October 13, 2016

TPP: Taking the Measure of the Agreement for U.S. Agriculture

The Trans-Pacific Partnership (TPP), which the Obama administration and 11 other Pacific Ocean-facing nations signed in February 2016, would constitute the largest regional free trade agreement (FTA) to which the United States is a member. Whether TPP enters into force is contingent on Congress enacting legislation to implement it and whether other signatories ratify the agreement.

The future of TPP is matter of consequence for U.S. farmers and ranchers and also for the agribusiness and food sectors that are closely aligned with food, feed, and fiber production. Suppliers of farm inputs—such as seed, fertilizer, machinery, and food processors and exporters—have a direct interest in developments that promote a dynamic and profitable U.S. agricultural sector. Exports constitute a vital link in farm profitability, absorbing about 20% of U.S. farm output. For a number of commodities the export share of production is far higher (**Table 1**). Rising U.S. farm productivity and faster growth of demand for food in developing countries are among the reasons the agricultural community has a stake in gaining more favorable access to export markets.

Table 1. Major U.S. Export-Dependent Commodities
2014/2015 Marketing Year

Commodity	Export Share of Production	Exports in U.S.$ Millions
Pecans	75%	506
Walnuts	71%	1,633
Cotton	69%	4,182
Almonds	68%	4,815
Pistachios	59%	951
Soybeans	47%	21,707
Wheat	41%	6,586

Source: USDA; U.S. Census Bureau Trade Data.

Japan a Promising Market Opportunity

The 11 other TPP signatories—Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam—include five with which the United States does not have an FTA: Brunei, Japan, Malaysia, New Zealand, and Vietnam. Among the non-FTA countries, Japan likely represents the most promising, near-term expansion opportunity for U.S. farm and food exports. Japan's sizable population of 127 million, high per capita GDP, and heavily protected agricultural sector point to the potential for U.S. farm exports to make further inroads into the Japanese market given the broad range of market-opening concessions that Japan has agreed to in TPP.

Japan's applied most-favored nation (MFN) agricultural tariffs averaged 14.3% in 2014, well above the U.S. average of 5.1%. The MFN rate is the normal tariff charged on imports from World Trade Organization (WTO) members. Even with its high tariffs and various other trade-limiting measures, Japan ranked as the fifth largest export market for U.S. agricultural products in FY2015, importing 8% of all U.S. agricultural exports in value terms. Examples of market access changes Japan has agreed to in TPP, which could benefit U.S. farmers, include the following:

- As the leading export market for U.S. beef, Japan would immediately lower its tariff on fresh, chilled, and frozen beef from 38.5% to 27.5%, followed by subsequent annual reduction to 9% by year 16.
- The largest U.S. export market for U.S. pork would immediately lower its tariff on pork cuts from 4.3% to 2.2%, phasing out the rest over nine years. Japan would also reduce a separate duty under its "gate price system," which acts as a minimum import price.
- Seasonal tariffs on oranges of 16% and 32% would be eliminated over six and eight years, respectively. Tariffs of 2.4% on almonds, 4.5% on pecans, and 10% on walnuts would be eliminated immediately.
- Some products (e.g., beef and oranges) would be subject to safeguard duties if imports exceed certain limits.

The United States for its part would lower or eliminate existing tariffs on many agricultural products, including beef, pork, cotton, and tobacco, to name a few. The United States would also expand moderately its tariff-rate quotas (TRQs) for sensitive products, such as dairy products and sugar. Under a TRQ, lower tariffs are applied to in-quota imports with higher rates for over-quota product. Tariff elimination for these products and the expansion in the dairy TRQs would take place over a number of years. USDA has issued a summary of agriculture-related provisions of TPP that includes key tariff and TRQ changes. For more on potential implications of TPP for U.S. agriculture, see CRS Report R44337, *TPP: American Agriculture and the Trans-Pacific Partnership (TPP) Agreement*, by Mark A. McMinimy.

A number of observers contend that U.S. agricultural exports would benefit from the proposed agreement through lower tariffs and expanded TRQs such as those listed above. Beyond these market access changes, TPP would establish rules and procedures for addressing non-tariff barriers and other practices that impede agricultural trade.

Prominent among the non-tariff measures in TPP is the chapter on sanitary and phytosanitary measures (SPS), which covers actions that address food safety, plant pests, and animal diseases. The SPS obligations go beyond the

WTO SPS agreement in matters of risk assessment, risk management, transparency, border checks and laboratory testing, and rapid response to issues over export shipments.

