia	Peru	Vietnam	Other
Milk powders	No existing duties.	In-quota rates of either C$0.0332/kg or 6.5% (depending on product specifications) eliminated immediately.	Tariffs of 6% eliminated in 8 years.	Tariffs, currently as high as 425 yen/kg, largely remain in effect. New TRQ volumes for TPP members are established.	Duties eliminated immediately.	No existing duties.	Tariffs, currently as high as 5%, eliminated in 3 years or immediately.	Import tariffs in Brunei and New Zealand immediately eliminated. Mexico and Singapore have no existing duties.
Cheese	Duties of A$1.22/kg eliminated immediately.	In-quota rates of C$0.0332/kg or C$0.0284/kg eliminated immediately.	Tariffs of 6% eliminated either immediately or in 8 years.	Tariffs, currently as high as 40%, eliminated in 16 years.	Duties eliminated immediately.	Tariffs as high as 9% eliminated in 6 years.	Tariffs, currently as high as 10%, eliminated in 3–4 years or immediately.	Import tariffs in Brunei and New Zealand immediately eliminated. Mexico and Singapore have no existing duties.
Whey, modified whey, and lactose	No existing duties.	Whey: tariffs, currently as high as 11%, eliminated in 6 years. Lactose: duties of 6% eliminated immediately.	Whey and modified whey: tariffs of 6% eliminated in 8 years. Lactose: duties of 6% eliminated immediately.	Tariffs, currently as high as 30%, eliminated in 21 years, including safeguards. Lactose duties eliminated immediately.	Duties eliminated immediately.	Tariffs as high as 9% eliminated immediately.	No existing duties.	Import tariffs in Brunei and New Zealand immediately eliminated. Mexico and Singapore have no existing duties.
High-value dairy powders and infant formula	No existing duties.	Milk protein concentrates: in-quota rates of 3% eliminated immediately. Infant formula: duties of 6% or 9.5% eliminated immediately. Casein and caseinates: duties already eliminated. Milk albumin:	Duties of 6% eliminated immediately.	MPCs: Tariffs, currently as high as 35%, reduced to 9.8% in 6 years. Infant formula: tariffs, currently as high as 25%, eliminated in 6 years. Duties on casein, caseinate, and milk albumin containing whey protein	For most products, duties already eliminated. Milk albumin: duties of 5% eliminated immediately. Casein glues: tariffs of 25% eliminated in 3 years.	Casein and infant formula: duties already eliminated. Other products: tariffs as high as 9% eliminated immediately.	Milk protein concentrates: duties already eliminated. Infant formula: tariffs, currently as high as 10%, eliminated in 4 years. Casein and caseinates: tariffs of 10% eliminated in 3–4 years.	Import tariffs in Brunei and New Zealand immediately eliminated. Mexico and Singapore have no existing duties.

Product	Australia	Canada	Chile	Japan	Malaysia	Peru	Vietnam	Other
		duties of 6.5% eliminated immediately.		eliminated immediately.				

Source: USTR, TPP Agreement, December 15, 2015.

Aside from the United States, only Canada, Japan, and Malaysia would create new TRQs for dairy products under the TPP Agreement (table 3.14). Canada agreed to a broad range of dairy TRQs covering most traded goods, but some of the TRQ volumes are quite small, such as 483 mt of mozzarella and prepared cheese.[137] Most of Japan's new TRQs under the TPP Agreement include all member countries, but the United States negotiated country-specific TRQs for processed cheese, whey in two forms, and whey permeate.[138] Malaysia created only three dairy TRQs under the TPP Agreement, all on fluid milk with varying percentages of fat content.

[137] Canada's dairy TRQs are not country-specific under the TPP agreement.
[138] For the TRQs on whey, volume safeguard triggers apply.

Table 3.14: Dairy tariff-rate quotas for TPP members, metric tons

Importing countries	Country	Quota name	Admin	Year 1	Final year	Number of years	Permanent	Growth	Notes
All TPP	Canada	Milk	FCFS	8,333	56,905	19	yes	Fixed at yr 19	85% in bulk for ingredient use; TRQ in dairy year basis (August 1–July 31).
All TPP	Canada	Cream	FCFS	500	734	14	yes	Fixed at yr 14	TRQ in dairy year basis (August 1–July 31).
All TPP	Canada	Skim milk powders	FCFS	1,250	11,014	19	yes	Fixed at yr 19	TRQ in dairy year basis (August 1–July 31).
All TPP	Canada	Milk powders	FCFS	1,000	1,138	14	yes	Fixed at yr 14	TRQ in dairy year basis (August 1–July 31).
All TPP	Canada	Cream powders	FCFS	100	114	14	yes	Fixed at yr 14	TRQ in dairy year basis (August 1–July 31).
All TPP	Canada	Concentrated milk	FCFS	333	2,587	19	yes	Fixed at yr 19	Only for retail sale; TRQ in calendar year basis.
All TPP	Canada	Yogurt and buttermilk	FCFS	1,000	7,762	19	yes	Fixed at yr 19	30% in bulk for ingredient use; TRQ in calendar year basis.
All TPP	Canada	Powdered buttermilk	FCFS	750	970	14	yes	Fixed at yr 14	TRQ in calendar year basis.
All TPP	Canada	Whey powder	FCFS	1,000	6,244	10	no		Duty free, quota free starting in year 11; TRQ in dairy year basis (August 1–July 31).
All TPP	Canada	Products consisting of natural milk constituents	FCFS	667	4,552	19	yes	Fixed at yr 19	TRQ in calendar year basis.
All TPP	Canada	Butter	FCFS	750	5,121	19	yes	Fixed at yr 19	85% in bulk for ingredient use; TRQ in dairy year basis (August 1-July 31).
All TPP	Canada	Industrial cheese	FCFS	1,329	9,076	19	yes	Fixed at yr 19	Only in bulk for ingredient use; TRQ in calendar year basis.
All TPP	Canada	Mozzarella and prepared cheese	FCFS	483	3,300	19	yes	Fixed at yr 19	TRQ in calendar year basis.
All TPP	Canada	Cheese of all types	FCFS	604	4,126	19	yes	Fixed at yr 19	TRQ in calendar year basis.
All TPP	Canada	Ice cream and mixes	FCFS	1,000	1,138	14	yes	Fixed at yr 14	TRQ in calendar year basis.
All TPP	Canada	Other dairy	FCFS	1,000	1,138	14	yes	Fixed at yr 14	HS 1517.90.22 imports not counted starting year 6; TRQ in calendar year basis.
All TPP	Japan	Fresh cheese for use as materials for shredded cheese	FCFS	See notes.			yes		Quota quantity equals Japan's domestic production of natural cheese for use as materials for

Importing countries	Country	Quota name	Admin	Year 1	Final year	Number of years	Permanent	Growth	Notes
									shredded cheese multiplied by 3.5.
All TPP	Japan	Butter	FCFS	39,341	45,898	12	yes	Fixed at yr 12	Whole milk equivalent metric tons, using conversion factors.
All TPP	Japan	Skim milk powder	FCFS	20,659	24,102	12	yes	Fixed at yr 12	Whole milk equivalent metric tons, using conversion factors.
All TPP	Japan	Milk powder and butter milk powder	FCFS	1,500	2,250	12	yes	Fixed at yr 12	Whole milk equivalent metric tons, using conversion factors.
All TPP	Japan	Milk powder	FCFS	20,000	60,000	12	yes	Fixed at yr 12	Whole milk equivalent metric tons, using conversion factors.
All TPP	Japan	Evaporated milk	FCFS	1,500	4,750	6	yes	Fixed at yr 6	
All TPP	Japan	Condensed milk	FCFS	750	750	1	yes	Fixed at yr 1	
USA	Japan	Processed cheese	FCFS	100	150	12	yes	Fixed at yr 12	
USA	Japan	Whey: mineral concentrate	FCFS	1,000	4,000	12	yes	Fixed at yr 12	Safeguards apply.
USA	Japan	Whey: prepared whey for infant formula	FCFS	3,000	3,000	1	yes	Fixed at yr 1	Safeguards apply.
USA	Japan	Whey permeate	FCFS	1,000	2,000	12	yes	Fixed at yr 12	Safeguards apply.
All TPP	Malaysia	Milk of fat content, by weight, not exceeding 1% (liters)	FCFS	300,000	300,000	1	yes	1% pa	
All TPP	Malaysia	Milk of fat content, by weight, exceeding 1% but not exceeding 6% (liters)	FCFS	2,000,000	2,000,000	1	yes	1% pa	
All TPP	Malaysia	Milk of fat content, by weight, exceeding 6% (liters)	FCFS	1,000,000	1,000,000	1	yes	1% pa	

Source: USTR, TPP Agreement, December 15, 2015.

Estimated Effects of TPP on U.S. Dairy Exports

On balance, U.S. dairy exporters would likely benefit from the TPP Agreement, even after accounting for additional market access granted to foreign competitors in the U.S. market. If TPP is implemented, the model estimates that U.S. dairy exports to TPP member countries would increase $2.0 billion relative to the baseline. Nearly all of the increase would be exported to Canada ($1.2 billion) and Japan ($534 million). The product mix of U.S. exports to Canada would likely include milk, cream, butter and butter oil, whey products, yogurt, cheese and cheese ingredients, and infant formula. The product mix of U.S. dairy exports to Japan would primarily be whey products, lactose, and cheese.

The overall effect of TPP on U.S. dairy exports is complicated by U.S. bilateral FTAs already in place and other FTAs in Asia to which the United States is not a signatory. On the one hand, markets in which other TPP members have a large tariff advantage would now permit U.S. dairy exporters to compete on a more level playing field. For example, Australian dairy exports to Japan currently receive preferential market access treatment under the Japan-Australia Economic Partnership Agreement. Dairy products from Australia, New Zealand, and the ASEAN countries receive preferential tariff treatment from Malaysia and Vietnam under the ASEAN-Australia-New Zealand Free Trade Agreement. TPP would provide equivalent market access to U.S. dairy exports in those markets after phase-in periods.[139]

On the other hand, U.S. dairy exports to certain TPP members currently enjoy a competitive advantage because the United States already has FTAs with these countries, while other TPP members do not. TPP would grant equivalent market access to competitors of U.S. dairy exports in those markets.[140] For example, under TPP, Australia and New Zealand would gain significant new TRQ volumes of duty-free market access in Mexico for milk powders, cheese, and butter. New competition for U.S. producers in established markets may partially offset trade gains secured for U.S. exporters in the TPP Agreement. But on balance, USITC model simulations indicate that more favorable market access under TPP in Japan, Canada, and to a lesser extent Vietnam will secure net trade gains for the U.S. dairy industry when the full agreement is implemented.

The case of Canada is of particular interest. As a result of the TPP negotiations, Canada agreed to open up its market for dairy imports from all TPP members through expanded TRQs. Much of the new volume is in products for which U.S. producers are very cost-competitive, including

[139] U.S. exporters would still likely face a competitive disadvantage against Australia and New Zealand because of higher transportation costs to Asian markets, but eliminating the tariff disadvantage through the TPP agreement would still allow more U.S. dairy exports to TPP members located in Asia. Rising demand for dairy products in fast-growing Asian markets requires more supply than Australia and New Zealand can produce. USDA, FAS, "Trans-Pacific Partnership Benefits to Agriculture: Dairy," October 20, 2015.
[140] USDA, FAS, "Trans-Pacific Partnership Benefits to Agriculture: Dairy," October 20, 2015.

skim milk powder and cheese for ingredient use. Canada's dairy TRQs under TPP also include liquid, fresh, and cultured dairy products with a high water content. These goods, including milk, cream, sour cream, yogurt, and buttermilk, are not particularly cost-competitive if shipped long distances. The proximity of the United States to the Canadian market would provide a distinct cost advantage to U.S. dairies producing these goods, giving them an opportunity to fill the overwhelming majority of the new Canadian dairy TRQ volumes under TPP.[141]

Summary of Views of Interested Parties

According to interested parties' submissions, TPP includes provisions that would make it less likely that U.S. dairy exports to TPP countries will face new SPS barriers lacking a scientific basis or proper risk assessment.[142] The prehearing submission from the U.S. Dairy Export Council (USDEC) states that the TPP dispute resolution and SPS provisions are important steps toward improving the resolution of future SPS issues among TPP members.[143] The International Dairy Foods Association (IDFA) agrees with USDEC that TPP includes a new set of "WTO-plus" disciplines for SPS provisions that will be fully enforceable.[144] Fonterra (USA), Inc., a U.S.-based wholly owned subsidiary of the New Zealand cooperative Fonterra, stated in its submission that the TPP achieves notable success in adopting SPS provisions stronger than those applicable under the WTO's SPS agreement.[145]

The other major NTM issue important to the U.S. dairy industry that is addressed in TPP is geographical indications (GIs), which are covered in the TPP's Intellectual Property chapter. While the GI text does not remove GIs from the TPP trade area, USDEC and IDFA stated that they are encouraged that it would create an improved set of tools to combat the use of GIs in the future to block U.S. exports from TPP members.[146] Fonterra (USA) also agrees that the TPP would be able to address the question of the use and protection of GIs as an intellectual property issue.[147] Lastly, IDFA noted that one of the benefits of TPP is that new member countries with major potential markets for U.S. dairy exports could join in a second tranche of the agreement at a future date.[148]

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[141] *Cheese Reporter,* "Trans-Pacific Partnership Pact Concluded," October 9, 2015, 12, 14; *Cheese Reporter,* "US Dairy Industry Still Analyzing Impacts," January 15, 2016, 7.
[142] U.S. dairy representative, email to USITC staff, December 9, 2015.
[143] USDEC, prehearing submission to the USITC, December 22, 2015, 5.
[144] IDFA, posthearing submission to the USITC, February 12, 2016, 3.
[145] Fonterra (USA), posthearing submission to the USITC, February 12, 2016, 3.
[146] National Milk Producers Federation and the U.S. Dairy Export Council, written submission to USITC, December 22, 2015, 6–7; IDFA, posthearing submission to the USITC, February 12, 2016, 3.
[147] Fonterra (USA), posthearing submission to the USITC, February 12, 2016, 3.
[148] IDFA, posthearing submission to the USITC, February 12, 2016, 4.

Beef

Assessment

Improved access under TPP would be expected to have a positive impact on U.S. beef exports and a moderate impact on U.S. beef imports. Most of the positive impact on exports would come from a reduction in Japan's tariffs on beef. Japan is currently the largest export market for U.S. beef, and Japan's 38.5 percent tariffs on fresh and frozen beef cuts would be reduced to 9 percent over 16 years. Importantly, the TPP would give U.S. beef producers market access parity with Australia, the largest supplier of imported beef in the Japanese beef market. When the Australia-Japan Economic Partnership Agreement entered into force in 2015, Australia gained preferential access to Japan's beef market. In 2016, Australia has a 7 percentage point tariff advantage over U.S. fresh beef exports and a 10 percentage point tariff advantage over U.S. frozen beef exports. This tariff advantage would widen over time if TPP is not implemented. Chile, Malaysia, Singapore, and Vietnam are also net beef importers, and lowering trade barriers would be expected to lead to an increase in U.S. exports to those countries as well.

While TPP would provide a net positive impact on exports, preferential access in certain markets for U.S. beef would be diminished. U.S. beef producers currently have preferential zero-duty access to the Canadian and Mexican markets, and this advantage would be eroded under the TPP as other TPP members, such as Australia and New Zealand, also gain zero-duty access.

The TPP is expected to have a more moderate impact on U.S. beef imports. TPP member countries that are major beef exporters already have access to the U.S. market that would not change significantly under the TPP, although one industry representative testified that tariff concessions and the TPP rules of origin would allow a significant increase in beef imports.[149] Imports of beef from Canada and Mexico are duty-free under NAFTA. Australia and New Zealand have country-specific quotas that they are not likely to exceed in the near future.[150] Australia, in particular, has decreased the size of its cattle herd following a prolonged drought. Additionally, as the U.S. cattle herd expands, U.S. beef prices are expected to decrease to levels closer to those in other major beef-consuming countries. Japan is also unlikely to significantly increase its beef exports to the United States under TPP, despite receiving a larger import

[149] USITC, hearing transcript, January 14, 2016, 392–94 (testimony of Bill Bullard, R-CALF USA).
[150] Additionally, in 2015, the U.S. cattle herd was in a rebuilding phase. Many beef cattle producers retained more cows and heifers for breeding purposes. The U.S. dollar had also appreciated against the currencies of many trading partners. As U.S. beef prices were relatively high, both Australia and New Zealand increased beef exports to the United States, and both countries effectively filled their quota volumes. Going forward, it is unlikely that these conditions will continue.

quota. Over the past six years, Japan's global beef exports have averaged just 783 mt per year.[151]

The Commission's model estimates indicate that overall U.S. beef exports would be about $876 million (8.4 percent) higher in 2032 if TPP were implemented in 2017 than if it were not implemented, with most of the increase in exports under TPP going to Japan.[152] U.S. beef exports to TPP partner countries would be almost $1.0 billion higher, and exports to the rest of the world slightly lower. At the same time, U.S. beef imports would increase, primarily from New Zealand, by an estimated $419 million (5.7 percent) over the baseline. Total U.S. production of beef would be expected to be about $615 million higher (0.5 percent) over the baseline.

Overview of U.S. Trade with TPP Partners

The United States is a major beef exporter, with about half of its exports already destined for TPP partner countries (table 3.15). Japan is the single largest export market for U.S. beef, even though Japan imposes a 38.5 percent tariff on imports of fresh/chilled and frozen beef cuts. U.S. beef exports to Canada and Mexico are duty free under NAFTA, and Mexico and Canada were the third- and fourth-largest export markets for U.S. beef in 2014.[153] U.S. beef exporters also have preferential access to Peru's market under the U.S.-Peru Trade Promotion Agreement.

Table 3.15: U.S. exports of beef to world and TPP partners, average 2013–15, million dollars

		U.S exports to TPP countries			
Product and selected subproducts (HS subheading)	**U.S exports to world**	**All**	**New FTA partners**	**NAFTA**	**Other existing FTA partners**
Beef: Total	6,387.1	3,545.4	1,437.9	1,999.8	107.7
Selected subproducts					
Boneless, fresh/chilled (020130)	2,688.6	2,104.6	686.6	1,358.0	60.0
Boneless, frozen (020230)	1,921.7	625.0	488.9	110.1	26.0

Source: USITC DataWeb/USDOC (accessed February 17, 2016).

Vietnam is a significant export market for U.S. beef, although U.S. beef exports to Vietnam have declined substantially since 2012, as Vietnam's imports from other sources have increased. In

[151] GTIS, Global Trade Atlas database (accessed December 16, 2015).
[152] Under TPP, trade concessions would be phased in over a period of time. Most of these concessions would be phased in over 15 years or less. Therefore, model results are presented for production and trade effects under TPP in the year 2032. Estimates of the effects of liberalizing each sector are presented relative to the baseline estimates of production and trade in 2032, including the effects of anticipated changes in investment but without TPP. Japan's concessions on beef would be phased in over 16 years. Therefore the predicted increase in exports to Japan in 2033 would be slightly higher.
[153] Mexico was the second-largest beef export market in terms of volume.

2014, Vietnam was the 20th-largest export market for U.S. beef, and exports were valued at over $22 million. Vietnam recently updated its regulations to specify that all U.S. beef and edible beef offal products derived from cattle of any age are eligible for import.[154] Vietnam's MFN tariffs on most beef imports currently range from 15 to 31 percent, and they are 10 percent on edible beef offal and 34 percent on prepared or preserved beef products.

U.S. beef exports to Australia, Japan, Malaysia, New Zealand, Peru, Singapore, and Vietnam are constrained by measures other than tariffs. Several TPP countries maintain measures related to bovine spongiform encephalopathy ("mad cow disease") that exceed international guidelines,[155] including Australia, Japan, New Zealand, Peru, and Singapore.[156] U.S. beef exports to Malaysia are restricted by Malaysia's halal requirements, with only one U.S. beef producer approved to ship to Malaysia.[157] Vietnam requires increased inspections for some offal products, and requires that U.S. producers provide business proprietary information in order to be eligible to export to Vietnam.[158]

U.S. imports of most fresh and chilled beef products are currently subject to a TRQ with an over-quota rate of 26.4 percent. Within-quota imports of processed beef products[159] are subject to a tariff of 4 percent for high-quality cuts and 10 percent for other cuts. Within-quota imports of fresh, chilled, or frozen beef other than processed products are subject to a tariff of 4.4 cents per kg.[160] U.S beef imports from Canada and Mexico are free under NAFTA. U.S. beef imports from Australia, Japan, and New Zealand are subject to country-specific TRQs. There is also a TRQ for other countries or areas.

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[154] USDA, FAS, "Export Requirements by Country: Vietnam" (accessed December 10, 2015). Previously, only beef from cattle less than 30 months of age was eligible for import. Further, in a side letter to the TPP, Vietnam reiterated that edible offal products are allowed to be imported. Governments of the United States and Vietnam, US-VN Letter Exchange on Offals, February 4, 2016.

[155] Bovine spongiform encephalopathy, or BSE, is a progressive and fatal neurological disease in cattle that has also been associated with variant Creutzfeldt-Jacob Disease (vCJD), a fatal disease in humans. Many countries have BSE-related restrictions on beef imports in order to control the risk of vCJD. Under the WTO's SPS agreement, such restrictions are permitted provided they are harmonized with international standards, or are based on scientific evidence and are non-discriminatory.

[156] Peru has reportedly agreed to relax its BSE-related restrictions and allow imports of U.S. beef from all federally inspected establishments in the future. U.S. government official, email to USITC staff, March 14, 2016.

[157] USTR, *2015 National Trade Estimate Report on Foreign Trade Barriers*, March 2015, 261–62.

[158] USTR, *2015 National Trade Estimate Report on Foreign Trade Barriers*, March 2015, 32, 209–10, 315, 353, 261–62, and 424.

[159] Processed products are "meats which have been ground or comminuted, diced or cut into sizes for stew meat or similar uses, rolled and skewered, or specially processed into fancy cuts, special shapes, or otherwise made ready for particular uses by the retail consumer." Additional U.S. Note 1 to the Harmonized Tariff Schedule of the United States.

[160] The beef TRQ does not cover imports of edible beef offal, or beef products that are salted, dried, or smoked, for which the general rate of duty is "Free," nor does it cover prepared or preserved beef products in Chapter 16 of the HS.

Summary of Provisions

Under the TPP, the United States and Canada would phase out TRQs and tariffs on beef imports from TPP member countries. Japan would reduce tariffs on fresh or frozen beef and phase out tariffs on processed beef products and some edible offal. Other member countries would phase out tariffs over 3 to 8 years. Additionally, the U.S. agricultural safeguard on beef imported from Australia would be suspended once TPP enters into force, and Japan would establish a TPP-specific safeguard for imports of fresh or frozen beef (table 3.16).[161] Industry representatives consider it unlikely that Japan's safeguard mechanism would be triggered.[162]

Under the TPP, U.S. tariffs on processed beef from most TPP member countries would be eliminated immediately. Over-quota imports from Australia would be duty free in 2022 under the U.S.-Australia FTA. Imports from Peru will be duty free in 2024, year 15 of the U.S.-Peru Trade Promotion Agreement, which took effect in 2009. Imports from Malaysia and New Zealand would be duty free in year 5 of the TPP Agreement, imports from Vietnam in year 3, and imports from Brunei, Chile, and Singapore upon entry into force of the agreement.[163] Japan's country-specific import quota volume would increase from 200 mt to 3,000 mt in year 1 of TPP; would increase annually, rising to 6,250 mt in year 14; and would be unlimited after year 15.

[161] Governments of the United States and Australia, US-AU Letter Exchange re Recognition of FTA TRQs in TPP February 4, 2016; USTR, TPP full text, Appendix B-1 (Agricultural Safeguard Measures) to Schedule of Japan, December 15, 2015. Japan's beef safeguard applies to fresh and frozen muscle cuts of beef and head and cheek meat, but not to edible offal such as tongues or liver, and not to prepared or preserved products.

[162] ATAC for Trade in Animal and Animal Products, *The Trans-Pacific Partnership Agreement,* December 3, 2015, 7; National Cattlemen's Beef Association, post-hearing statement to the USITC, January 20, 2016. The initial safeguard trigger volume is set at 590,000 mt in year 1, or about 14 percent greater than Japan's applicable beef imports from all sources in 2014. The trigger volume increases annually.

[163] However, imports of beef into the United States from Brunei, Peru, Singapore, and Vietnam are not allowed due to SPS concerns. This situation is not expected to change immediately. USDA, FSIS, "Eligible Foreign Establishments" (accessed January 20, 2016).

Table 3.16: Beef: Selected U.S. and TPP partner tariff concessions

		TPP country concessions			
Product	**U.S. concessions**	**Japan**	**Malaysia**	**Vietnam**	**Canada and Mexico**
Beef	TRQ with over-quota rate of 26.4%, eliminated in 15 years.	Tariff on fresh, chilled, and frozen beef cut from 38.5% to 9% in 16 years.	All tariffs locked at 0% upon EIF	Tariffs, currently as high as 34%, eliminated in 3–8 years.	Canada to phase out TRQ and Mexico to phase out tariffs on beef from TPP member countries.
	Japan's quota increased to 3,000 mt upon EIF, increases through year 14, and is unlimited thereafter.				Canada's over-quota rate reduced to zero over 11 years for Australia and 6 years for other TPP members. Mexico to phase out tariffs over up to 10 years.

Source: USTR, TPP full text, December 15, 2015.

U.S. beef exports to Australia, Canada, Chile, Mexico, and Singapore currently receive duty-free treatment under existing FTAs. Under the TPP, Japan would reduce tariffs on most beef imports from TPP member countries from 38.5 percent to 9 percent over 16 years. Tariffs of up to 50 percent on edible beef offal and prepared or preserved beef would be eliminated, with a phaseout period of up to 16 years. Vietnam would eliminate its tariffs on most beef cuts from TPP member countries over 3 years and those on edible beef offal and prepared or preserved products within 8 years. Brunei and New Zealand would eliminate tariffs on beef immediately, and Malaysia would lock in its currently applied tariffs of zero. Additionally, Canada would phase out its TRQ on beef imports, and Mexico would phase out its tariffs on beef imports from TPP member countries.

Estimated Effects of TPP on the U.S. Beef Sector

Overall U.S. beef exports are expected to grow substantially under the TPP, with most of the growth due to increased exports to Japan. In addition to concessions by Japan, U.S. beef exporters would benefit from tariff elimination by Malaysia and Vietnam. U.S. beef exports to Peru would be expected to increase somewhat, with or without TPP, as Peru's trade concessions under the U.S.-Peru Trade Promotion Agreement are phased in. U.S. exports to some countries, such as Canada and Mexico, are expected to increase only slightly relative to the 2032 baseline, as preferential tariff treatment for U.S. imports would be "watered down" by access granted to Australia and New Zealand. In addition to Canada and Mexico, the United States already has duty-free access to Australia, Chile, and Singapore under existing FTAs.

Japan is the largest market for U.S. exports of beef, and the United States is Japan's largest supplier of beef imports. On a volume basis, Japan consumes more imported beef than domestic beef. In fiscal year 2014 (April 1–March 31), imported beef accounted for 58 percent of beef marketed in Japan.[164]

All of Japan's major suppliers of beef imports are TPP member countries: Australia, the United States, New Zealand, Canada, and Mexico. In 2014, imports from the United States accounted for more than one-third of Japan's total imports of fresh and frozen beef cuts, and more than one-half of Japan's imports of edible beef offal. U.S. beef and Australian grain-finished beef compete for market share in traditional dishes, while Australia's grass-finished beef largely competes with Japanese domestic beef from culled dairy cows for production of ground beef.[165] In 2014, nearly 30 percent of Australia's beef production was grain-finished, and just over half of Australia's beef exports to Japan were grain-finished.[166]

[164] Government of Japan, ALIC, "Supply and Demand of Beef" (accessed November 18, 2015).
[165] Muhammad et al., "Tariff Reforms and the Competitiveness of U.S. Beef," January 2016, 4.
[166] Meat and Livestock Australia, "Australian Red Meat Exports to Japan" (accessed January 20, 2016).

When Australia and Japan implemented their Economic Partnership Agreement in January 2015, Australia gained preferential access to Japan's beef market, with tariffs on most beef products reduced over a period of up to 18 years. Without the new market access granted by Japan under the TPP, U.S. beef producers would be at a growing disadvantage relative to producers in Australia. U.S. parity with Australia in access to Japan's beef market is considered by some industry representatives to be the single greatest benefit to U.S. beef producers from TPP.[167] The Economic Research Service of the U.S. Department of Agriculture (USDA) estimates that, without the TPP, U.S. exports of beef to Japan would decline by $105 million annually, or about 8 percent.[168]

It is not likely that U.S. exports of beef to Malaysia would increase significantly under TPP, because exports to Malaysia are constrained by halal requirements. Malaysia requires that individual U.S. production facilities be inspected and certified as halal by Malaysian religious authorities before exporting beef to Malaysia. Malaysia's requirements for halal certification reportedly are more stringent than internationally recognized standards.[169] These requirements are not changed under the TPP. Further, the vast majority of Malaysia's beef imports are from India, Australia, New Zealand, or Brazil. Malaysia's imports from India are of buffalo or "carabeef," and beef exports from Australia, New Zealand, and Brazil are largely of grass-finished beef for which U.S. beef is not a close substitute.

U.S. exports of beef to Vietnam would likely increase, but would remain a small share of global beef exports to Vietnam. Vietnam is a net importer of beef, and Vietnam allows imports of all beef and beef products from U.S. cattle of any age. However, Vietnam is a member of the ASEAN-India Free Trade agreement.[170] Under this 2010 agreement, India, the largest global beef exporter, gained preferential access to the Vietnamese market. Tariffs on most of India's beef exports to Vietnam are to be phased out over 13 years and will be duty free in 2022. Australia and New Zealand have also enacted a trade agreement with ASEAN that entered into effect in 2010, and most beef exports from Australia and New Zealand will be duty free in 2018. U.S. beef exports to Vietnam have declined as these countries' exports to Vietnam have increased.[171] As noted, India's exports are of buffalo or "carabeef," and beef exports from Australia and New Zealand are largely of grass-finished beef for which U.S. beef is not a close substitute. Thus U.S. beef exporters would be unlikely to capture a large share of this market.

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[167] Industry representatives, interview by USITC staff, Washington, DC, November 18, 2015.
[168] Muhammad et al., "Tariff Reforms and the Competitiveness of U.S. Beef," January 2016, 18. The baseline for the USITC model incorporates Australian producers' preferential access to the Japanese beef market.
[169] USTR, *2015 National Trade Estimate Report*, March 2015, 261–62.
[170] The agreement on Trade in Goods under the Framework Agreement on Comprehensive Economic Cooperation between the Republic of India and the Association of Southeast Asian Nations, http://commerce.gov.in/trade/ASEAN-India%20Trade%20in%20Goods%20Agreement.pdf.
[171] GTIS, Global Trade Atlas database (accessed December 16, 2015).

Model Results

According to the Commission's model estimates, most of the increase in U.S. beef exports under the TPP would be to Japan. U.S. beef exports to Japan in 2032, if the TPP entered into force in 2017, would be $839 million, or more than 50 percent higher than the volume of exports without TPP.

Japan's concessions under the TPP would not only lower Japan's tariffs on U.S. beef exports to Japan, but, importantly, would eliminate preferential tariff treatment for Australia's beef exports to Japan.[172] As a result, increased U.S. beef exports to Japan would displace some imports of beef from Australia. Japan's domestic beef production would also likely decline moderately. As noted, U.S. beef is not a close substitute for much of Japan's domestic beef production, but it is a close substitute for about half of Australia's beef exports to Japan.

Under TPP, Vietnam's tariffs of 15–20 percent on most beef cuts would be eliminated, and Vietnam's overall beef imports would be expected to increase modestly.[173] Exports of U.S. beef to Vietnam would be expected to increase by over 500 percent, but from a low base.[174] Importantly, TPP would also eliminate Vietnam's tariff preferences on imports of beef from India, Australia, and New Zealand. Imports of U.S. beef would displace imports from other sources. Nonetheless, elimination of tariff preferences for beef from India, Australia, and New Zealand would not completely reverse the recent decline in U.S. market share in Vietnam, as U.S. beef is not a close substitute for beef from these countries.

The Commission's model results indicate that U.S. beef imports would increase by about $438 million (6.4 percent) over the baseline, with most of the additional imports coming from New Zealand. U.S. production would expand by about 0.5 percent in volume under the TPP. Production of both live animals and beef would increase. As a result, employment would rise by about 0.4 percent in both the beef sector and the live animal sector.

Summary of Views of Interested Parties

Most of the industry representatives that provided briefs or hearing testimony on the effects of TPP on the U.S. beef sector expressed support for the agreement. Other than the cross-cutting

[172] As noted, Australia and Japan have entered into a trade agreement that would give Australia preferential access to Japan's beef market absent TPP.
[173] As noted, the model results are estimated with respect to a baseline that incorporates anticipated changes to 2032. Over time, increases in GDP and population would be expected to lead to increases in Vietnam's beef consumption, increasing the demand for imports, but these changes are estimated separately from the effects of TPP.
[174] In 2014, U.S. beef exports to Vietnam were valued at just over $22 million, but as recently as 2012 were valued at over $160 million.

measures of SPS restrictions and dispute settlement,[175] the comments specific to the beef sector focused on two topics: export opportunities in new FTA partner countries, most importantly by achieving parity with Australian producers in the Japanese beef market; and the impact of TPP on U.S. beef imports.

The North American Meat Institute (NAMI) and the National Cattlemen's Beef Association (NCBA) asserted that tariff concessions by Japan and Vietnam would increase U.S. beef exports to these countries.[176] The American Farm Bureau Federation, NCBA, and NAMI highlighted the fact that TPP would enable U.S. producers to achieve parity with Australian producers in the Japanese market.[177] However, Ranchers-Cattlemen Action Legal Fund (R-CALF) asserted that estimates of increased exports to Japan were overstated because Japan is a mature beef market with declining demand, and that reductions in the Australian cattle herd would limit Australia's ability to take advantage of tariff reductions under the Japan-Australia Economic Partnership Agreement.[178]

Industry representatives were similarly divided over the impact that TPP would have on U.S. beef imports. NCBA and NAMI asserted that TPP would have little impact on U.S. beef imports because major suppliers to the market currently face low barriers.[179] R-CALF argued that TPP would encourage U.S. imports of beef (and cattle).[180]

Aside from tariff treatment, TPP's impact on U.S. beef exports would also depend on sanitary requirements and other restrictions. Most agricultural industry representatives at the Commission's TPP hearing testified that the SPS and dispute settlement provisions of the TPP represented an important advancement over the WTO SPS Agreement, particularly the cooperative technical consultations and the dispute settlement mechanism.[181] Not all agreed, however: another industry representative testified that the SPS and dispute settlement provisions of the TPP were a step backwards.[182]

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[175] These crosscutting measures are examined in chapter 6.
[176] USITC hearing transcript, January 14, 2015, 389 (Kevin Kester, NCBA), 399–401 (Stephen Sothmann, NAMI and US Hides, Skins, and Leather Association(USHSLA)); NAMI and USHSLA written submission to the USITC, February 8, 2016, 3-4; NCBA written submission to the USITC, January 20, 2016, 4.
[177] American Farm Bureau Federation, "Comments Regarding Effects of Trans-Pacific Partnership on the United States Agricultural Sector, 14; USITC hearing transcript, January 14, 2015 390 (Kevin Kester, NCBA), 399-400 (Stephen Sothmann, NAMI and USHSLA); NCBA written submission to the USITC, January 20, 2016, 9.
[178] USITC hearing transcript, January 14, 2015, 393, (Bill Bullard, R-CALF USA).
[179] NAMI and USHSLA written submission to the USITC, February 8, 2016, 5-7; NCBA written submission to the USITC, January 20, 2016, 6-8.
[180] USITC hearing transcript, January 14, 2015, 392-394, (Bill Bullard, R-CALF USA); R-CALF written submission to the USITC, January 28, 2016, 13-16.
[181] USITC hearing transcript, January 14, 2015, 383 (Thomas Suber, NCBA), 403 (Stephen Sothmann, US Hides, Skins, and Leather Association), and 414 and 485 (Devry Boughner Vorwerk, Cargill).
[182] USITC hearing transcript, January 14, 2015, 396-97 (Bill Bullard, R-CALF USA).

Pork

Assessment

Overall, the TPP would be expected to lead to an increase in U.S. pork exports, with little to no increase in U.S. imports. Most of the increase in exports would be expected to be to Japan, as Japan's concessions to its gate price system (described below) are phased in. Exports to New Zealand would also be expected to increase, as U.S. producers achieve market access parity with producers in Australia and gain a tariff advantage over producers in the EU.

The United States is a major pork exporter, and improved access under the TPP should allow U.S. pork producers to gain market share in the Japanese pork market. The TPP also prevents U.S. pork from being at a tariff disadvantage in New Zealand, Vietnam, and Malaysia vis-à-vis pork from Australia and ASEAN member countries. The United States currently has duty-free access to the pork markets of TPP partner countries Australia, Canada, Chile, Mexico, Peru, and Singapore. However, tariff concessions for all TPP members would increase competition for U.S. producers in Canada and Mexico, where they currently enjoy tariff advantages.

TPP would not be expected to significantly impact U.S. pork imports. Imports account for a small share of U.S. domestic consumption of pork, and are small relative to exports. Most U.S. pork imports are from Canada and Mexico, and are duty free under NAFTA. U.S. pork imports from Australia, Chile, Peru, and Singapore currently are also duty free under existing FTAs.

The Commission's model estimates indicate that total U.S. pork exports would be about $219 million, or 1.9 percent higher in 2032, compared to the baseline estimate, if TPP were implemented in 2017, with most of the increase in exports to Japan.[183] U.S. pork exports to all TPP partner countries would increase by about $387 million, but increased U.S. exports to TPP partners would be partly offset by lower U.S. exports to China, South Korea, and the rest of the world. Japan's increased pork imports from the United States would largely displace imports from the EU, plus some Japanese domestic production.

Overall annual U.S. pork production would be expected to grow by about $180 million, or by 0. 3 percent, relative to the baseline. The production increase would be expected to lead to an increase in sector employment of about 0.3 percent.

[183] Under TPP, trade concessions would be phased in over a period of time. Most of these concessions would be phased in over 15 years or less. Therefore, model results are presented for production and trade effects of the TPP in the year 2032. Estimates of the effects of liberalizing each sector are presented relative to the baseline estimates of production and trade in 2032, including the effects of anticipated changes in investment, but without TPP.

Overview of U.S. Trade with TPP Partners

Over two-thirds of U.S. pork exports are to TPP member countries, and about half of those, or one-third of total exports, are to Canada and Mexico, which are duty free under NAFTA. Mexico and Canada are the second-largest and third-largest U.S. export markets on a value basis (table 3.17). Japan is the largest export market for U.S. pork on a value basis, although exports to Mexico are greater in quantity. U.S. pork exports to Australia, Chile, Peru, and Singapore are also duty free under existing trade agreements. The TPP would improve tariff treatment for U.S. pork exports to Japan, Malaysia, New Zealand, and Vietnam. However, U.S. pork exports to Australia, Singapore, and Vietnam are currently restricted by SPS measures that are considered unnecessary by U.S. industry representatives.[184]

Table 3.17: U.S. exports of pork to world and TPP partners, average 2013–15, million dollars

		U.S exports to TPP countries			
Product and selected subproducts (HS subheading)	**U.S exports to world**	**All**	**New partners**	**NAFTA**	**Other existing FTA partners**
Pork: Total	5,844.8	4,168.8	1,770.4	2,142.0	256.4
Selected subproducts					
Hams, shoulders, bone in, fresh or chilled (020312)	718.5	689.4	5.3	682.4	1.7
Pork nesoi, fresh or chilled (020319)	1,543.0	1,487.2	999.5	485.0	2.7
Pork nesoi, frozen (020329)	1,952.2	1,026.3	681.9	147.8	196.5

Source: USITC DataWeb/USDOC (accessed February 17, 2016).