The Bottom Line for U.S. Agriculture

The U.S. International Trade Commission (ITC), in a report issued in May 2016, concluded that TPP would provide significant benefits for U.S. agriculture. The report was mandated by Trade Promotion Authority legislation (P.L. 114-26). According to ITC's model, estimated TPP outcomes in 2032 for U.S. agriculture, compared with a baseline scenario without TPP, include the following:

- U.S. agricultural exports would be $7.2 billion higher (2.6%), while agricultural imports would increase by $2.7 billion (1.5%). Other macro effects include a gain of $10 billion (0.5%) in U.S. agricultural output and an increase of 0.5% in agricultural employment.
- U.S. dairy product exports would increase by $1.85 billion, or 18%, while processed foods and beef would be expected to post gains of $1.54 billion (3.8%) and $876 million (8.4%), respectively. But corn and rice exports could be marginally lower.
- As for U.S. imports, processed foods would be $427 million higher, or 1.1%, while beef imports would be higher by $419 million, or 5.7%, and imported dairy products would post a gain of $349 million, or 10.3%.

ITC estimates gains in farm and food exports stem primarily from greater market access for U.S. products via lower tariffs and expanded TRQs. The overall U.S. agricultural export gain of $7.2 billion would be concentrated in Japan ($3.6 billion) and Vietnam ($3.3 billion).

In February 2016, the American Farm Bureau Federation, which has endorsed TPP, issued its analysis of the effects of TPP for U.S. agriculture compared with a second scenario in which the United States does not implement TPP and the other 11 TPP signatories ratify an equivalent deal:

- Once TPP is fully implemented, a process that would take a number of years, net farm income is projected to be $4.4 billion higher than without TPP. For perspective, since 2011 net farm income has ranged from $123.3 billion in 2013 to $80.7 billion in 2015.
- Cash receipts for cattle and hogs are projected to increase by $1.1 billion each under TPP, while those for milk production would rise marginally.
- Crops projected to post higher cash receipts include increases for fruit and nuts of 825 million; corn, $680 million; soybeans, $530 million; and vegetables, $471 million. Wheat receipts are expected to rise marginally.

TPP: Pros and Cons

In addition to highlighting the increase in market access for U.S. farmers and food products and progress in addressing non-tariff barriers, USDA, ITC, and a number of agricultural interest groups point to the potential negative consequences of not implementing TPP. They assert that this outcome would risk placing U.S. agriculture at a disadvantage vis-a-vis export competitors. For example, Australia already enjoys preferential tariff rates on its beef exports to Japan. TPP would place U.S. beef on an even tariff footing with Australian beef in Japan. Also, while the European Union (EU) is not a party to the TPP, it is negotiating FTAs with Japan, Malaysia, and Vietnam—three promising markets for expanding U.S. farm exports within TPP. If successfully concluded, these FTAs could enhance the EU's competitive position in those markets. Also, absent U.S. implementation of TPP, the remaining TPP countries could always negotiate an agreement without U.S. participation.

Some critics contend that the potential TPP holds for boosting farm exports will be overshadowed by greater competition from imports, reducing domestic revenues for farmers and ranchers. Critics of TPP also assert that the lack of an enforcement mechanism against currency manipulation could nullify the benefits of tariffs reductions. Another potential drawback of TPP is that the preferential access U.S. agriculture and food interests have to markets in Canada and Mexico under the North American Free Trade Agreement compared with competitors would be eroded over time as tariffs are lowered for TPP partners.

For U.S. consumers, if TPP were to result in a substantial sharp rise in agricultural exports that exceeded an expansion in domestic supplies, then consumers could potentially experience higher prices for food products. But the farm share of retail food prices is fractional in any case at about 17% in 2014, according to the USDA.

Farm and Food Interests Pass Judgment

As noted above, a large number of agricultural groups and food and agribusiness interests have expressed support for implementing TPP, including groups representing beef, milk, pork, and poultry producers and organizations representing corn, soybeans, and wheat. Other TPP supporters with close ties to agriculture include processors and exporters, such as Cargill, Inc., and the Grocery Manufacturers Association, representing food and beverage manufacturers. But support for the agreement is not universal within agriculture. The National Farmers Union and the Ranchers Cattlemen Action Legal Fund United Stockgrowers of America are among those in agriculture that have urged Congress to reject TPP. Others opposing TPP include the U.S. Rice Producers Association and the Burley Tobacco Growers Cooperative Association. The United Food and Commercial Workers Union International—representing workers in the grocery, retail, meat-packing, and food processing industries—is a prominent critic of the deal.

What Comes Next?

For TPP to enter into force, Congress would need to pass implementing legislation to codify TPP tariff rates and make necessary changes to U.S. laws. Congress is under no time limit to act on the agreement until implementing legislation is introduced. For more on TPP, see CRS Report R44489, *The Trans-Pacific Partnership (TPP): Key Provisions and Issues for Congress*, coordinated by Ian F. Fergusson and Brock R. Williams

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

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