Currently, Japan's imports of most pork products, including muscle cuts and edible offal, are subject to the gate price system (box 3.3). Imports with a customs value below the "gate price" are assessed a specific tariff equal to the difference between the customs value and the gate price, plus a tariff equal to a percentage of the customs value (*ad valorem*). Imports with a customs value equal to or greater than the gate price are assessed the *ad valorem* tariff only. The per-kilogram gate price for carcasses and half carcasses is 393 yen ($3.25). For most pork

[184] Sanitary measures are not directly addressed in the TPP agreement, but the agreement's Chapter 7 does provide for cooperative technical consultations if TPP members are unable to resolve disagreements over sanitary measures through existing mechanisms. At the Commission's TPP hearing on January 14, 2015, some industry representatives testified that the provision for cooperative technical consultations could be particularly important to U.S. agricultural exports. USITC, hearing transcript, February 14, 2016, 383 (Thomas Suber, NCBA), 403 (Stephen Sothmann, US Hides, Skins, and Leather Association), and 414 and 485 (Devry Boughner Vorwerk, Cargill). SPS measures are also subject to the dispute settlement mechanism of the TPP, though with a delay in some areas.

cuts, it is 524 yen ($4.33); for dried/smoked and prepared products, 897.59 yen ($7.42). The *ad valorem* tariff rates are 4.3 percent, 4.3 percent, and 8.5 percent, respectively.[185]

Box 3.3: How Japan's Gate Price System Works

Japan's gate price system imposes a minimum price for pork imports. Tariff treatment depends on whether the average unit value of the shipment (per kilogram) is above or below the gate price. If the customs value is above the gate price, the assessed tariff is simply 4.3 percent ad valorem for carcasses and cuts, and 8.5 percent for dried/smoked or prepared products. If the customs value is below the gate price, then a specific tariff is applied that raises the value to the gate price, plus an additional 4.3 percent (or 8.5 percent) tariff. The maximum tariff that can be applied is limited only by the WTO bound rates of 361 yen/kg ($2.98) for carcasses and half carcasses, 482 yen/kg ($3.98) for most pork cuts, and 1,035 yen/kg ($8.55) for prepared or preserved pork products.

The table below shows how this system penalizes imports of low-price pork products, using the example of boneless and bone-in cuts (the category most relevant to Japanese imports from the United States), which have a gate price of 524 yen/kg. In the example, picnic ham (a low-priced cut) is assessed a specific tariff of 224 yen/kg to raise the value to the gate price of 524 yen/kg, then an ad valorem tariff of 23 yen/kg (i.e., 4.3 percent of 524), for a total tariff of 247 yen/kg, or 82.3 percent ad valorem equivalent. The customs value of boneless loins (a high-priced cut) is above the gate price, so this import is assessed the 4.3 percent ad valorem tariff only.

Effect of gate price system on selected pork cuts (Gate price ¥524/kg)

Cut	Customs value (¥/kg)	Specific tariff (¥/kg)	Ad valorem tariff (¥/kg)[a]	Total tariff (¥/kg)	Landed value (¥/kg)	AVE (%)
Picnic ham	300	224	23	247	547	82.3
Sparerib	450	74	23	97	547	21.6
Boneless loin	600	NA	26	26	626	4.3

[a] Add customs value to specific tariff, then multiply by 4.3 percent.

In practice, the gate price system limits but does not eliminate U.S. exports of low-priced pork cuts to Japan, because importers ship a mix of cuts so that the average unit customs value is at or slightly above the gate price.

Source: Government of Japan, Customs and Tariff Bureau, "Japan's Tariff Schedule as of January 15, 2015." http://www.customs.go.jp/english/tariff/2015_115/index.htm. Exchange rates from USDA, "Nominal Annual Country Exchange Rates" for 2015.

Malaysia's applied tariffs on pork products other than carcasses and half-carcasses are zero, but Malaysia imports very little pork. New Zealand imposes a 5 percent tariff on imports of fresh or

[185] Government of Japan, Customs and Tariff Bureau, "Japan's Tariff Schedule as of January 15, 2015." http://www.customs.go.jp/english/tariff/2015_115/index.htm. Exchange rates from USDA, "Nominal Annual Country Exchange Rates" for 2015.

frozen pork cuts. Vietnam imposes rates of up to 27 percent on fresh pork cuts and 15 percent on frozen pork.

Several sanitary measures that currently restrict U.S. pork exports are viewed by U.S. industry representatives as unjustified. Australia, for example, requires that U.S. pork be heat-treated before being marketed in Australia and requires that all solid waste from U.S. pork imports be treated as quarantine waste products, due to concerns over porcine reproductive and respiratory syndrome and post-weaning multisystemic wasting syndrome.[186] Singapore requires that U.S. pork be frozen or tested for trichinae, and maintains shelf-life requirements that are considered overly restrictive.[187] Vietnam requires increased inspections for shipments of "white offal," and temporarily suspended approvals of new exporters of white offal.[188] Additionally, Vietnam requires that producers provide detailed information, including business proprietary information, on their facilities, in order to export to Vietnam.[189]

Summary of Provisions

Currently, U.S. processed pork imports from countries with normal trade relations (MFN countries) are subject to a rate of 1.4 cents per kg (roughly 0.4 percent ad valorem equivalent in 2014). Fresh or frozen pork, other than processed, enters the United States duty free. Prepared pork imports are subject to rates of up to 6.4 percent. Under the TPP, pork imports from all TPP partner countries would become duty free upon entry into force.

As noted, U.S. pork exports to Australia, Canada, Chile, Mexico, Peru, and Singapore are currently duty free under existing trade agreements. The TPP would improve tariff treatment for U.S. pork exports to Japan, Malaysia, New Zealand, and Vietnam (table 3.18).

Table 3.18: Pork: Selected U.S. and TPP partner tariff concessions

		TPP country concessions			
Product	**U.S. concessions**	**Japan**	**Malaysia**	**Vietnam**	**Other**
Pork	Tariffs, currently as high as 6.4%, eliminated in 10 years.	Gate price-specific duty reductions on most fresh or frozen cuts from maximum of 482 yen/kg to maximum of 50 yen/kg in 10 years.	Most tariffs locked at zero. Expanded TRQ on carcasses unlimited after 15 years.	Tariffs, currently as high as 30%, eliminated in 5–10 years.	New Zealand tariffs of 5% eliminated in up to 2 years.

Source: USTR, TPP full text, December 15, 2015.

[186] USTR, *2015 National Trade Estimate Report,* March 2015, 32.
[187] Ibid., 354.
[188] White offal consists of internal organs other than the heart, liver, and kidney.
[189] USTR, *2015 National Trade Estimate Report,* March 2015, 424.

The most significant improvement in access under TPP would be in exports to Japan. Under TPP, Japan's gate price system would be preserved, but the maximum duty that could be charged on products from TPP member countries would be substantially reduced. The maximum specific tariff for most pork cuts would fall to 125 yen per kg on entry into force, to 70 yen per kg in 5 years, and to 50 yen per kg after 10 years.[190] The ad valorem rate of 4.3 percent would also be reduced to 2.2 percent on entry into force and to zero over 10 years. The duty for dried/smoked and preserved products would be reduced immediately, based on the customs value, and would decline to zero in the 11th year after entry into force.[191]

Imports of ground seasoned pork and sausages are not subject to Japan's gate price system, but face ad valorem tariffs of 20 percent and 10 percent, respectively. Tariffs on these products from TPP members would be phased out over 6 years.[192]

Malaysia's applied tariffs on most pork products are currently zero. The TPP would lock in these zero tariffs for imports from TPP member countries. Malaysia's imports of carcasses or half-carcasses are currently subject to a TRQ with an in-quota rate of 25 percent and an over-quota rate of 50 percent. The TPP would establish a separate TRQ for TPP member countries, with an in-quota rate of zero and the over-quota rate phased out over 15 years.

New Zealand currently imposes tariffs of 5 percent on fresh and frozen pork cuts and some prepared pork products. Tariffs on most pork products would be eliminated on entry into force of the agreement. The tariff on frozen boneless pork under HS 0203.29 would be phased out over 2 years. New Zealand is a net importer of pork, and in 2014, most of New Zealand's pork imports were of frozen boneless pork, predominately imported from the EU at the MFN rate. Other major suppliers are Canada and the United States.

Vietnam's import duties of 10 percent on edible pork offal would be phased out over 5 years. Duties of 15 percent on frozen pork and 14 percent on dried/smoked pork products would be phased out over 8 years. Duties of 27 percent on fresh pork and 22 percent on prepared pork products would be phased out over up to 10 years. Vietnam is currently a minor pork importer and is a net exporter. However, Vietnam is a significant pork consumer and a potential export market.[193]

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[190] Such pork cuts would include fresh, chilled, or frozen cuts of pork (other than carcasses or half-carcasses) under HS 0203.12, 0203.19, 0203.22, and 0203.29 (other than cuts of wild boar), and edible offal other than internal organs under HS 0206.30 and 0206.49 (other than that of wild boar).
[191] The ad valorem rate of 8.5 percent on dried/smoked and preserved products with a customs value equal to or greater than the gate price will be reduced to 4.3 percent on implementation, and to zero over 11 years. The duty calculation under the gate price system is described in the TPP full text, Notes to Tariff Schedule of Japan, 5–6.
[192] The effects of TPP on the production of and trade in these products are included in the "other meat products" sector.
[193] USDA, FAS, "Trans-Pacific Partnership: Benefits to U.S. Agriculture," November 30, 2015.

Estimated Effects of TPP on the U.S. Pork Sector

Tariff Concessions

According to the Commission's model estimates, overall U.S. pork exports would likely be $219.3 million higher under TPP, relative to the 2032 baseline. Most of the expected increase in U.S. pork exports under TPP would be to Japan. U.S. pork exports to Japan would be expected to increase by about $210 million (7.8 percent) relative to the baseline. Japan is already the largest U.S. pork export market on a value basis, and the effects of Japan's restrictive gate price system would erode significantly over time.[194] The United States is the largest supplier of imported pork to Japan. However, Canada and Mexico—also TPP member countries—are major suppliers as well. Tariff reductions under TPP would benefit all NAFTA partners. U.S. exports to New Zealand would likewise be expected to increase.

Japanese consumption of pork has been gradually increasing and, over the past five years (2010–14), Japan's pork imports have increased as a share of overall pork consumption from 44 percent to 48 percent. Pork imports have increased more rapidly than beef imports, partly due to high global beef prices. Both of these factors are expected to moderate beginning in 2015, so Japanese imports of pork may slow.[195]

Japan's imports of fresh/chilled pork, frozen pork, and prepared pork largely serve different market segments. Most imported fresh/chilled pork is destined for the retail market and in-home consumption. In this segment, imports compete with Japanese domestic product. Most frozen pork imports are used to manufacture preserved or prepared products, with a smaller volume in the food service segment.[196]

Most of Japan's imports of fresh pork are from the United States and Canada, predominantly from the United States.[197] Tariff preferences under the TPP would be expected to benefit U.S. and Canadian exporters of fresh pork cuts for sales in the retail market, competing with Japanese domestic production. However, a comparison of "normal" retail prices shows that in FY 2014, the average price of imported pork loin was 61 percent of the price of Japanese

[194] However, trade gains for U.S. producers under TPP are reportedly threatened by increases in foreign government support for less efficient domestic producers. *Inside U.S. Trade*, "Expanded Japanese Subsidies Could Sap U.S. Pork," January 7, 2016.
[195] USDA, FAS, *Japan: Livestock and Products Annual*, August 31, 2015, 9.
[196] Ibid.
[197] U.S. pork producers reportedly enjoy a logistical advantage over producers in countries, and are able to ship fresh/chilled pork to Japan swiftly enough that the pork does not have to be frozen. Industry representative, interview by USITC staff, November 18, 2015.

domestic pork loin, indicating that Japanese consumers perceived substantial differences between imported and domestic product.[198]

As noted, most imports of frozen cuts of pork are used to produce prepared products. In fact, imports account for the vast majority of the pork that is processed into products such as sausage in Japan.[199] In FY 2014, over one-third of Japan's imported pork was used in the processing of other food products.[200] Japan's major suppliers of frozen pork cuts are the EU, the United States, Mexico, and Canada. Tariff concessions on frozen cuts would therefore be expected to allow producers in Canada, Mexico, and the United States to capture market share from suppliers in the EU.[201]

More than half of Japan's prepared pork imports are from the United States. Most of this is ground seasoned pork. Other TPP member countries and the EU supply a much smaller volume of such imports.[202] Under TPP, Japan's tariffs on prepared pork would be phased out over 6 years, while concessions on pork products subject to the gate price system would be phased in over 10 years. Relative gains in exports of prepared products versus frozen pork will depend on these schedules and global prices for pork relative to Japan's gate prices.[203]

Model results indicate that U.S. pork exports to New Zealand would increase by $19.3 million under TPP (37.9 percent) relative to the baseline in 2032. Almost all pork consumed in New Zealand is imported. Major suppliers include the EU, the United States, Canada, and Australia. Like imports from the EU, the vast majority of New Zealand's imports from the United States are of frozen boneless pork (83 percent in 2014). Frozen boneless pork accounts for a somewhat smaller share of New Zealand's imports from Australia and Canada (65 percent and 68 percent, respectively, in 2014). U.S. producers would be expected to capture a somewhat

[198] Government of Japan, ALIC, "Pork Retail Price (National Average)" (accessed November 18, 2015).
[199] Reported model results for pork exports includes products such as seasoned ground pork but excludes sausages. Sausages are included in the "other meat products" sector. Model results indicate that U.S. exports of other meat products to Japan would increase by $201 million under TPP.
[200] Government of Japan, ALIC, "Meats for Processing" (accessed November 18, 2015).
[201] The EU is the largest non-TPP supplier of pork to Japan. The United States and the EU are also the largest suppliers of pork to China. Although much of China's pork imports are of edible offal, the United States and the EU also export large volumes of frozen pork cuts to China. Increased access to the Japanese market under TPP would be expected to cause U.S. exporters to shift some of this volume from China to Japan. EU suppliers might, in turn, shift some volume from Japan to China.
[202] Japan's other major supplier of prepared pork imports is China. However, prepared pork imports from the United States and China serve different segments of the Japanese market. Imports from the United States are largely of seasoned ground pork from hams or shoulders, and are used in Japan to produce sausage. Imports from China are largely produced from cuts other than the ham or shoulder and are used in specialized products in retail and food service. USDA, FAS, email to USITC staff, October 19, 2015.
[203] An increase in global pork prices (or a devaluation of the Japanese yen) would lessen the impact of Japan's gate price system and favor imports of frozen cuts over prepared products, as occurred in 2014. USDA, FAS, *Japan: Livestock and Products Annual*, August 31, 2015, 10, note 6. A decline in global pork prices (or appreciation of the yen) would favor imports of prepared products.

larger share of this segment of the New Zealand pork market from EU pork producers as tariffs are phased out under TPP. TPP would also put U.S. suppliers on an equal footing with suppliers in Australia and ASEAN.

Phase-in Schedule of Provisions

U.S. exports of pork products subject to Japan's gate price system would likely not substantially increase immediately upon implementation. Although the maximum specific duty that could be assessed on most pork cuts would drop from 482 yen per kg to 125 yen per kg immediately upon entry into force, there would be little immediate change in the actual applied tariffs, and therefore little change in trade volume. As noted, Japan's gate price system will not be dismantled under the TPP, and the actual gate prices are unchanged. Under the gate price system, the specific duty is based on the average unit value of a shipment, not the price of individual items. Currently, U.S. exporters minimize the effects of the gate price system by shipping a mix of higher-value and lower-value products, so that the average unit value is above or very near the gate price. Following TPP's entry into force, U.S. exporters would likely still ship a mix of higher-value and lower-value cuts. A tariff of 125 yen per kg would be a significant share of the wholesale price of many pork cuts.[204]

The need to manipulate the product mix so that the average unit value is at or above the gate price would decrease as the maximum specific duty that can be charged declines (and as inflation and exchange rate changes impact the value of the yen). At some point, the lower maximum tariff facing U.S. pork exporters under the TPP should allow exporters to ship a mix of products in line with the demand for specific cuts in Japan, rather than manipulating product mix. This is expected to decrease costs, both for exporters, who currently have to combine shipments, and for importers, who have to distribute multiple products.[205] However, these gains might be further delayed or partially offset by policy changes such as the proposed increase in Japanese government support for Japanese domestic pork producers.[206]

[204] For instance, the Boston butt is a pork cut for which there is great demand in Japan. The average wholesale U.S. price of boneless butt, ¼ inch trim, at the beginning of 2016 was about $1.10 per pound (fob plant). At current exchange rates, 125 yen per kg is a little over $1.00 per kg, or just under 50¢ per pound. Oh and See, "Pork Preference for Consumers in China," 2012, 144; USDA, AMS, "Weekly National Carlot Meat Report," January 2, 2016, 4.
[205] *Inside U.S. Trade,* "Vetter: U.S. Clarifying Japanese Pork Subsidy Program," February 12, 2016.
[206] *Inside U.S. Trade,* "Expanded Japanese Subsidies Could Sap U.S.," January 7, 2016.

Poultry Meat Products[207]

Assessment

The TPP Agreement would likely result in a moderate increase in U.S. poultry meat exports and a small decrease in U.S. poultry meat imports. Elimination of duties on poultry meat imports in Japan should increase U.S. competitiveness in this large market. Increased access to the growing Vietnamese market should also benefit U.S. poultry exporters. The agreement would not alter the United States' relative competitive position in Mexico, the most important export market for U.S. poultry meat. The agreement would provide limited additional access to the Canadian import market, which is currently dominated by U.S. exports; however, direct access to the Canadian consumption market would continue to be limited by substantial over-quota duties. New TRQ access to the Malaysian market, however, would have little value to U.S. exporters because long-standing halal certification issues were not addressed under the TPP Agreement.

The Commission's model estimates that annual U.S. poultry meat exports to TPP member countries would be $588 million (or 15.7 percent) greater than the baseline projection in 2032 with implementation of the agreement. Overall, however, the model results suggest that globally, U.S. poultry meat exports would only be $174 million (1.3 percent) greater than the baseline in 2032 as U.S. exports diverted from China, Hong Kong, and the rest of the world, to supply exports to TPP countries, were valued at $74 million, $48 million, and $267 million, respectively.[208]

As a result of these changes in trade, the model estimates that if TPP were adopted, U.S. poultry meat producers' output would be $266 million, or 0.6 percent greater than the 2032 baseline projection. Similarly, employment in the poultry sector would be 0.6 percent greater.[209]

[207] Poultry meat products includes trade classified under HS 0207, 160231, 160232, and 160239.
[208] In those TPP markets that have domestic poultry industries, the structure of the Commission's model balances the impact of reduced tariffs on poultry meat with the impact of reduced tariffs on feed grains, oilseeds, and meals that would potentially reduce the cost of locally produced poultry meat.
[209] Under TPP, trade concessions would be phased in over a period of time. Most concessions would be phased in over 15 years or less. Therefore, model results are presented for production and trade effects for the TPP in 2032, including the effects of anticipated changes in investment consistent with current projected conditions but without TPP implemented.

Overview of U.S. Trade with TPP Partners

The United States is the world's largest poultry meat producer and its second-largest poultry meat exporter.[210] More than 40 percent of all U.S. poultry exports were shipped to TPP partners during 2013–15 (table 3.19). Among TPP partners, 86 percent of U.S. exports were shipped to Mexico and Canada. Exports to Mexico (about $1.1 billion) consisted primarily of fresh, chilled, and frozen chicken meat and offal (56 percent) and fresh, chilled, and frozen turkey meat and offal (29 percent). Canada's imports from the United States ($579 million) consisted of 32 percent in-quota duty-free imports; about 20 percent was over-quota trade, while about 48 percent was largely classified as meat from spent fowl (exhausted egg-laying hens) under MFN and NAFTA duty-free tariff lines.[211] Outside of the NAFTA partners, about half of the remaining U.S. exports to TPP countries (6.9 percent) were shipped to existing FTA partners Chile, Singapore, Peru, and Australia. The other half of non-NAFTA U.S. exports to TPP countries (6.8 percent) went to members without previous agreements with the United States, namely Japan, Malaysia, Vietnam, and Brunei.

Ninety-eight percent of U.S. poultry meat imports were supplied by TPP partners during 2013–15 (table 3.20). Canada accounted for 68 percent ($283.5 million) of the imports, Chile for 26 percent ($107.8 million), and Mexico for 3 percent ($13.5 million). The bulk of U.S. imports from Canada are likely associated with Canada's re-export programs, discussed below.

Table 3.19: U.S. exports of poultry meat to world and TPP partners, average 2013–15, million dollars

		U.S exports to TPP countries			
Product and selected subproducts (HS subheading)	**U.S exports to world**	**All**	**New partners**	**NAFTA**	**Other existing FTA partners**
Poultry: Total	4,879.2	1,962.2	132.9	1,694.1	135.3
Selected subproducts					
Chicken cuts and offal, fresh, chilled or frozen (020713, 020714)	3,791.5	1,222.0	115.6	1,023.4	83.0
Turkey cuts and offal, fresh, chilled or frozen (020726, 020727)	487.3	346.2	5.8	332.7	7.7
Prepared or preserved chicken meat (160232)	307.8	226.9	4.3	195.5	27.2

Source: USITC DataWeb/USDOC (accessed February 17, 2016).

[210] USDA, FAS, *Livestock and Poultry: World Markets and Trade,* October 2015, 18–19.
[211] Nearly all over-quota trade is likely imported under various duty relief and re-export programs and thus is subject to zero or reduced duties. USDA, FAS, *Canada: Poultry and Poultry Products Annual 2015,* August 7, 2015, 8–12.

Table 3.20: U.S. imports of meat from world and TPP partners, average 2013–15, million dollars

Product and selected subproducts (HS subheading)	U.S imports from world	U.S imports from TPP countries			
		All	New partners	NAFTA	Other existing FTA partners
Poultry : Total	355.4	346.9	-	269.3	77.6

Source: USITC DataWeb/USDOC (accessed February 17, 2016).

Tariff barriers in most TPP partner countries were relatively low and industry representatives reported that they were not prohibitive, with the exception of Canada's over-quota duties.[212] Thus, sanitary requirements are a major factor limiting U.S. poultry meat exports. U.S. poultry meat exports to Chile, Mexico, Peru, and Singapore have been mostly duty free, with low sanitary restrictions.[213] Sanitary restrictions in Australia and New Zealand allow only U.S. poultry meat that is canned, heat-processed, or cooked to be imported.[214] Japan's rate of duty on U.S. poultry meat exports was 12 percent or less, while sanitary requirements allow U.S. exports of fresh, chilled, and frozen poultry meat.[215] Exports to Malaysia are restricted by the fact that no U.S. chicken plants have received Malaysian halal certification, rather than by Malaysia's duties of up to 40 percent.[216] Vietnam generally allows imports of fresh, chilled, and frozen U.S. poultry products, although import duties are currently as high as 40 percent.[217]

Canada's chicken and turkey meat imports for domestic consumption are limited by TRQs and prohibitive over-quota duties designed to implement Canada's strict supply control program.[218] In 2015, import permits were issued for 78,243 mt of chicken meat and 4,852 mt of turkey

[212] Sumner, written testimony to the USITC, December 29, 2015, 5.
[213] Duty-free access for U.S. exports of bone-in chicken leg quarters are subject to a TRQ in Peru. The in-quota quantity for 2016 is 25,907 mt. USTR, United States-Peru Trade Promotion Agreement, Final Text, Appendix to Peru Tariff Schedule, https://ustr.gov/trade-agreements/free-trade-agreements/peru-tpa/final-text (accessed January 5, 2016). During 2009–14, Peru reported no imports from the United States under tariff lines subject to the TRQ; GTIS, Global Trade Atlas database (accessed February 5, 2015). Chile, Mexico, Peru, and Singapore currently maintain restrictions on U.S. poultry meat products originating from selected states and processed during specific time periods based on outbreaks of highly pathogenic avian influenza (HPAI) during 2015 and 2016. USDA, FSIS, "Export Requirements by Country" (accessed February 5, 2016).
[214] USDA, FSIS, "Export Requirements by Country" (accessed February 5, 2016).
[215] Japan also maintains restrictions on U.S. poultry meat products by state of origin and processing date, based on outbreaks of HPAI. USDA, FSIS, "Export Requirements by Country" (accessed February 5, 2016).
[216] Based on export competitiveness in Vietnam, the industry does not believe Malaysia's 40 percent duties would be prohibitive. Nonetheless, only one U.S. turkey processing plant has been approved for exports to Malaysia. Sumner, written testimony to the USITC, December 29, 2015, 5.
[217] Vietnam also maintains selected restrictions on U.S. poultry meat exports based on state of origin and time processed in response to HPAI outbreaks in 2015 and 2016. USDA, FSIS, "Export Requirements by Country" (accessed February 8, 2016).
[218] Sumner, written testimony to the USITC, December 29, 2015, 5. U.S. exports of meat and edible offal from spent fowl (exhausted egg-laying hens), ducks, geese, and poultry other than chickens and turkeys have generally been duty free; Government of Canada, Canada Border Services Agency, Chapter-by-Chapter Customs Tariff, Chapter 2, "Meat and Edible Meat Offal," http://www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/2016/html/tblmod-1-eng.html (accessed February 16, 2016).

meat from all sources.[219] Additional imports are allowed under re-export programs. The Canadian government licenses additional duty-free over-quota imports under two re-export programs: (1) the Import for Re-Export Program (IREP) and (2) the Duties Relief Program (DRP).[220] Poultry meat imported under these programs is processed into products that are then exported, primarily back to the United States.

U.S. duties on poultry meat have been low, ranging from 8.8 to 17.6 cents per kilogram, while duties actually paid represented an ad valorem equivalent of less than 1 percent during 2012–14.[221] Sanitary restrictions limit most poultry meat imports. Only Canada and Chile are approved to export fresh, chilled, and frozen poultry meat to the United States.[222] Imports from Australia and New Zealand are limited to ratite meat.[223] Imports from Mexico are limited to re-exports of products containing poultry meat that originated in the United States or in a third country approved to export to the United States.[224]

Summary of Provisions

The TPP Agreement would continue the current duty-free access for U.S. poultry meat exports to Australia, Brunei, Chile, Mexico, Peru, and Singapore.[225] The agreement would provide duty-free access for U.S. poultry meat exports to New Zealand on entry into force.[226] Vietnam would provide duty-free access in 6 to 13 years.[227] Detail for Canada, Malaysia, Japan, and the United States are provided below.

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[219] Government of Canada, Global Affairs Canada, Export and Import Controls, Chicken and Chicken Products, Tariff Rate Quota Utilization Tables, 2015; Government of Canada, Global Affairs Canada, Export and Import Controls, Turkey and Turkey Products, Tariff Utilization Tables 2015, http://www.international.gc.ca/controls-controles/prod/agri/chicken-poulet/index.aspx?lang=eng (accessed February 12, 2016). The annual quantities for Canada's poultry TRQs are the greater of its commitment under the WTO or under NAFTA. NAFTA calculations are based on a percentage of current or previous year's domestic production. Government of Canada, Agriculture and Food Canada, Industry, Markets and Trade, "Canada's Poultry Import Regime" (accessed January 26, 2016).

[220] During 2012–14, imports under the IREP and DRP averaged 97,000 mt. Total chicken imports under IREP and DRP from 2008 through 2015 exceeded total imports subject to TRQs by about 114,000 mt. IREP and DRP programs favor U.S. suppliers because product from other sources (primarily Brazil) cannot be re-exported to the United States, and because once processed, most of this product returns to the United States. USDA, FAS, *Canada: Poultry and Poultry Products Annual 2015,* August 7, 2015, 8–12.

[221] USITC DataWeb/USDOC, February 22, 2016.

[222] USDA, FSIS, "Eligible Countries, Products, Foreign Establishments" (accessed February 8, 2016).

[223] Ratites are large flightless birds; ratite meat is primarily sourced from ostriches, rheas, and emus. USDA, FSIS, "Eligible Countries, Products, Foreign Establishments" (accessed February 8, 2016).

[224] USDA, FSIS, "Eligible Countries, Products, Foreign Establishments" (accessed February 8, 2016).

[225] USTR, TPP full text.

[226] Ibid.

[227] Ibid.

Canada

The agreement would increase access for poultry meat to Canada, primarily based on new TPP-wide TRQs on chicken and turkey meat (table 3.21). However, growth in the duty-free quantity would end after year 19 of the agreement without any decrease in Canada's prohibitive over-quota duties. Meat from spent fowl, ducks, geese, and other poultry would continue to enter Canada duty-free upon the entry into force of the agreement.[228]

Canada's current prohibitive over-quota tariffs would be maintained: an ad valorem rate of 249 percent, but not less than CN$3.78/kg, applies to bone-in chicken meat and offal, and not less than CN$6.74/kg on boneless chicken meat and offal. Over-quota duty rates on turkey meat and offal are 165 percent, but not less than CN$2.94/kg for bone-in product and not less than CN$4.82 for boneless products.[229]

Table 3.21: Poultry: Selected U.S. and TPP partner tariff concessions

		TPP country concessions			
Product	**U.S. concessions**	**Japan**	**Malaysia**	**Vietnam**	**Other**
Poultry	Tariffs ranging from 8.8 to 17.6 cents/kg are generally eliminated upon EIF (see exceptions below).	Tariffs on fresh, chilled, and frozen meat and offal ranging from 3% to 11.9% are eliminated in 11 years or less; tariffs on prepared and preserved meat and offal of 6% are eliminated in 6 years or less.	TPP-wide TRQs on chicken meat and offal; in-quota tariffs are zero upon entry into force; over-quota tariffs are reduced from 40% to 20% over 16 years; initial in-quota quantities total 20,452 mt increasing at 1% annually.	Tariffs of 15–40% on poultry meat and offal are eliminated in 6 to 13 years; tariffs on live poultry are eliminated upon EIF.	Canada: TPP-wide TRQs for chicken and turkey meat; zero duty on in-quota items upon EIF; no reduction in over-quota tariffs.
	Imports from Japan and Vietnam face 5–10 year phase out on selected poultry items	U.S. exporters will gain preferential tariff advantage relative to exporters from Brazil and China; meanwhile, tariff disadvantages relative to preferences previously provided to Thai	U.S. exporters gain some preferential tariff advantage relative to China for chicken meat; meanwhile, other preferential tariff access provided to ASEAN members and China are offset	U.S. exporters gain some preferential tariff advantage relative to China for chicken meat; meanwhile, other preferential tariff access provided to ASEAN members and China are offset	Canada: TPP-wide TRQs increase duty-free access for chicken meat from 3,917 mt to 26,745 mt over 19 years; and duty-free access for turkey meat from 583 mt to 3,983 mt over 19 years.

[228] Ibid.
[229] Government of Canada, Canada Border Services Agency, Customs Tariff 2016, Chapter 2, "Meat and Edible Meat Offal," http://www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/2016/html/00/ch02-eng.html (accessed January 26, 2016).

Product	U.S. concessions	TPP country concessions			
		Japan	Malaysia	Vietnam	Other
		exporters will be eliminated.	and eliminated.	and eliminated.	

Source: USDA, FAS, Factsheets (accessed November 23, 2015) and USTR, TPP full text.

Malaysia

Malaysia would eliminate duties on poultry meat other than chicken immediately. Chicken meat would be subject to several perpetual TRQs and to over-quota tariff rates of 20 percent.[230] Of the total TRQ quantity, 20,000 mt is allocated to frozen chicken cuts. The TRQs grow indefinitely at an annual rate of 1 percent.[231] After year 16, the 20 percent over-quota duty remains in place indefinitely.[232] The agreement did not address Malaysia's restrictive halal certification requirements, which are the primary barrier to access to the Malaysian poultry meat market for all TPP partners.

Japan

Japan would eliminate all duties on poultry meat imports within 11 years.[233] Nearly 97 percent of Japan's total poultry imports ($3.4 billion) are classified in two tariff lines, including prepared and preserved chicken meat and offal (62.3 percent) and frozen chicken cuts and edible offal (34.3 percent).[234] Bone-in chicken legs constitute the largest and most competitive product type for U.S. exporters; the United States supplies 94 percent of Japan's total import value of $44 million in this category. TPP duties on bone-in chicken legs are reduced from 8.5 percent to zero over 11 years.[235]

United States

The United States would provide duty-free access upon entry into force to all TPP partners with the exception of Vietnam and Japan, for which selected poultry meat duties would be eliminated in 5 to 10 years.[236] All U.S. tariff lines for Japan and Vietnam will be duty free within 10 years. Nearly 100 percent of U.S. poultry imports are currently sourced from countries that have duty-free access to the U.S. market via previously negotiated FTAs. During 2013–15, the value of U.S. poultry imports from Canada was $283.5 million (68 percent of the U.S. total),

[230] USTR, TPP full text.
[231] Ibid.
[232] Ibid.
[233] Ibid.
[234] GTIS, Global Trade Atlas database (accessed February 5, 2015).
[235] USTR, TPP full text; GTIS, Global Trade Atlas database (accessed February 5, 2015).
[236] USTR, TPP full text.

Chile ($107.8 million, 26 percent), Mexico ($13.5 million, 3 percent), and Israel ($9.0 million, 2 percent).[237]

Estimated Effects of TPP on the U.S. Poultry Sector

The TPP Agreement is likely to have a positive, though moderate, impact on the growth of total U.S. poultry meat exports and poultry meat trade among TPP partners. Commission estimates (described in the country specific sections below) show that the agreement would increase the price-competitiveness of U.S. poultry meat exports. This would be especially important in Japan and Vietnam, where other suppliers have cost advantages related to labor and product mix.[238] The agreement would provide additional access to the Canadian market, but could also provide additional opportunities for Canadian processors to re-export further processed U.S. poultry meat to other TPP partners. The Commission model estimates show that U.S. exports to Chile ($94 million) and Mexico ($87 million) would also be greater than the 2032 baseline.[239]

No other TPP partners are leading poultry meat exporters, so increased TPP-wide market access is unlikely to create more competition in TPP markets where U.S. suppliers currently enjoy preferential access from previous FTAs, or in the U.S. domestic market (see U.S. description below).

Though the agreement provides a new framework for addressing sanitary restrictions on poultry meat trade, a number of TPP partners, such as Australia and New Zealand, are likely to maintain strict sanitary restrictions on poultry meat imports from the United States as well as all other TPP partners. In addition, as noted earlier, the agreement did not address long-standing issues related to different halal certification requirements across countries that make compliance more costly and in some cases stop trade altogether.

Canada

Canadian poultry meat imports from the United States will increase moderately, because market access would likely increase to match the in-quota volume but continue to face prohibitive over-quota duties. The effect on the U.S. output is small because the value of the TRQ is small compared to total U.S. poultry meat exports to Canada and the world. U.S. exporters supplied nearly 87 percent of Canada's total poultry meat imports during 2013–15, as well as 73 percent of the value of in-quota imports. U.S. exporters are likely to supply a

[237] In 2015, broiler meat imports represented about 10 percent of U.S. consumption. USDA, PSD Online (accessed May 12, 2016).
[238] Sumner, written testimony to the USITC, December 29, 2015, 5.
[239] In the Commission model's general equilibrium format, all poultry meat exports to Canada would be valued at the average cost of the entire basket of goods.

substantial share of in-quota access under TPP.[240] Based on the average unit value of Canadian in-quota poultry meat imports during 2013–15, the additional TRQ access would be valued at nearly $75 million—a 41 percent increase over 2013–15 in-quota imports.[241] Comparatively, the Commission model estimates that U.S. poultry exports to Canada would be $63 million greater than the 2032 baseline.

These results are modest because nearly half of Canada's imports of U.S. poultry meat currently enter Canada duty-free under MFN or NAFTA, much of this in the form of meat classified as being from spent fowl. Moreover, about 20 percent of Canada's poultry meat imports were classified in over-quota tariff lines. As Canada's over-quota duty rates are generally considered to be prohibitive, the bulk of these imports were likely subject to reduced or zero duties under tariff relief or re-export programs.

Japan

Reduced duties on U.S. poultry meat exports to Japan may increase the cost-competitiveness of U.S. poultry exports to Japan, especially relative to Brazil, currently Japan's largest poultry meat supplier. Thus, the Commission's model estimates that U.S. poultry meat exports to Japan would be $197 million greater than otherwise relative to the 2032 baseline, the largest absolute gain among TPP partners.

Brazil dominates Japan's imports of frozen chicken meat with a 90 percent import market share, despite import unit values that averaged $539 per mt more than imports from the United States.[242] Brazil dominates Japan's imports based on cost advantages that allow Brazilian processors to competitively supply specific product standards desired by Japanese consumers, such as hand-cut and hand-packed chicken parts.[243] Reduced duties on U.S. frozen chicken meat would potentially make U.S. frozen chicken parts more competitive by increasing the margin between Brazilian and U.S. frozen chicken meat from $539 per mt to $869 per mt.[244]

[240] GTIS, Global Trade Atlas database (accessed February 29, 2015).
[241] Average export unit value during 2012–14 for the selected tariff lines was $2,753 per metric ton and included imports classified under USHTS 0207.11.9100, 0207.12.9100, 0207.13.9100, 0207.14.9110, 0207.14.9120, 0207.14.9130, 0207.14.9141, 0207.14.9149, 0207.14.9190, 0207.24.1100, 0207.24.9100, 0207.25.1100, 0207.25.9100, 0207.26.1000, 0207.27.1100, 0207.27.9100, 1602.32.1200, and 1602.32.9300. GTIS, Global Trade Atlas database (accessed February 29, 2015).
[242] Average import unit value and value market share for Japan's poultry meat imports classified under 020714 during 2012–14. GTIS, Global Trade Atlas database, (accessed February 29, 2015).
[243] USITC, *Brazil: Competitive Factors in Brazil*, May 2012, 4-19.
[244] Average import unit value and value market share for Japan's poultry meat imports classified under 020714 during 2012–14. GTIS, Global Trade Atlas database (accessed February 29, 2015).

Thailand and China dominate Japan's imports of prepared and preserved chicken meat, supplying about 99 percent of the market value of these imports.[245] Based on average import unit values during 2012–14, China supplied these products at $1,665 per mt less than the United States, while imports from Thailand were priced at $1,274 per mt less than imports from the United States. The TPP Agreement would offset Thai suppliers' tariff advantage over U.S. suppliers, an advantage provided by the Japan-Thailand FTA.[246] The agreement would also reduce China's price advantage by about $280 per mt.[247]

Malaysia

Malaysian concessions on poultry meat trade under the TPP Agreement are unlikely to benefit U.S. poultry meat exporters. While the 20,000-mt TRQ offered by Malaysia would be worth approximately $26 million at average U.S. export unit values during 2012–14, this value is unlikely to be realized because Malaysian poultry imports are limited by Malaysia's halal certification requirement. Only one U.S. turkey processing facility is halal certified to export to Malaysia, and halal certification requirements limit exports from nearly all TPP partners.[248] The Commission's model estimated no change in U.S. exports to Malaysia because it was assumed that halal certification would continue to be a nearly prohibitive barrier.

U.S. exporters currently ship halal-certified poultry meat products to other Muslim countries.[249] The primary difference between Malaysian standards for halal certification and those of other countries is the degree to which facilities must be dedicated to halal slaughter and processing.[250] Malaysia's standards require that facilities for slaughter and processing be exclusively dedicated to Malaysian halal-certified products.[251] Most other countries only require that facilities be dedicated to halal production and processing during a specific time

[245] Average market share during for Japan's imports classified under HS 160232 during 2012–14. GTIS, Global Trade Atlas database (accessed February 29, 2015).
[246] Government of Japan, Ministry of Foreign Affairs, Agreement between Japan and the Kingdom of Thailand for an Economic Partnership, Annex 1: Schedules in Relation to Article 18, http://www.mofa.go.jp/region/asia-paci/thailand/epa0704/index.html (accessed February 10, 2016).
[247] Average import unit value and value market share for Japan's poultry meat imports classified under HS 160232 during 2012–14. GTIS, Global Trade Atlas database (accessed February 29, 2015).
[248] Only three plants among all TPP partners are currently approved for exports to Malaysia. These include a U.S. turkey slaughter and processing facility, a further processing facility in Brunei, and an emu and ostrich processing facility in Australia. Government of Malaysia, Department of Veterinary Services, "List of Approved Plants and Abattoirs," http://www.dvs.gov.my/index.php/pages/view/299 (accessed February 11, 2016).
[249] Sumner, written testimony to the USITC December 29, 2105, 5.
[250] Industry representative, email correspondence with USITC staff, February 12, 2016.
[251] Malaysia implemented food product standard MS1500: 2009, setting guidelines for halal certification that go beyond internationally recognized halal standards contained in the Codex Alimentarius. The Malaysian standards require slaughter plants to maintain dedicated halal production facilities and ensure segregated storage and transportation facilities for halal and non-halal products. USTR, *2015 National Trade Estimate Report*, March 2015, 263.

period or production shift. Adoption of TPP will not change this situation, as the agreement specifically exempted halal certification from consideration under the SPS chapter.[252]

United States

The elimination of duties for poultry imports into the U.S. market is likely to have a limited effect on U.S. poultry imports. Ninety-eight percent of U.S. poultry imports are currently sourced from TPP-partner countries that have duty-free access from previous FTAs—Canada, Chile, and Mexico.[253] The only other TPP partners currently eligible to export poultry products to the United States are Australia and New Zealand.[254] Australia also has duty-free access to the U.S. market but has not supplied product to the U.S. market since 2009; during 2013–14, it was a net importer of poultry products. New Zealand is the primary supplier to Australia, but is only a small regional supplier.

The model estimates that U.S. poultry meat imports from TPP partners would be $19 million (or 4.2 percent) less than the 2032 baseline projection with the agreement, and that total U.S. imports would be $17 million (3.6 percent) less. This result was primarily driven by offsetting changes in poultry meat imports from Chile ($52 million decrease), Canada ($29 million increase), and Mexico ($4 million increase).[255] Note that imports from Canada and Mexico would likely consist of further processed items using U.S. poultry meat as an ingredient.

Vietnam

The TPP Agreement is likely to benefit U.S. poultry meat exports to Vietnam, as Vietnam's primary competing suppliers—Brazil and South Korea—are not TPP partners and do not otherwise have duty-free access. Overall, Vietnam's imports of fresh, chilled, and frozen poultry meat from 2009 through 2014 have been increasing at a compound annual rate of 8.7 percent.[256] Since the growth rate for imports from the United States was only 6.7 percent, the U.S. share of imports fell from a peak of 82 percent in 2010 to a low of 55 percent in 2013. Meanwhile, the combined share of imports from Brazil and South Korea increased from 15 percent in 2010 to 39 percent in 2013.

Elimination of Vietnam's 20 percent duties on chicken cuts would likely provide U.S. suppliers with a substantial pricing advantage over Brazil and South Korea. The cost of Vietnam's imports

[252] USTR, TPP full text, chapter 7.
[253] GTIS, Global Trade Atlas database, (accessed February 29, 2015).
[254] USDA, FSIS, "Eligible Countries, Products, Foreign Establishments" (accessed January 29, 2016).
[255] U.S. imports from Canada and Mexico tend to consist of further processed poultry meat that was originally imported from the United States. Imports from Canada are typically associated with Canada's re-export programs. Imports from Mexico must consist of poultry meat from the United States or third countries approved to export to the United States, as Mexican-origin poultry meat is not approved for export to the United States.
[256] GTIS, Global Trade Atlas database, (accessed February 29, 2015).

from Brazil and the United States averaged nearly the same during 2013–14—$1,713 and $1,714 per mt, respectively—while imports from South Korea cost $1,936 per mt. The 20 percent duty differential upon full implementation in 13 years would increase the U.S. cost advantage over Brazil to $341 per mt and over South Korea, to $633 per mt.

At current growth rates, the value of Vietnam's poultry meat imports from all sources would near $308 million within 13 years. If U.S. import market share were at its low of 55 percent, the Vietnam market would then be worth about $170 million to U.S. poultry meat exporters, while the high import market share of 82 percent yields imports from the United States of about $250 million. This represents an increase of $109–$192 million in Vietnam's imports of U.S. poultry meat from the current level of about $60 million. Commission modeling results show that U.S. poultry exports to Vietnam would be $134 million higher than the 2032 baseline, within this range.

Estimated Effects from Other Sources

The American Farm Bureau Federation estimates that U.S. poultry meat exports would increase by 188.9 million pounds, or nearly 86,000 mt, as a result of the TPP Agreement.[257] At an average export unit value of $1,321 per mt, this quantity would be valued at $113 million. The federation estimates that increased demand from exports would increase the wholesale price of broilers[258] by $1.40 per cwt (hundredweight), increasing the total value of U.S.-produced broilers by $625 million.[259]

Summary of Views of Interested Parties

James Sumner provided written and oral testimony on behalf of the USA Poultry and Egg Export Council (USAPEEC) and the National Chicken Council (NCC).[260] The National Turkey Federation and the United Egg Producers expressed agreement with the written testimony.[261] USAPEEC and the NCC endorse the TPP Agreement and voted with the majority of USDA's Trade Policy Advisory Committee to recommend that Congress approve and pass legislation to implement the TPP Agreement.[262]

The USAPEEC-NCC assessment is that TPP provisions will only moderately improve the situation for U.S. poultry exports.[263] Previous agreements set the terms of trade and liberalization

[257] AFBF, Comments Regarding Effects of Trans-Pacific Partnership on the United States Agricultural Sector, 17.
[258] Broilers are domestic chickens (Gallus Domesticus) bred and raised specifically for meat production.
[259] AFBF, Comments Regarding Effects of Trans-Pacific Partnership on the United States Agricultural Sector, 17.
[260] Sumner, written testimony to the USITC, December 29, 2015, 1.
[261] Ibid., 2.
[262] Ibid., 3.
[263] Ibid., 6.

schedules for trade with Chile, Mexico, and Peru and TPP does not change these agreements.[264] USAPEEC identified significant tariff reductions in only 3 of the 11 TPP markets: Japan, Malaysia, and Vietnam. With regard to Vietnam, USAPEEC believes that U.S. exports will be very competitive, unless other restrictions are imposed.[265] Japanese duties have generally been low, thus the industry foresees modest gains there.[266] While reduced duties to New Zealand are welcome, the U.S. is not currently approved to export poultry to New Zealand.

The industry, however, voiced displeasure with the access provided by Malaysia and Canada under TPP. Providing extensive detail, USAPEEC-NCC contended that tariff reduction in Malaysia would not give any real market access to U.S. exporters because of unresolved issues with halal certification.[267] The testimony also indicated that USAPEEC-NCC would not support additional countries being admitted to TPP (such as Indonesia) where similar halal certification issues exist.[268] In addition, while the additional TRQ access to Canada is welcome, the USAPEEC-NCC testimony stated that the industry had made it clear from the beginning that its objective in these negotiations was to achieve free trade in poultry and egg products with Canada, asserting that the provisions fall far short of this goal.[269]

The testimony stated that USAPEEC and NCC are hopeful that the SPS provisions of TPP will help to eliminate trade disruptions based on animal health and technical regulatory issues.[270] One example mentioned in the testimony of such an issue is the maximum residue levels (MRLs) allowed by Japan, which are far more stringent than U.S. MRLs.[271] Another example was SPS barriers related to animal health. According to the testimony, these can create great damage when HPAI is detected in regionally contained areas of the United States; importers may react by placing bans on imports from all areas of the country, including those not affected by the disease.[272]

[264] Ibid., 6.
[265] Within the past year, Vietnam has threatened to launch an antidumping case against U.S. poultry imports. Sumner, written testimony to the USITC, December 29, 2015, 8.
[266] Sumner, written testimony to the USITC, December 29, 2015, 6.
[267] Ibid., 6, 9–11.
[268] Ibid., 6, 9–11.
[269] Ibid., 12.
[270] Ibid., 7–8.
[271] Ibid., 7–8.
[272] Ibid., 7–8.

Grains

Assessment

Commission modeling estimates that while overall U.S. grain[273] exports and production would increase between 2017 and 2032 with or without TPP, both would experience marginally lower gains if TPP were implemented than if it were not.[274] The model estimates that adopting TPP would result in total U.S. grain exports being one-tenth of one percent lower in 2032 than in the baseline projection. This slight drop would result primarily from increased domestic demand for grain, especially for the production of meat and dairy products, which would see moderate increases in exports under TPP. Increased U.S. demand would also lead to slightly higher U.S. imports of grains if TPP were enacted in 2017, compared to the baseline projection. Implementing TPP would have mixed effects on grains production. U.S. production of many grains, including corn, would be higher in 2032 with TPP adopted. However, Commission modeling indicates that wheat production would be virtually unchanged, while the rice industry may experience slightly lower production under TPP. U.S. rice production is expected to be marginally lower under TPP than without it in response to lower exports. Exports would decline because the U.S. rice industry may find that gains in access to the Japanese market are more than offset by lost sales to Vietnam domestically and in Mexico, where the United States would lose its current tariff advantage over Vietnam.

While the impact on overall grain trade would be negligible, the Commission's modeling estimates that U.S. grain exports to TPP partners would increase slightly (1.3 percent) in 2032 under TPP. Gains would be concentrated in Vietnam (25.3 percent higher exports in 2032 with TPP enacted), largely because of tariff eliminations for wheat and corn. Overall grain exports to Japan would be lower under TPP, although combined corn and rice exports to Japan would be 3.2 percent higher, partly as a result of increased market access through the creation of additional rice TRQs.

Overview of U.S. Trade with TPP Partners

TPP members include some of the world's largest grain exporters and importers, especially of corn, wheat, and rice. The United States, Canada, and Australia are among the leading global exporters of grains,[275] while Japan and Mexico are major importers.[276] Corn and wheat are the

[273] Grains are covered by HS chapter 10 and include corn, wheat, rice, rye, barley, and sorghum, among others.
[274] Under TPP, trade concessions would be phased in over a period of time. Most of these concessions would be phased in over 15 years or less. Therefore, model results are presented for production and trade effects of the TPP in the year 2032. Estimates of the effects of liberalizing each sector are presented relative to the baseline estimates of production and trade in 2032, including the effects of anticipated changes in investment without TPP.
[275] During 2012–14, the United States was the world's largest exporter of grains, accounting for about 21 percent of the value of all grain exports (HS chapter 10). Canada and Australia, the fourth- and fifth-largest exporters, each

two largest U.S. grain exports, but the United States is also a significant exporter of rice. About 40 percent of U.S. grain exports were shipped to TPP countries during 2013–15 (table 3.22). In that period, the majority—56.7 percent—of U.S. corn exports were to TPP partners. As a group, TPP partner countries were less significant destinations for wheat and rice, having received 26.8 percent and 37.8 percent of U.S. exports during 2013-15, respectively. The trade flows of grains between TPP countries vary by product based on competitive factors including price, product specifications, proximity, tariff advantages, and barriers to trade.

Table 3.22: U.S. exports of grains to world and TPP partners, average 2013–15, million dollars

Product and selected subproducts (HS subheading)	World	U.S exports to TPP countries			
		All	New partners	NAFTA	Other existing FTA partners
Grains: Total (10)	20,548.3	8,223.4	3,606.2	4,006.4	610.8
Selected subproducts					
Corn (excluding for seed) (100590)	8,529.6	4,837.0	2,256.8	2,294.4	285.8
Wheat (excluding for seed) (100119, 100199)	7,903.3	2,119.6	1,015.5	819.5	284.6
Rice (1006)	2,068.0	781.8	246.1	507.4	28.3

Source: USITC DataWeb/USDOC (accessed February 17, 2016).

U.S. grains already enjoy duty-free access to most TPP countries, especially those that are current FTA partners.[277] In addition, three new partners, Brunei, Malaysia, and New Zealand, have no MFN duties on all or most grains, including wheat and corn.[278] The largest export markets for U.S. grains are Canada and Mexico, which received close to half of all U.S. grain exports to TPP countries during 2013–15. Mexico is one of the largest markets for U.S. corn, wheat, and rice, while Canada is a significant importer of U.S. corn.[279] In addition to duty-free access under NAFTA, the United States has a shipping advantage to Canada and Mexico relative to other grain suppliers due to its proximity to these countries.

Despite importing a substantial volume of grain from the United States, Japan maintains the most notable barriers of any TPP partner country. Japan is the largest new partner market for

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accounted for about 8 percent of global grain exports during that period. GTIS, Global Trade Atlas database (accessed January 20 and February 10, 2016).

[276] Imports of grains (HS chapter 10) are less concentrated by import country than exports. Japan, the world's second-largest grains importer, accounted for 9 percent of global grain imports during 2012–14: Mexico, the fifth-largest importer globally, accounted for 5 percent. GTIS, Global Trade Atlas database (accessed January 20, 2016).

[277] Under the U.S.-Peru TPA, Peru will eliminate tariffs on all corn under HS 1050.90 as of 2020. U.S.-Peru FTA, Annex 2.3, https://ustr.gov/trade-agreements/free-trade-agreements/peru-tpa/final-text (accessed February 25, 2016).

[278] Less than 1 percent of U.S. grain (HS chapter 10) exports were to these three countries. During 2012–14, Brunei primarily imported grains from Thailand; Malaysia, from Argentina, Brazil, and Australia; and New Zealand, from Australia. GTIS, Global Trade Atlas database (accessed February 29, 2016).

[279] Mexico and Canada are also the largest markets for U.S barley, and Canada is the largest market for U.S. oats as well as a significant market for U.S. rice. GTIS, Global Trade Atlas database (accessed February 24, 2016).

U.S. exports, receiving over 90 percent of U.S. grain exports to "new partners" during 2013–15.[280] Almost two-thirds of U.S. grain exports to Japan were of corn; 26 percent were of wheat.[281] Japan is one of the top markets for U.S. corn and rice.[282] U.S. corn, wheat, and rice exports to Japan are all subject to WTO TRQs. Japan's corn TRQ does not appear to limit trade because in-quota shipments are duty free, and the in-quota quantity is adjusted annually based on expected feed and processing needs.[283] However, many of Japan's other WTO TRQs on grains, including those on wheat and rice, restrict trade volumes.[284] The administration of the TRQs is also burdensome, as in-quota imports of wheat and rice are currently subject to markups, meaning that they are sold by the sole in-quota importer at prices substantially above import prices.[285] Representatives from both the U.S. wheat and rice industries also stated that testing requirements for chemical residues are excessive and expensive.[286] In addition, USTR found that Japan's import and distribution regime restricts market access for U.S. table rice to Japanese consumers.[287]

Vietnam is a significant importer of corn and wheat,[288] but the United States does not have duty-free access for the majority of its grain exports and is not one of Vietnam's major suppliers. Vietnam primarily imports corn from more price-competitive, non-TPP countries,

[280] Over 95 percent of U.S. corn and wheat exports to "new partners" were to Japan.
[281] GTIS, Global Trade Atlas database (accessed February 23 and 24, 2016).
[282] GTIS, Global Trade Atlas database (accessed February 24, 2016); USITC, *Rice: Global Competitiveness*, April 2015, 328–34.
[283] USTR, TPP full text, annex 2-D (Japan Tariff Elimination Schedule). Japan is heavily reliant on corn imports for virtually all its corn. USDA, PSD Online (accessed February 17, 2016).
[284] Japan also has TRQs on corn, barley and triticale. USTR, TPP full text, Annex 2-D.
[285] USTR, *NTE Report,* 2015, 211; industry representatives, interviews by USITC staff, February 19 and 24, 2016. Currently wheat, rice, and barley can be imported only by the Japanese government, specifically by the Ministry of Agriculture, Forestry and Fisheries (MAFF). MAFF, *Report of Agricultural Trade*, October 1999.
[286] Reportedly, U.S. wheat and rice exporters are required to test for hundreds of chemicals—more than are approved for use in the United States—in order to obtain required insurance. This testing is redundant to that done by the Japanese government. Reportedly, the cost of the testing is a deterrent for smaller U.S. rice shipments. U.S. Wheat Associates, written submission to the USTR, June 11, 2013, 2; industry experts, telephone interview by USITC staff, February 19, 2016; industry representatives, interview by USITC staff, February 24, 2016.
[287] USTR, *NTE Report*, 2015, 211. Japan's rice imports from all countries are about 8 percent of both Japan's production and its consumption. USDA, PSD Online (accessed February 17, 2016).
[288] As a major producer of rice, Vietnam accounted for less than one-half of 1 percent of global rice imports. GTIS, Global Trade Atlas database (accessed February 24, 2016).

especially India and Brazil.[289] Additionally, under the Australia-Vietnam Free Trade Agreement, Vietnam imports wheat and corn duty free from Australia.[290]

Summary of Provisions

Under TPP, U.S. grains would primarily benefit from provisions to reduce tariffs, afford additional market access under new TRQs, and revise the administration of TRQs. The major changes to U.S. market access for grains would originate primarily from Japan and, to a lesser extent, Vietnam (table 3.23). Under TPP, Vietnam would eliminate its tariffs on most grains, including corn and wheat, within the first five years, and on rice as soon as the TPP enters into force.

Table 3.23: Grains and milled grains: Selected U.S. and TPP partner tariff and TRQ concessions

		TPP country concessions		
Product	**U.S. concessions**	**Japan**	**Malaysia**	**Vietnam[a]**
Corn	Tariffs as high as 3.4% eliminated within 5 years.	In-quota duty as high as 3% eliminated upon EIF for corn for "other" uses; all other in-quota corn has no existing duty.	No existing duty.	Tariffs as high as 30% eliminated within 5 years. Current tariffs: - Popcorn: 30%. -Other corn: 5%.
Wheat	Tariffs as high as 2.8% eliminated upon EIF. Current tariffs: - Durum wheat: 0.65 cents/kg. - Seed wheat: 2.8%. - Other wheat: 0.35 cents/kg.	New U.S.-specific TRQ and changes to existing WTO TRQs. Feed wheat: WTO TRQ out-of-quota duty eliminated upon EIF. All other wheat: - U.S.-specific TRQ reaches maximum level of 150,000 mt in 7 years; in-quota imports are duty free but subject to markups. - Maximum markup on U.S. TRQ reduced by 45% over 9 years.	No existing duty.	Tariffs as high as 5% eliminated upon EIF.

[289] During 2012–14, Vietnam imported 41 percent of its corn—primarily used for animal feed—from India, 31 percent from Brazil, and only 4 percent from the United States. Its corn purchasing decisions are driven by the price competitiveness of corn both from different suppliers and in comparison to other feed sources, including feed wheat, cassava, and rice. GTIS, Global Trade Atlas database (accessed December 14, 2015); USDA, *Vietnam: Grain and Feed Annual 2012*, April 2012; USDA, *Vietnam: Grain and Feed Annual*, May 5, 2015.

[290] Australia has multiple competitive advantages in wheat exports to Vietnam over the United States, including (1) duty-free access as of January 2016; (2) using containers to ship wheat to Vietnam (as opposed to primarily using bulk cargo ships like the United States), which allows it to sell to a wider range of customers and to access shallower southern ports; and (3) faster shipping times. Industry experts, telephone interview by USITC staff, February 19, 2016; USDA, *Vietnam Grain and Feed Annual*, May 5, 2015; Government of Australia, Austrade.gov, "Agribusiness to Vietnam," May 8, 2015.

		TPP country concessions		
Product	**U.S. concessions**	**Japan**	**Malaysia**	**Vietnam[a]**
Rice	Tariffs as high as 11.2% eliminated within 15 years. Tariffs on rice imports from Vietnam eliminated upon EIF.	New U.S.-specific TRQ, which reaches a maximum of 70,000 mt in 13 years. US-TRQ process includes using a sell-buy-sell mechanism and setting a stable markup level; in-quota imports are duty free but subject to markups.	Tariffs as high as 40% eliminated within 11 years. Current tariffs: -Paddy, brown, white, and broken rice: 40%. - Broken rice for feed: 15%.	Tariffs of 40% eliminated upon EIF.

Source: USTR, TPP full text, Annex 2-D; USDA, FAS, Factsheets: Rice (November 30, 2015), Wheat (October 28, 2015), and Corn (November 30, 2015).
Note: EIF = Entry into Force.
[a] Vietnam does not impose MFN duties on seed grains for planting.

Many of Japan's TPP provisions for grains would not result in unrestricted access for imports, but rather potentially expanded access through new TRQs. These provisions would also result in some lower in-quota tariffs and adjustments to the administration of certain TRQs. Under TPP, Japan would establish additional country-specific TRQs, including for wheat from the United States, Canada, and Australia, and for rice from the United States and Australia.[291] Wheat under these TRQs would be subject to a lower maximum markup. Feed wheat will be given duty-free/quota-free access, essentially being removed from the existing WTO wheat TRQ.[292] A side letter states that Japan's TRQ for U.S. rice would be administered by the Japanese government through a modified simultaneous buy-sell (SBS) mechanism. This mechanism would be aimed at addressing certain administrative issues, including making the tender process more transparent and, if there are multiple years in which the quota does not fill, lowering the markup.[293] However, only three types of importers may use the SBS mechanism, and only if the Japanese government determines that they have "sufficient capacity to handle rice": distributors (including wholesalers and retailers), manufacturers, and those in the food service industry.[294]

[291] The Australia TRQ is equal to 12 percent of the U.S.-specific quota. USTR, TPP full text, Annex 2-D.
[292] Japan's feed wheat imports from TPP partners would be supervised by Japan's Customs Administration but will take place outside of MAFF's SBS system. USTR, TPP full text, annex 2-D.
[293] U.S.-Japan Letter Exchange on Operation of SBS Mechanism (accessed February 19, 2016).
[294] These types of businesses are major purchasers of rice imports administered through SBS tenders, which account for a small portion of Japan's total rice imports (less than 2 percent in Japan Fiscal Year 2014, but potentially up to 15 percent). Japan's MAFF is the primary rice importer and the only entity eligible to import through Market Access (MA) tenders, which account for most of Japan's WTO TRQ. MA rice imports are mostly used for livestock feed, industrial use, or food aid, with a small portion for table rice. USDA, FAS, Japan Grain and Feed Annual, March 15, 2016, 23–26.

Estimated Effects of TPP on the U.S. Grains Sector

The Commission model shows that overall U.S. grains production would be slightly higher—by 0.3 percent in 2032, compared with the baseline estimate. The modeling estimates also indicated TPP would lower U.S. grain exports by one-tenth of 1 percent in 2032, primarily because of increased domestic grain demand. Demand would rise for U.S. grains—especially corn—as inputs, both for the meat and dairy industries, which use grain for feed, and for the processed foods industry, which includes milled grain products.[295] Commission modeling estimates that exports of meat, dairy, and processed food products will all increase as a result of TPP. While U.S. grains exports to the world would be lower if TPP is adopted, exports to TPP countries, mainly Vietnam, would rise slightly (1.3 percent). That said, many major grain industry representatives have stated that they anticipate positive results from TPP and support the agreement.[296]

As noted above, Commission modeling shows that U.S. grain exports to Vietnam would see some limited growth upon full implementation of the TPP.[297] The United States would primarily benefit from both a new tariff advantage for corn and wheat compared to non-TPP grain suppliers and from regaining some competitiveness relative to Australia, which already has duty-free access to the Vietnamese market.[298] However, Vietnam arguably already has relatively low tariffs on wheat and feed corn, which would limit the impact of the tariff reductions.[299] In the longer term, the U.S. industry expects to benefit from rising incomes and increasing demand for more processed food, baked goods, and meat in Vietnam, which would boost demand for wheat and corn.[300]

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[295] The U.S. grain industry would see additional increased sales because of higher domestic demand for grains for producing these products. The U.S. soybean industry would see a similar increase in domestic demand for feed use. This would also lead to higher U.S. soybean prices, making the United States less competitive in the global soybean market, and leading to reduced U.S. exports, particularly to China. See Meat, Dairy, and Processed Foods sections.

[296] U.S. Grains Council Submission and National Corn Growers, written submission to the USITC, February 15, 2016; Cargill, written submission to the USITC, February 16, 2016; National Association of Wheat Growers, "National Wheat Organizations Support TPP Approval," November 9, 2015.

[297] U.S. rice exports will not expand to Vietnam because, despite eliminating the 40 percent tariff, Vietnam would remain a major rice producer and exporter, and its rice imports would remain negligible.

[298] Australia would likely remain a major wheat and corn supplier to Vietnam, but the United States would regain equal duty treatment (Vietnam granted Australia zero-duty access for wheat and feed corn on January 1, 2016).

[299] USDA, ERS, *Vietnam's Agri-Food Sector,* October 2014. However, U.S. industry has stated that these tariffs can be significant because commodity grain trade, such as for wheat, is high volume-low margin. This means that even a 5 percent tariff can impact sales. Industry representatives, telephone interview by USITC staff, February 19, 2016. Reportedly, for corn in certain market conditions, a 5 percent tariff advantage would make the United States competitive with South American exports. Industry representative, email message to USITC staff, February 29, 2016.

[300] Industry representatives, telephone interview by USITC staff, February 19, 2016; industry representative, email message to USITC staff, February 29, 2016.

For Japan, Commission modeling shows that U.S. wheat exports would be 17.4 percent lower in 2032 with TPP than without it.[301] Under TPP, Canadian wheat exports would gain more market share because of Canada's competitive advantage as a low-cost producer, especially of feed wheat, which would see the greatest tariff reductions. However, U.S. rice exports would be 23.0 percent higher in 2032, based on the expectation of maintaining current U.S. exports levels to Japan within the WTO TRQs while increasing exports under the new TPP TRQs.[302] U.S. corn exports would be 1.4 percent higher because the elimination of the in-quota corn tariff would cause increased imports from TPP partners, including the United States, at the expense of non-TPP suppliers.

Commission model results indicate that enacting TPP would be marginally more negative for rice exports, as losses in some TPP markets could exceed gains in others. The U.S. rice industry would face stronger competition in Mexico, a predominantly long grain rice market, and, to a lesser extent, within the United States. Under TPP, Mexico would eliminate 20 percent duties on white rice for all partner countries over 10 years in equal stages,[303] removing the U.S. tariff advantage vis-à-vis Vietnam. Commission modeling estimates that this would lead to a 1.8 percent decline in exports of U.S. rice to Mexico.[304] Additionally, U.S. duties on Vietnamese rice would be eliminated upon TPP's entry into force, creating more competition in the U.S. market as Vietnamese imports slightly increase their market share.[305] Gains are expected, but not assured, in the Japanese market, which mostly imports medium grain rice (box 3.4). Currently, about 47 percent of Japan's rice imports under its WTO TRQ are from the United States.[306] Under TPP, Japan would grant U.S. rice its own duty-free TRQ, with a maximum of 70,000 mt.[307] However, U.S. rice entering Japan under the new TRQ would continue to be

[301] Commission model results show greater U.S. wheat exports to other markets nearly offsetting lower exports to Japan under TPP.
[302] Commission modeling was based on the expectation of all new TRQ access filling; however, some in the rice industry have expressed doubt that this will happen, especially in the long term. Industry representatives, interview by USITC staff, February 24, 2016.The out-of-quota duty on barley would also be eliminated for TPP members. USTR, TPP full text, Annex 2-D.
[303] Duties on all other forms of rice will be eliminated upon entry into force. Other forms of rice covered by the HS at the 6-digit level are paddy, or rough rice (1006.10), brown rice (1006.20), and broken rice (1006.40).
[304] USITC, *Rice: Global Competitiveness*, April 2015, 338–39.
[305] Industry sources think this would likely result in a small negative impact on the U.S. domestic industry. USA Rice Federation, written submission to the USITC, February 16, 2016, 5. Commission modeling shows that U.S. Imports of rice from Vietnam would increase 28.7 percent in 2032 if TPP were enacted, albeit from a relatively small base. Any market share losses both in Mexico and domestically would primarily affect long-grain rice producers, who are concentrated in the U.S. South, especially Arkansas. Any gains in market access to Japan would primarily benefit medium-grain rice producers in California.
[306] Based on the volume of imports during 2011–15. GTIS, Global Trade Atlas database (accessed February 25, 2016). Japan's WTO TRQ for rice is 682,000 mt (milled rice equivalent) and has prohibitively high over-quota tariffs. USITC, *Rice: Global Competitiveness*, April 2015, 71.
[307] Under TPP, the TRQ for U.S. rice would initially be set at 50,000 mt and would grow to a maximum level of 70,000 mt by year 13. United States rice exports to Japan averaged about 208,834 mt during 2012–14. GTIS, Global Trade Atlas database (accessed January 20, 2016).

subject to a markup and to chemical testing, which U.S. industry has stated could deter some trade.[308]

Box 3.4: U.S. Rice and Market Access to Japan: Documented vs. Undocumented Commitments

The ultimate net impact of the TPP Agreement on the U.S. rice industry depends on actual access achieved in the Japanese market. A number of expected Japanese commitments, as understood by U.S. rice industry representatives, are not documented in the official TPP Agreement text or corresponding side letter. These include Japan reserving a majority of the new medium-grain rice access under the WTO TRQ for the United States and lowering the markup rate for the U.S. TRQ (see table in this box). Additionally, there is uncertainty as to the fill rate of the U.S. TRQ guaranteed by the Japanese government under TPP. Industry representatives are concerned that, unlike the WTO TRQ, Japan may regard the U.S. TRQ merely as providing Japan with an option to fully fill it or not.[a] There is also the generally held assumption that exports under the U.S. TRQ would be new access over and above current levels of U.S. exports. Industry representatives are also concerned that, although the side letter included commitments to improve it, the SBS (simultaneous buy-sell) system could still deter shipments. The administration of the current SBS system resulted in only a 10 percent fill rate for 2015.

U.S. Rice: Japan's Commitments

Commitments	Documented	Undocumented
TPP: U.S. TRQ		
Quantity	Up to 70,000 mt annually	
Markup	Drops 15% a year—for up to two years—if U.S. TRQ does not fill	Set at ¥22/kg ($196/mt)
SBS System Administration	Changes to some functions	
WTO TRQ:		
Quantity	60,000 mt specifically allocated for imports of medium-grain rice used for processing	80 percent (48,000 mt) guaranteed to the United States

Sources: USTR, TPP full text, Annex 2-D; .S.-Japan Letter Exchange on Operation of SBS Mechanism (accessed February 19, 2016); USA Rice Federation, written submission to USITC, February 16, 2016.

Commission modeling assumed a maximum fill of the documented market access gains (e.g. 70,000 mt) under the TPP on top of current export levels for Japan which, while having a positive effect, did not fully counteract a slight negative impact on the overall U.S. rice industry.[b] However, if Japan provides both documented and undocumented commitments, U.S. rice exports could gain 118,000 mt of new access, and TPP would likely result in a slight positive impact on the overall U.S. rice industry. On the other hand, if none of these additional commitments are met and the U.S. TRQ under TPP fill rate is only 10 percent (e.g. 7,000 mt) as it was in 2015, then TPP would have an even more negative impact on the U.S. rice industry. Exports and output could decline even further under any of these scenarios if the United States does not maintain its current market access levels. Industry representatives can envision a situation where, if TPP were enacted, they may initially receive both documented and undocumented access levels, but that over time access may be limited to only what is documented or below, due in part to an increasingly less functional SBS system.[c] However, it is impossible to predict which of these scenarios will actually come to fruition.

[308] Industry representatives, interview by USITC staff, February 24, 2016.

[a] Reportedly the Japanese government believes that it is obligated to fill the WTO TRQ. U.S. industry representatives, interview by USITC staff, February 24, 2016.
[b] Commission modeling also assumed lost U.S. sales to Vietnam domestically and in Mexico; and there is no indication that alternative scenarios could be expected in these markets.
[c] U.S. industry representatives, interview by USITC staff, February 24, 2016.

Processed Foods

Assessment

The TPP Agreement would have a significant positive impact on both U.S. exports and imports of processed foods.[309] Processed foods include both bulk and retail-ready branded food preparations, processed fruits and vegetables, and food products like coffee, cookies, and pet food. Averaging $24.6 billion annually between 2013 and 2015,[310] this category is one of the largest baskets of U.S. agricultural exports, and the United States is a leading producer and exporter of these products, as well as a major importer. Most of the positive export impact under the TPP is likely to come from tariff reductions and removal in Japan and Vietnam, with some additional gains from the creation of new TRQs for processed grain products in Japan. In certain TPP markets, U.S. exporters would gain from the leveling of the playing field with other competitor countries that already have tariff preferences owing to existing FTAs. Extra benefits may accrue for some products from new TPP provisions regarding proprietary formulas for prepackaged foods and food additives.

TPP's impact on U.S. imports is likely to be smaller than on exports. Most U.S. imports of processed foods from TPP partners are from NAFTA partners Canada and Mexico and already face low or no tariffs. However, even a small percentage increase to the already sizable U.S. imports from these countries translates into significant import growth. Since other TPP partners are not significant exporters of processed foods, additional U.S. imports from new TPP partners resulting from tariff reductions and eliminations are expected to be smaller and likely consist of specialty food products.[311]

If TPP is adopted, Commission modeling estimates that U.S. exports of processed foods would be 3.8 percent higher in 2032 than they would be without TPP, and exports to TPP countries

[309] Processed foods includes processed vegetables; processed fruits; fruit and vegetable juices; coffee and tea; milled grain products such as flour, pasta, and cereals; cocoa products; processed animal and pet food; egg albumin products; and other food preparations such as butter substitutes, coffee whiteners, and gelatin. These products are classified under HS 0710, 0711, 0712, 0811, 0812, 0814, 1101, 1102, 1103, 1104, 1105, 1106, 1108, 1109, 1802, 1803, 1804, 1805, 1902, 1903, 1904, 1905, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2101, 2102, 2103, 2104, 2209, 2302, 2309, and selected products classified under HS 0901, 0902, 1212, 1302, 1602, 1806, 2106,2303, and 3502.
[310] GTIS, World Trade Atlas database (accessed February 17, 2016).
[311] Processed foods containing dairy and sugar ingredients would continue to be subject to U.S. TRQs for dairy and sugar products under TPP.

even greater at 9.1 percent above the baseline. The largest gains for U.S. exports are expected in Japan and Vietnam. U.S. exports to both countries would be made up of a wide range of products. For Japan, leading exports would include grape juice concentrate, processed potatoes, and cookies, crackers, and biscuits; for Vietnam, processed potatoes and cookies, crackers, and biscuits. The Commission model estimates that U.S. imports of processed foods would be 1.1 percent above the baseline in 2032 with TPP. The greatest gains would be expected from Mexico and Japan.

Overview of U.S. Trade with TPP Partners

The United States is a global leader in both exports and imports of processed food products. Moreover, this category is one of the fastest-growing segments for U.S. agricultural trade.[312] Between 2013 and 2015, U.S. exports of processed foods to TPP countries accounted for over half of total exports (table 3.24). Of these, more than three-quarters were to NAFTA partners. U.S. processed foods tend to be high-value, often branded, food ingredients and end products, and demand is strong in higher-income countries more adapted to the Western diet. New TPP partners accounted for just 15 percent of U.S. exports to TPP members, which are concentrated in Japan,[313] with much smaller shares to Malaysia and Vietnam. At $4.9 billion in average annual exports between 2013 and 2015, the largest major export subcategory was processed fruits and vegetables, including juices. Major products in this category include raisins, processed potato products, and juice concentrates (particularly orange, cranberry, and grape); outside of NAFTA partners, these are shipped largely to Japan. Another important export subcategory, with $4.7 billion in annual exports during 2013–15, is "food preparations, nesoi,"[314] a large basket category containing such varied products as food ingredients containing milk solids or sugar, butter substitutes, coffee whiteners, flavored syrups, fortified fruit juices, gelatins, and herbal teas.

Table 3.24: U.S. exports of selected processed foods to world and TPP partners, average 2013–15, million dollars

Product and selected subproducts (HS subheading)	U.S exports to world	U.S exports to TPP countries			
		All	New partners	NAFTA	Other existing FTA partners
Processed foods: total	24,621.3	14,347.8	2,193.3	10,935.5	1,219.0
Selected subproducts					
Bread, pastry, cakes, and biscuits (190590)	1,646.2	1,239.5	73.9	1,108.4	57.2
Sauces and condiments (210390)	1,051.2	621.3	39.1	515.9	66.3

[312] ATAC for Trade in Processed Foods, *The Trans-Pacific Partnership Agreement,* December 3, 2015, 2.
[313] Despite its high tariffs, import demand in Japan is strong, and it is a leading consumer of U.S. processed food products, including branded products. Campbell Soup Company, written submission to the USITC, February 11, 2016.
[314] "Nesoi" means "not elsewhere specified or included."

Product and selected subproducts (HS subheading)	U.S exports to world	U.S exports to TPP countries			
		All	New partners	NAFTA	Other existing FTA partners
Swelled and roasted cereals (190410)	516.3	404.2	2.5	394.0	7.7
Mixes and doughs (190120)	511.6	349.6	39.8	286.0	23.8
Soups and broths (210410)	439.7	367.2	17.6	342.1	7.5
Pasta (1902)	367.8	330.9	32.2	295.6	3.1
Food preparations, nesoi (210690)	4,674.9	2,187.1	382.4	1,544.4	260.2
Processed fruit	937.6	577.2	88.6	449.9	38.8
Processed vegetables	2,882.1	1,654.6	530.3	1,005.2	119.1
Juice	1,039.1	660.2	130.1	507.6	22.4
Pet food (2309)	2,790.4	1,482.3	329.7	979.1	173.5
Cocoa products	1,707.7	1,138.9	73.7	954.5	110.8
Coffee and tea	1,234.8	957.7	74.3	843.4	40.0
Milled grains	678.5	479.6	54.6	393.6	31.3

Source: USITC DataWeb/USDOC (accessed February 17, 2016).
Note: Nesoi = not elsewhere specified or included.

U.S. exporters of processed foods are highly competitive but face high tariffs in TPP countries, particularly on products containing dairy or sugar. Since U.S. trade with previous FTA partners is largely duty-free, the high tariffs are mainly found in new TPP partner markets. In Japan, these products face tariffs as high as 52.5 percent on flavored syrups, 21.3 percent on tomato juice, and 15 percent on cookies. In Vietnam, tariffs on U.S. processed foods run as high as 40 percent on processed vegetables and canned soups.

U.S. exporters of processed foods must deal with other impediments in addition to tariffs. Dairy and sugar containing processed foods face restrictive TRQs in Canada, while those with a base of wheat and rice are similarly restricted in Japan. Processed foods often face such technical barriers to trade (TBTs) as complicated labeling requirements that increase costs for U.S. exporters. Finally, a key competitive factor in many TPP markets for processed foods are the tariff preferences that U.S. competitors already have through bilateral FTAs, leaving the United States at a competitive disadvantage vis-à-vis these competitors.

Summary of Provisions

Market access provisions for processed foods under TPP include tariff elimination, both immediate and through phaseout periods, and some additional TRQ access into Japan (for wheat-based processed foods products) and Canada (for products containing dairy and sugar). Phaseout periods for tariff elimination range from immediate to 20 years (table 3.25). Although most of the key TPP provisions cover trade with countries with which the United States does not already have an FTA, Canada would grant some additional TRQ access to the United States under TPP, beyond its NAFTA commitments (discussed below). Of the non-FTA partners, based

on current trade and consumption trends, concessions for processed food in Japan and Vietnam are likely to be the most significant.

Nearly one-third of Japan's tariff lines on processed foods would be granted immediate duty-free access, including certain processed fruits and vegetables, flavored waters without added sugar, roasted coffee, soups, and spices. Up to 75 percent of all U.S. processed foods exports, including frozen French fries, cookies, crackers and biscuits, would achieve duty-free access between years 4 and 21 of the agreement. However, new Japanese TRQs (affecting processed cheese, butter, and chocolate confectionary bars) only minimally expand access for processed foods.[315]

Table 3.25: Processed foods: Selected U.S. and TPP partner tariff concessions

	U.S.	TPP country concessions			
Product	**concessions**	**Japan**	**Malaysia**	**Vietnam**	**New Zealand**
Processed foods	Tariffs currently as high as 131% eliminated within 20 years. Some products are subject to dairy and sugar TRQs.	Some tariffs as high as 25.5% eliminated within 11 years; 4 new TRQs and 1 new U.S.-specific TRQ added. Sauces and flavored waters with added sugar: tariffs as high as 13.4% eliminated in 4 years. Cookies, crackers, biscuits: tariffs as high as 40% eliminated within 8 years. Rice products: Tariffs as high as 34% eliminated in 11 years. Uncooked spaghetti and macaroni: 30 yen/kg tariff (~30% AVE) reduced by 60% over 9 years. New TRQ added for processed wheat products. New TRQ for food preparations with wheat added. New U.S.-specific TRQ added for processed wheat products.	Tariffs as high as 25% eliminated within 16 years.	Tariffs as high as 55% eliminated within 12 years. Tariffs on cookies, crackers, biscuits, breads, and starches eliminated in 8 years.	Tariffs as high as 5% eliminated within 5 years.

Source: USTR, TPP full text, Annex 2-D. USDA, FAS, *Trans-Pacific Partnership Benefits to Agriculture: Processed Products,* October 28, 2015.

[315] ATAC for Trade in Processed Foods, *The Trans-Pacific Partnership Agreement*, December 3, 2015.

Japan granted limited new TRQ access for processed products and food preparations with wheat; two are TPP-wide and one is U.S.-specific. The within-quota volume for the TPP-wide TRQ for swelled or roasted cereals and other food preparations begins at 7,500 mt and reaches 10,000 mt in 6 years. The TPP-wide TRQ for food products of flour begins at 15,000 mt and reaches 22,500 mt in 6 years. The U.S.-specific TRQ for mixes and doughs begins at 10,500 mt and reaches 12,000 mt in 6 years.[316] Processed food products containing dairy would gain some additional access in Canada through two TPP-wide TRQs, one for ice cream and mixes and the other for other dairy products, with each beginning at 1,000 mt and reaching 1,138 mt in 14 years.

In addition to tariff provisions, the TPP text includes an annex in the chapter on technical barriers to trade relevant to processed foods. Annex 8-F, which covers proprietary formulas for prepackaged foods and food additives, specifically relates to gathering information on proprietary formulas. It requires parties to limit the information requirements and to ensure the confidentiality of such formulas to protect legitimate commercial interests.

Estimated Effects of TPP on the U.S. Processed Foods Sector

Commission modeling estimates that the TPP Agreement would have a significant, positive impact on U.S. exports of processed foods.[317] Most of the positive impact is likely to come from tariff reductions and removals in Japan and Vietnam, and the creation of new TRQs in Japan. These countries do not have previous FTAs with the United States and therefore represent the main areas of export opportunity under TPP.

The modeling simulations show that total U.S. exports of processed foods would be 3.8 percent above the baseline in 2032 with the implementation of TPP. This gain in U.S. exports outweighs the corresponding boost in U.S. imports of processed foods of 1.1 percent. In turn, U.S. output of processed foods would be 0.8 percent greater and employment in the sector 0.7 percent larger than without TPP.

U.S. industry representatives have stated that the TPP has significant potential to increase U.S. processed foods exports due to market access openings stemming from reduced and eliminated tariffs, improved administration of newly established TRQs, and enhanced rules

[316] Two additional, and very limited, TPP-wide TRQs were granted by Japan. The first allows 100 mt of uncooked udon, somen, and soba noodles annually, while the second, for food preparations of barley, reaches 115 mt in 6 years.

[317] Commission modeling results do not further disaggregate based on specific processed food products such as potatoes, pasta, and others.

governing nontariff barriers.[318] In addition, U.S. processed foods exporters note that the TPP Agreement covers an important portion of the global supply chain for many product categories in the processed foods sector, with the potential for substantial further supply chain integration when additional countries join the TPP.[319] These same representatives expressed disappointment with the lack of more significant expansion of access for processed U.S. dairy products that would be highly competitive in the Canadian market and the minimal expansion of access for Canadian sugar to the United States, access to which they believe is critical to the competitiveness of U.S. processed foods.[320]

U.S. industry representatives also view the TBT chapter of the TPP favorably, including the annex on proprietary formulas for prepackaged foods and food additives. In their view, the chapter includes robust clarification language stipulating that traded products can undergo conformity assessment procedures only once before being sold in TPP markets.[321] In addition, U.S. industry representatives view favorably the SPS chapter, specifically the procedure for handling the detection of low-level presence of biotech material, as well as the enhanced SPS commitments for science-based regulations that are not more restrictive than necessary and a rapid response mechanism to resolve SPS issues at the border.[322] U.S. industry representatives, such as those for the U.S. pet food industry, believe such provisions would discourage arbitrary and unjustified barriers to U.S. exports.[323]

Effects of TPP on U.S. Exports of Processed Potatoes

For many processed foods, the elimination of high, and even moderate, tariffs would have positive effects on U.S. exports. Certain processed potato products face high to moderate tariffs in Japan and Vietnam, and their eventual elimination would result in the expansion of U.S. exports for these products.

U.S. annual exports of processed potato products were valued at more than $1.3 billion during 2013–15.[324] A large subset of this category is frozen potatoes, including French fries, a sector in which the United States competes with the EU and Canada in global markets. Other large

[318] ATAC for Trade in Processed Foods, *The Trans-Pacific Partnership Agreement*, December 3, 2015; Pet Food Institute, written submission to the USITC, December 29, 2015; Campbell Soup Company, written submission to the USITC, February 11, 2016.
[319] ATAC for Trade in Processed Foods, *The Trans-Pacific Partnership Agreement*, December 3, 2015.
[320] Ibid.
[321] Ibid.
[322] ATAC for Trade in Processed Foods, *The Trans-Pacific Partnership Agreement*, December 3, 2015; Pet Food Institute, written submission to the USITC, December 29, 2015.
[323] For example, U.S. pet foods including poultry ingredients were reportedly subjected to unjustified trade restrictions related to avian influenza. USITC, hearing transcript, January 14, 2016, 435–36 (testimony of Peter Tabor, PFI).
[324] GTIS, World Trade Atlas database (accessed February 17, 2015).

exporters, such as New Zealand and China, are seeking to expand market share in Asia. Tariffs on U.S. processed potatoes in TPP countries are primarily found in Japan and Vietnam. Japan presently places tariffs of 8.5 percent on frozen French fries (HS 2004.10) and up to 20 percent on other dehydrated potato products (HS 1105.20, 2005.20). Japan's TPP concessions for processed potatoes include full elimination in 11 years. Vietnam's tariffs, which range from 18 to 24 percent, would also eventually be eliminated under TPP. Representatives of the U.S. potato industry estimate that elimination of Japanese tariffs on French fries (HS 2004.10) and dehydrated potatoes (HS 2005.20) alone would increase the value of Japanese imports of each product by at least $10 million annually.[325] In light of rising demand and TPP tariff elimination, overall U.S. exports of frozen French fries to Vietnam would reach $10 million (from a 2014 level of $3.75 million) within 5 years.[326]

Effects of TPP on U.S. Exports of Grape Juice Concentrate

For certain U.S. processed foods exports, tariff elimination and/or reduction is significant because other TPP suppliers compete with U.S. exporters in TPP markets at a low tariff rate, or no tariff at all, owing to a previous FTA. Exporters in Australia, Chile, Malaysia, and Vietnam currently have a competitive advantage over their U.S. counterparts as a result of their existing FTAs with Japan. The U.S. tariff preference under TPP would allow U.S. exporters of grape juice concentrate to compete on even terms in the Japanese market.

The United States is a major producer and exporter of grape juice concentrate. U.S. exports were $80.4 million in 2014, and the United States was the third leading global exporter of this product behind Argentina and the EU, accounting for about 16 percent of global trade that year.[327] In Japan, the United States competes with Argentina, Chile, and Brazil, all highly cost-competitive producers and exporters.[328] Total exports of grape juice concentrate from Chile, a TPP partner, were $62.9 million in 2014, with $14.9 million going to Japan. Chile's top three markets are South Korea, Japan, and Canada.

Current U.S. exports of grape juice concentrate to Japan are at a competitive disadvantage to those from Chile with respect to tariffs. Japan's FTA with Chile (completed in 2007) provides for the elimination of grape juice tariffs in a 15-year phaseout period ending in 2022. During this period, Chilean grape juice concentrate enters Japan at a preferential tariff, while U.S. grape

[325] National Potato Council, 2016 National Trade Estimate Report on Foreign Trade Barriers, October 28, 2015, 18.
[326] National Potato Council, written submission to the USITC, December 23, 2015.
[327] GTIS, World Trade Atlas database (accessed January 19, 2016).
[328] GTIS, World Trade Atlas database (accessed January 19, 2016); Welch Foods, Inc., written submission to USTR, June 7, 2013.

concentrate faces tariffs of 19–29.8 percent.[329] Tariff elimination under the TPP will allow U.S. exporters to compete on even terms with Chile in the Japanese market and will give the United States a tariff advantage over Argentina, Japan's largest supplier.

Welch Foods, Inc., estimates that the immediate tariff elimination on grape juice concentrate will translate into cost savings of about 20 percent. According to the company, these lower costs are likely to increase its exports of grape juice concentrate to Japan by up to 20 percent, increasing crop utilization in the United States and supporting U.S. employment on grape farms and throughout the U.S. grape juice concentrate supply chain.[330]

Fresh Fruits, Vegetables, and Nuts

Assessment

On balance, the TPP Agreement would have a positive impact on U.S. exports and a minimal impact on U.S. imports of fresh fruits, vegetables, and nuts. The United States is a competitive global producer and exporter of fresh produce and nuts, and U.S. exports would increase as tariffs decline. Select products in this sector, however, face SPS restrictions that will continue to hamper trade unless resolved by the TPP parties. U.S. exports of fresh fruits, vegetables, and nuts would benefit most from increased market access in Japan and Vietnam, where tariff reduction and elimination are most significant, and moderately in Malaysia, which already has lower tariffs on these products.

Overview of U.S. Trade with TPP Partners

The United States exports almost half of its fresh produce and nuts—worth $7.9 billion—to TPP markets, with NAFTA partners accounting for the majority of U.S. exports (table 3.26). High tariffs on fresh nuts and produce, along with SPS measures on certain products, are key trade barriers currently inhibiting U.S. exports to non-FTA partners. These partners presently account for less than 10 percent of total U.S. exports. Of these, Japan is the largest export market for U.S. horticultural products, and demand for U.S. exports of fresh produce in Japan is already well established. Fresh fruits, vegetables, and nuts currently face high tariffs in new TPP markets—up to 40 percent—that inhibit U.S. exports. Some horticultural products also face extra-high seasonal tariffs designed to protect local production. Moreover, the United States competes in several TPP markets with other countries that already benefit from lower duties or

[329] Most U.S. grape concentrate enters Japan under HS 2009.69.210 at a duty of 19.1 percent. Imports of this product become duty free immediately under TPP. Other grape juice concentrate tariff lines phase out to zero over 6- and 11-year periods.
[330] Welch Foods, Inc., written submission to USTR, June 7, 2013.

no duties resulting from preexisting FTAs.[331] In addition to tariff barriers, fresh horticultural products are affected by SPS restrictions that can increase the cost of some U.S. products to the point where they effectively inhibit exports.[332]

Table 3.26: U.S. exports of fresh fruit, vegetables, and nuts to world and TPP partners, 2013–15 average, million dollars

		U.S exports to TPP countries			
Product and selected subproducts	**U.S exports to world**	**All**	**New partners**	**NAFTA**	**Other existing FTA partners**
Fresh fruit	5,603.1	3,389.0	654.8	2,484.8	249.3
Fresh vegetables	3,117.9	2,326.8	147.9	2,133.4	45.6
Nuts	8,792.8	2,174.0	797.7	1,212.9	163.3
Total	17,513.80	7,889.80	1,600.40	5,831.10	458.20

Source: USITC DataWeb/USDOC (accessed February 17, 2016).

Summary of Provisions

The U.S. fresh fruit, vegetable, and nut sectors would benefit from either immediate duty-free market access to new TPP partner economies or significant but gradual tariff reductions in these markets (table 3.27). Most fresh fruit, vegetable, and nut imports to the United States would be granted immediate duty-free treatment, but with current tariffs already low, effects would be moderate. For a select product, fresh oranges, TPP benefits could be offset by a safeguard mechanism. Under TPP, Japan has retained the right to apply safeguard duties to oranges—up to 28 percent—if total TPP import volume during the high season exceeds certain trigger points.[333]

Table 3.27: Fresh fruit, vegetables, and nuts: Selected U.S. and TPP partner tariff concessions

		TPP country concessions		
Product	**U.S. concessions**	**Japan**	**Malaysia**	**Vietnam**
Fresh fruits	Most fruits become duty free upon EIF; tariffs as high as	Most fruit becomes duty free on EIF. Tariffs as high as 32 percent (on citrus) or	5 percent tariffs on most non-tropical fruit eliminated on	Tariffs as high as 40 percent (on citrus) eliminated on EIF or

[331] Several TPP parties (Australia, Chile, Brunei, Mexico, Peru, and Malaysia) have already negotiated preferential bilateral tariff agreements with Japan, and Canada is currently negotiating one. Chile has also negotiated bilateral tariff agreements with Malaysia, Vietnam, New Zealand, Brunei, and Australia. Malaysia has negotiated bilateral tariff agreements with Australia and New Zealand. Due to the multilateral ASEAN-Australia-New Zealand FTA, the U.S. fresh produce and nut industries also face a competitive disadvantage in supplying horticultural products to Malaysia and Vietnam.

[332] These include import bans related to certain pests and diseases, maximum residue levels for pesticides, or stringent fumigation requirements.

[333] Japan TPP, Appendix B-1, "Agricultural Safeguard Measures to Tariff Schedule of Japan," states (a) 35,000 mt for year 1, except as provided in paragraph 5; (b) 37,000 mt for year 2; (c) 39,000 mt for year 3; (d) 41,000 mt for year 4; (e) 43,000 mt for year 5; (f) 45,000 mt for year 6; and (g) 47,000 mt for year 7. Although Japan's recent imports of fresh oranges would not trigger the safeguard, a return to historical Japanese import levels could. For example, imports from the United States alone accounted for 97 percent of the quota trigger based on a recent high-shipment season (December 2012–March 2013).

		TPP country concessions		
Product	**U.S. concessions**	**Japan**	**Malaysia**	**Vietnam**
	29.8 percent (on dates, fresh cantaloupes) eliminated in 10 years or less.	17 percent (on apples) eliminated in 11 years or less.	EIF.	within 2–6 years.
		Fresh oranges (top U.S. exports in this category) have front-loaded duty reduction for low-season imports, extended low-season access, and safeguards imposed on fresh oranges during high-season transition period. All tariffs and safeguard mechanisms eliminated in 6–8 years.	Tariffs on melons and tropical fruits eliminated in 11 years.	15 percent tariffs on apples and grapes (top U.S. exports in this category) eliminated in 3 years.
Fresh vegetables	The majority of U.S. tariffs on fresh vegetables will end immediately. A few select tariffs expire in 20 years.	Tariffs on fresh vegetables average less than 5 percent. The majority of those tariffs will be eliminated upon EIF.	Few import duties on fresh vegetables, and all tariffs will be eliminated upon EIF.	Tariffs on fresh produce average 15–20 percent. All will become duty free within 4 years.
	U.S. tariffs on asparagus and mushrooms from Australia expire in 20 years.			
Nuts	Most nuts become duty free upon EIF; tariffs as high as 22.4 percent are eliminated in 10 years or less.	Most nut tariffs (as high as 12 percent) are eliminated upon EIF; other tariffs as high as 23.8 percent are eliminated in 8 years or less.	Most nuts have no existing duty; 5 percent tariff on raw peanuts eliminated upon EIF.	Tariffs as high as 34 percent eliminated in 6 years or less.
	For peanuts and peanut products, over-quota rates of 131.8–163.8 percent are eliminated in 10 years or less. For Peru, staged tariff reductions remain the same as under the U.S.-Peru FTA.	For peanuts, in-quota duty of 10 percent is eliminated upon EIF; over-quota duty eliminated in 8 years.		

Source: USDA, FAS, Factsheets (accessed November 23, 2015).

Estimated Effects of TPP on the U.S. Fresh Fruit, Vegetables, and Nuts Sector

Many U.S. fresh fruit, vegetables, and nut exports would benefit from tariff reduction under the TPP, particularly exports to non-FTA partners. If TPP is adopted, Commission modeling estimates that total U.S. exports of fresh fruit, vegetables, and nuts would increase by $574.9 million (2.0 percent) worldwide, while total U.S. imports of these commodities would increase by $119.2 million (0.5 percent) by 2032, compared to the baseline. Most of the projected increase in fresh horticultural exports is due to increased exports to non-FTA partners. Under TPP, U.S. producers' output of fresh fruit, vegetables, and nuts are projected to be 0.2 percent higher in 2032, compared to the baseline. Employment in the sector tracks these output trends.

If TPP is enacted, Commission modeling estimates that U.S. fresh fruit, vegetable, and nut exports to all TPP member countries would increase by $990.3 million, or 8.3 percent. The majority of the increase would be due to increased exports to Vietnam, valued at $721 million, and Japan, $274.9 million.

Immediate duty-free treatment for most fresh fruit and nuts from the United States would likely have the strongest impact on U.S. farmers along the West Coast and in the Southeast. Significant but gradual TPP tariff reductions would increase leading U.S. exports—citrus fruits, apples, and grapes—to Japan, Vietnam, and Malaysia. The domestic citrus industry would also likely benefit from the expansion of the low-season tariff window in Japan.[334] TPP's immediate or gradual duty-free treatment for most U.S. nuts would benefit highly export-competitive almonds, pistachios, walnuts, and peanuts. TPP tariff reductions would have a moderate impact on U.S. exports of fresh vegetables because Japanese tariffs on these products are already low, averaging less than 5 percent. The gradual elimination of Vietnam's high tariffs on fresh vegetables could benefit the U.S. fresh vegetable industry in the future if Vietnam's economy continues to develop and expand.

Although tariff elimination is an important component of the TPP, partner countries' rules on SPS measures have a significant impact on the ability of U.S. producers to take advantage of reduced tariff levels. As a result, tariff reduction benefits may be tempered by longstanding SPS barriers, which may remain under TPP. The removal of SPS and technical barriers to fresh produce and nut trade would positively impact U.S. exports of these goods, but the effects of

[334] Japan will expand the low-season tariff window by two months to encompass the period April–November.

these barriers are difficult to quantify. Several U.S. fresh horticultural exports face these types of barriers in TPP partner countries.[335]

Effects of SPS Measures on U.S. Apple Exports

In Japan, U.S. apple exports face both high tariffs and restrictive SPS measures. Indeed, although it is a globally competitive apple exporter, the U.S. industry has not exported apples to Japan since 2001 due to the high cost of compliance with Japan's strict phytosanitary import protocols for codling moth.[336] Under TPP, U.S. apples would receive duty-free access to Japan's lucrative apple market within 11 years and a gradual reduction of the current 17 percent tariff. However, after more than 20 years the two countries have still not resolved Japan's SPS restrictions, and under TPP these would continue to impede access for apples.[337] Compliance with Japan's current import protocol is costly and the required methyl bromide treatment deteriorates the quality of the treated fruit. The U.S. industry estimates that the Japanese apple export market could be worth $143.4 million in the absence of Japan's SPS restrictions.[338]

Effects of SPS Measures on U.S. Fresh Potato Exports to Japan

While the TPP would reduce already low tariffs on fresh potato exports, TPP has not resolved persisting SPS issues that limit U.S. exports of potatoes in several ways. The United States is a large producer and competitive exporter of fresh potatoes, with U.S. exports reaching $182 million in 2015.[339] The vast majority of U.S. exports are to Canada and Mexico, with other important markets including South Korea, Japan, Taiwan, and Malaysia.

While U.S. exports to Japan only face a 4.5 percent tariff, significant nontariff measures govern this trade. For several decades Japan has largely prohibited fresh potato imports from the

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[335] The ability of U.S. producers to export certain fruits to Japan, including apples, cherries, plums, and nectarines, has involved protracted negotiations which preceded TPP. Japan still prohibits the importation of U.S. apricots and peaches (owing to concerns about codling moth) and U.S. pears (codling moth and fire blight). Although U.S. apples are technically permitted, the cost of complying with Japan's apple import protocols form a barrier to entry that effectively blocks U.S. apple exports. Similarly, while Japan permits imports of U.S. plums and nectarines, the United States has not exported either in years. USDA, ERS, *Japan: Fruit Policies in Japan*, April 2010. In addition, certain fresh vegetables are currently prohibited under Japan's quarantine law, including bell peppers, chilies, eggplant, potatoes, radishes, sweet potatoes, and yams. USDA, FAS, *Japan: Food and Agricultural Import Regulations and Standards-Narrative*, December 19, 2013. Other TPP partners also maintain SPS restrictions on produce. Australia currently prohibits imports of U.S. apricots and apples. Until recently, Australia also prohibited the importation of U.S. plums, peaches, nectarines, and is finalizing access for U.S. table grapes. Since 2010, New Zealand only allows stone fruit imports from the state of California. Mexico currently allows U.S. potatoes access to only within a 26-kilometer border zone. A lack of clarity in Vietnam's 2012 food safety regulations for horticultural products create uncertainty that inhibits U.S. trade flows in produce and nuts. USTR, *2015 NTE,* 2015.

[336] Powers, "Benefits of TPP," December 2015.

[337] Calvin and Krissoff, "Resolution of the US-Japan Apple Dispute," 2005.

[338] Food Navigator,"Japanese-U.S. Apple Ban Illegal, Rules WTO," June 2005.

[339] GTIS, World Trade Atlas database (accessed February 26, 2015).

United States, only allowing the United States to export fresh chipping potatoes destined for processing. Since Japan also prohibits the overland transportation of U.S. fresh potatoes, use of U.S. potatoes for chip production is limited to two Japanese potato chip facilities which are adjacent to ports. In addition, Japan's restrictive transportation protocols require fresh potatoes to be reloaded into smaller coastal vessels, increasing shipper costs while reducing potato quality. Further restrictions include a six-month import window (from February 1 through July 31) from a limited number of U.S. states.

Despite these obstacles, U.S. potato exports to Japan reached $7.5 million in 2015.[340] Without the restrictions, representatives of the U.S. potato industry estimate that the total value of the sales in Japan's fresh potato market (including fresh table stock and chipping potatoes) could increase by $10 million the first year and $50 million in three years.[341] The U.S. potato industry views the enhanced SPS provisions in the TPP as offering an additional avenue to pursue resolution of these nontariff measures.[342] At present, however, these barriers remain unresolved.

Alcoholic Beverages

Assessment

Through a combination of tariff elimination, an annex setting parameters for labeling requirements, and new protections for bourbon and Tennessee whiskey, TPP would expand U.S. exports of alcoholic beverages while having a minimal effect on U.S. imports. The elimination of tariffs through TPP in non-FTA partner countries, in particular Japan and Vietnam, is expected to boost U.S. exports of alcoholic beverages.[343] One of the primary benefits of TPP to U.S. exporters would be the ability to compete on equal terms with other TPP countries that already have preferential access in certain markets that has enabled them to export significant volumes of these products. In addition, an addendum to the TPP's TBT chapter—"Annex 8-A: Wine and Distilled Spirits"—would establish parameters for labeling that would provide certainty and regulatory coherence for U.S. wine and spirits exports, reducing costs and likely leading to increased exports.[344]

Under TPP, U.S. tariffs on imports of all alcoholic beverages would be eliminated in 10 years or less. The impact is likely to be minimal, however, because products from Australia and Chile,

[340] GTIS, World Trade Atlas database (accessed February 26, 2015).
[341] National Potato Council, written submission to the U.S. Trade Representative, October 28, 2015, 3.
[342] National Potato Council, written statement to the USITC, December 23, 2015.
[343] The Commission's model does not disaggregate specific beverage types, such as alcoholic beverages, so an estimated impact of TPP on trade of alcoholic beverages is not available.
[344] Wine Institute, written submission to USITC, February 12, 2016, 2; DISCUS, written submission to USITC, February 12, 2016, 3; industry representatives, telephone interviews by USITC staff, February 12 and 16, 2016.

two large global wine suppliers, already enter duty free through the U.S.-Australia and U.S.-Chile FTAs. In addition, the majority of wine imported from New Zealand currently enters the United States at very low tariff rates (6.3 cents/liter). The impact on spirits imports would also be minimal because new FTA TPP partners are not large suppliers to the U.S. market and most spirits already enter the United States tariff free.

Overview of U.S. Trade with TPP Partners

The United States is one of the world's largest exporters of alcoholic beverages. Between 2013 and 2015, TPP countries accounted for more than 40 percent of total U.S. alcoholic beverage exports (table 3.28), with NAFTA markets accounting for 65 percent of total exports to TPP countries. Japan is the third-largest export market for U.S. wine and the sixth-largest export market for U.S. spirits, and accounts for the majority of wine and spirits shipments to new FTA partner countries within TPP. Between 2013 and 2015, U.S. exports of wine and spirits to Japan averaged $103 and $104 million, respectively. Vietnam is also an important export market for both wine and spirits, and U.S. wine exports to Vietnam have risen rapidly, from $5.7 million in 2010 to $11.6 million in 2015. New TPP partner Malaysia has also been a growing market for U.S. wine exports, although demand is restricted by cultural practices limiting consumption of alcohol. U.S. beer exports are primarily destined for NAFTA markets, but two existing FTA partners, Chile and Australia, are also important export markets for this product.

U.S. exports of alcoholic beverages face high tariffs and technical barriers to trade in major export markets. For example, Vietnam's current tariff of 45 percent on whiskeys and Japan's 15 percent tariffs on bottled wine restrict U.S. exports to those markets. In addition, current labeling and certification requirements in export markets at a minimum add costs for U.S. producers, and have the potential to prevent trade altogether.

Table 3.28: U.S. exports of alcoholic beverages to world and TPP partners, average 2013–15, million dollars

Product and selected subproducts (HS subheading)	U.S exports to world	U.S exports to TPP countries			
		All	New partners	NAFTA	Other existing FTA partners
Alcoholic beverages: Total	3,825.0	1,748.9	268.2	1,221.3	259.4
Wine (2204): Total	1,46.1	570.0	110.0	442.1	17.9
Selected subproducts					
Sparkling wine (220410)	31.1	13.1	1.9	10.0	1.4
Other wine of fresh grapes, retail (220421)	1,188.6	512.5	86.2	411.8	14.5
Other wine of fresh grapes, bulk (220429)	247.4	44.0	21.9	20.2	1.9
Beer (2203): Total	556.9	376.2	9.5	298.7	68.0
Spirits (2208): Total	1,499.8	534.1	137.4	224.6	172.1
Selected subproducts					
Whiskies (220830)	1,078.8	308.8	103.2	63.6	142.1

Source: USITC DataWeb/USDOC (accessed February 17, 2016).

Summary of Provisions

Concessions Made by Key TPP Partners to the United States

The TPP Agreement would eliminate tariffs on alcoholic beverages in new markets where the United States does not have an FTA. Japan would eliminate all tariffs on wine products in 11 years or less. For bottled and semi-bulk wine, Japan currently charges a minimum duty of 67 yen ($0.60) per liter for product with a value of 447 yen ($3.97) per liter or less, or a 15 percent ad valorem tariff up to a maximum tariff of 125 ($1.11) yen per liter.[345] Japan will cut both the minimum duty and the 15 percent ad valorem duty by one-third as soon as the agreement enters into force, and then phase out the minimum duty in six years and the ad valorem duty in eight years. Japan's 45 yen ($0.40) per liter tariff on bulk wine will be eliminated immediately at entry into force, and the 182 yen ($1.62) per liter tariff on sparkling wine will be reduced by one-third at entry into force and eliminated in 8 years. Japanese tariffs on beer and most spirits are already zero, but the remaining tariffs on products such as sake will be eliminated in 11 years or less.

Malaysia, Vietnam, and New Zealand will also eliminate all existing tariffs on wine, spirits, and beer. In Malaysia, tariffs on wine, spirits, and beer will be eliminated in 16 years. Tariffs on wine, spirits, and beer in Vietnam are currently prohibitive, ranging from 35 percent on beer to 59 percent on wine. Vietnam will eliminate all tariffs on alcoholic beverages in 12 years. New Zealand will also eliminate a 5 percent tariff on U.S. liqueurs, vodka, gin, and wine at entry into force.

[345] Tariff rates shown in U.S. dollars were calculated using the 2013–15 average exchange rate of $1= ¥112.51.

Outside of tariff reductions, other provisions in TPP would provide additional benefits for the U.S. alcoholic beverage sector. As mentioned above, the "Wine and Distilled Spirits" annex to the TBT chapter sets parameters for labeling and certification requirements that would create transparency, regulatory coherence, and certainty for U.S. exporters.[346] Provisions in the annex would, among others, eliminate most certificate requirements, ensure that the size of samples taken by customs to assess conformity is the minimum necessary, streamline labeling content including declarations of alcohol content, and make sure that descriptive (traditional) winemaking terms are not prohibited on labels.[347] In addition to the immediate resolution of certain TBT issues, the annex establishes a framework for the region and any additional countries interested in joining TPP in the future. This is especially valuable for the U.S. wine and spirits sectors because TBT issues currently restrict trade in many other important export markets outside of the TPP region.[348]

In addition to this annex, TPP would also provide distinctive product recognition for "bourbon" and "Tennessee whiskey" through bilateral letter exchanges with Japan, Malaysia, Vietnam, and New Zealand. As a result, these countries will prohibit the sale of bourbon and Tennessee whiskey if it has not been produced in the United States and in accordance with U.S. regulations.[349]

Estimated Effects of TPP on the U.S. Alcoholic Beverage Sector

Tariff reductions granted by new FTA partner countries under TPP would significantly benefit U.S. exporters, primarily by allowing them to compete on even terms with other TPP countries that already have preferential access. The elimination of Japanese tariffs on wine is of particular importance because Chile and Australia, both large wine exporters, already receive preferential tariff treatment in Japan due to trade agreements that are already in place.[350] Through these agreements, tariffs on wine from both Chile and Australia have already been reduced to 4.6 and 11.3 percent, respectively, compared to the 15 percent tariff that U.S. bottled wine faces.[351] Chilean wine will enter Japan duty-free in 2019; Australian wine, in 2022. Reduced tariffs through TPP would allow U.S. exporters to regain lost market share.[352] Similarly, wine exports

[346] For more detailed information on the provisions in the Wine and Spirits Annex, see the discussion in chapter 6 on Technical Barriers to Trade.
[347] The provision on wine labeling terminology is viewed as particularly important by U.S. industry because it would establish precedents in the region. While this provision is in force only if a country is not bound by a previous FTA, it is valuable because the EU, which has different labeling requirements covering traditional terms, is negotiating FTAs with certain TPP member countries.
[348] Industry representatives, telephone interviews by USITC staff, February 12 and 16, 2016.
[349] DISCUS, written submission to USITC, February 12, 2016, 3.
[350] Wine Institute, written submission to USITC, February 12, 2016, 2.
[351] Japan Customs website, http://www.customs.go.jp/english/tariff/2016_1/index.htm (accessed February 12, 2016).
[352] Since 2007 when the Chile-Japan FTA entered into force, Chile's share of Japan's imports of bottled wine have increased from 4.2 percent to over 16 percent in 2015.

from New Zealand, Australia, and Chile also already receive preferential tariff treatment in Vietnam, a country with a trade-restrictive tariff on wine. The elimination of high tariffs on spirits in Vietnam is also expected to boost exports by lowering prices in a growing but cost-conscious market.

Certain provisions in the wine and spirits annex would eliminate labeling and certification requirements that currently restrict trade, such as certificates for production processes and raw materials and restrictions on affixing supplementary labels at the port of entry. In addition, by increasing the transparency and regulatory coherence of labeling requirements throughout the TPP countries, this annex is likely to reduce costs and risk for U.S. producers and allow increased U.S. exports over time.[353]

Summary of Views of Interested Parties

The Wine Institute supports TPP and has expressed the view that tariff reductions, in particular those that would level the playing field with Australian and Chilean exporters in Japan and Vietnam, will boost U.S. exports. In addition, the institute states that the TBT Chapter's annex on wine and spirits will benefit U.S. exporters.[354]

The Distilled Spirits Council of the United States supports TPP and in its written submission predicted that the tariff reductions, the wine and spirits annex, rules of origin provisions, and distinctive product recognitions for bourbon and Tennessee whiskey will help to expand U.S. exports to the TPP region.[355]

Seafood

Assessment

The United States is the world's third-largest producer of seafood captured from the wild,[356] and many products of U.S. fisheries are in high demand—particularly in Asia, where seafood is widely consumed. The TPP Agreement may generate opportunities to export selected seafood products to TPP partners, particularly Japan and Vietnam. Seafood exports to TPP countries are expected to expand by an additional $115.7 million (8.7 percent) by 2032 as compared to the baseline projection, if the TPP is implemented. As a share of existing trade, the TPP Agreement is expected to have a less significant effect on U.S. imports of seafood, because seafood

[353] ATAC for Processed Foods Products, *The Trans-Pacific Partnership Agreement*, December 3, 2015, 10; industry representatives, telephone interviews by USITC staff, February 12, 2016; DISCUS, written submission to the USITC, February 12, 2016.
[354] Wine Institute, written submission to USITC, February 12, 2016, 2.
[355] DISCUS, written submission to the USITC, February 12, 2016, 5.
[356] FAO, *The State of World Fisheries*, 2014, 10.

products are a major import from TPP countries, and some of these partners—especially Canada, Vietnam, and Chile—are important sources of seafood in the U.S. market.[357]

Overview of U.S. Trade with TPP Partners

In addition to being the third-largest producer of wild-caught seafood, the United States is the world's fourth-largest exporter of such products.[358] Between 2013 and 2015, TPP partners accounted for an average of 37 percent of U.S. exports of seafood (table 3.29). Of the exports to TPP countries, partners with which the United States does not already have an FTA accounted for a relatively high share—about 43 percent—due to strong demand for seafood in Asia. This demand is particularly strong in Japan, which is the third-largest global market for U.S. seafood exports and consumes large quantities of U.S.-produced fish roe and Alaska pollock in particular, along with many other types of fish. Vietnam is also emerging as an important market for U.S. seafood exports, particularly of shellfish; U.S. seafood exports to Vietnam grew more than fivefold between 2009 and 2015 to make Vietnam the 11th-largest importer of such products.[359] The TPP Agreement is expected to generate new opportunities to export fish and seafood, largely to the new TPP partner countries.

Table 3.29: U.S. exports of fish and seafood to world and TPP partners, 2013–15 average, million dollars

Product and selected subproducts (HS subheading)	U.S exports to world	U.S exports to TPP countries			
		All	New partners	NAFTA	Other existing FTA partners
Fish and seafood: Total	5,732.0	2,102.4	894.2	1,117.6	90.6
Selected subproducts					
Shellfish (not processed) (0306, 0307)	1,429.3	614.2	146.5	446.6	21.2
Salmon[a]	841.5	323.3	58.1	234.3	30.9
Fish livers and roe (030290, 030390, 030520)	370.5	178.1	175.7	1.9	0.5

Source: USITC DataWeb/USDOC (accessed February 17, 2016).
[a] HS subheadings 030213–14, 030311–13, 030441, 030452, 030481, 030541, and 160411.

With its productive salmon fishery in Alaska, the United States is among the few global producers of Pacific salmon, generally preferred in the Japanese market over Atlantic salmon. Production of Pacific salmon in the United States was valued at $616.7 million in 2014; over half of this production was sockeye salmon (also called red salmon). The United States was the fourth-largest exporter of salmon to Japan, after Chile, Norway, and Russia. The vast majority of these U.S. exports were of frozen sockeye salmon.

[357] The effect of the agreement on U.S. imports is expected to be small because the market for such products is already mostly unrestricted. See the effects section for additional details.
[358] GTIS, Global Trade Atlas database (accessed February 29, 2016).
[359] GTIS, Global Trade Atlas database (accessed January 21, 2016).

The United States competes heavily with Chile in the Japanese salmon market. At present, Chile has an advantage because under its FTA with Japan, Japan reduced its tariff on Chilean exports of coho salmon (a Pacific salmon species, also called silver salmon) from the MFN rate of 3.5 percent to 0.6 percent.[360] Coho salmon farming in Chile was established primarily to serve the Japanese market,[361] and the combination of increased Chilean production in recent years and preferential tariff treatment has meant that exports of salmon from Chile to Japan have expanded from less than $2 million in 2011 to nearly $592 million in 2015.[362]

Other important U.S. seafood products that are in demand in TPP partner countries include shellfish and fish livers and roe. Fresh and frozen shellfish are the single largest category of U.S. seafood exports, accounting for 24.9 percent of these exports on average between 2013 and 2015. Shellfish accounted for a large majority of U.S. seafood exports to Vietnam, a rapidly growing market for such products. The category of fish livers and roe includes specialty products that are in strong demand in Japan because they are used to prepare sushi and other dishes consumed heavily there. Japan accounts for nearly all U.S. exports of fish livers and roe to TPP countries, and nearly half of total U.S. exports of these products.

Summary of Provisions

The most significant TPP provisions for U.S. seafood exporters are the elimination of tariffs in Japan and Vietnam. Japan plans to eliminate tariffs on seafood products somewhat gradually upon entry of the TPP into force, with about two-thirds of seafood tariffs eliminated immediately and the remainder within 15 years. These tariffs are generally between 3.5 and 10.5 percent. Some of the products that face tariffs are those in which the United States has a competitive advantage, such as fish roes, which currently face duties between 3.5 and 10 percent; Alaska pollock, which is used to produce surimi, an important product in the Japanese market, and for which the tariff rate is generally 6 percent; and, to a lesser extent, salmon. Japanese salmon duties are already fairly low, usually 3.5 percent, and tariff elimination under TPP is not immediate for all types of Pacific salmon. Still, the elimination of Pacific salmon duties in Japan would generate immediate gains, since Japan plans to eliminate duties on frozen sockeye salmon (the most important salmon export for the United States) upon the TPP's entry into force. It would also generate longer-term gains as remaining Pacific salmon duties are eliminated either 6 or 11 years after entry into force. Elimination of these

[360] Japan Customs website, http://www.customs.go.jp/english/tariff/2016_1/index.htm (accessed February 18, 2016).
[361] FAO, "Cultured Aquatic Species Information Programme" (accessed January 26, 2016).
[362] GTIS, Global Trade Atlas database (accessed February 17, 2016). While Chilean Pacific salmon is produced exclusively through aquaculture (i.e., fish farming), nearly all production of Pacific salmon in the United States is through wild capture, mostly in Alaska.

duties would allow the United States to compete better with Chile in the Japanese salmon market.

Vietnam plans to open its market substantially to seafood imports under TPP. Vietnam currently imposes high tariffs on most fish and seafood (generally between 15 and 30 percent), and 83 percent of these duties are eliminated upon entry into force.[363] A more open Vietnamese market would create additional opportunities for U.S. seafood exporters, as Vietnam has already become an important destination in recent years.

Estimated Effects of TPP on the U.S. Seafood Sector

Commission modeling suggests that total imports of seafood from TPP partners would expand by $332.2 million, or 2.9 percent, by 2032 over the baseline scenario without TPP. As some of these imports would displace imports from non-TPP countries, the effect on total U.S. seafood imports is smaller—these imports would grow by only 0.9 percent or $231.9 million relative to the baseline projection. The TPP Agreement is expected to have a relatively small impact on U.S. seafood imports as a share of existing trade, despite the fact that seafood is the second-largest food product group imported from TPP countries, and the fact that TPP partners (mostly Canada, Vietnam, and Chile) supplied an average of 37 percent of U.S. seafood imports between 2011 and 2015. This is because U.S. tariffs on nearly all seafood products are already low or nonexistent.[364]

According to Commission modeling, the TPP is expected to generate an additional $115.7 million in U.S. seafood exports to the TPP countries. While this is a relatively small increase in value, it represents a more significant impact on U.S. seafood exports in percentage terms, increasing them by about 8.7 percent, relative to the baseline estimate. The majority of additional exports would be to Japan and Vietnam. Exports to Japan would grow an additional 18 percent and to Vietnam, an additional 45 percent, over the baseline projection. The TPP is not expected to generate any significant changes in seafood trade with existing FTA partners, which have already largely eliminated tariffs on U.S. seafood. The effect on total U.S. seafood exports to the world would be more modest—the model estimates an increase of just 2.2 percent, with exports to the rest of the world decline slightly as more trade is diverted to TPP countries. This would likely still benefit U.S. seafood producers, as Japan is a particularly attractive market for seafood and may offer U.S. exporters the opportunity to receive higher prices or export a more profitable mix of products than they would without TPP.

[363] Global Affairs Canada, "Opening Markets for Fish and Seafood," October 2015.
[364] One notable exception is the tariff on canned tuna, but that product is not heavily produced in any of the TPP countries at present. There are also antidumping duties in place on imports of shrimp and *pangasius* filets from Vietnam, which are expected to remain unchanged under the TPP agreement.

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