GF&O REPORT ON U.S. – Panama Trade Promotion Agreement

April 25, 2007

Honorable Susan Schwab
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Honorable Mike Johanns
Secretary of Agriculture
1400 Independence Avenue, S.W.
Washington, D.C. 20250

Dear Ambassador Schwab and Secretary Johanns:

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, I am pleased to transmit the final report of the Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds on the Trade Promotion Agreement with Panama, reflecting a consensus advisory opinion on the proposed Agreement.

Sincerely,

Donald E. Latham

Donald E. Latham
Chair
Grains, Feed, and Oilseeds ATAC

APRIL 25, 2007

The U.S. – Panama Trade Promotion Agreement

Report of the
Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds

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Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds

Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S. – Panama Trade Promotion Agreement

I. Purpose of the Committee Report

Section 2104 (e) of the Trade Act of 2002 requires that advisory committees provide the President, the U.S. Trade Representative, and Congress with reports required under Section 135 (e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement.

Under Section 135 (e) of the Trade Act of 1974, as amended, the report of the Advisory Committee for Trade Policy and Negotiations and each appropriate policy advisory committee must include an advisory opinion as to whether and to what extent the agreement promotes the economic interests of the United States and achieves the applicable overall and principle negotiating objectives set forth in the Trade Act of 2002.

Pursuant to these requirements, the Grain, Feed and Oilseeds ATAC hereby submits the following report.

II. Executive Summary of Committee Report

The Grains, Feed & Oilseeds ATAC fully endorses the agreement reached between the U.S. and Panama on a bilateral trade agreement. Although it is not a particularly large market, most of the provisions are beneficial to the U.S. industry.

III. Brief Description of the Mandate of the Grains, Feed and Oilseeds ATAC

The advisory committee is authorized by Sections 135(c)(1) and (2) of the Trade Act of 1974 (Pub. L. No. 93-618), as amended, and is intended to assure that representative elements of the private sector have an opportunity to make known their views to the U.S. Government on trade and trade policy matters. They provide a formal mechanism through which the U.S. Government may seek advice and information. The continuance of the committee is in the public interest in connection with the work of the U.S. Department of Agriculture (USDA) and the Office of the U.S. Trade Representative. There are no other agencies or existing advisory committees that could supply this private sector input.

IV. Negotiating Objectives and Priorities of the Grains, Feed and Oilseeds ATAC

The principal objective of the Grains, Feed and Oilseeds ATAC is to advise the Administration on issues of importance in negotiating competitive opportunities for United States exports of agricultural commodities in foreign markets and achieving fairer and more open conditions of trade for grains, feed and oilseeds.

V. Advisory Committee Opinion on Agreement

With just 3 million people, Panama is not the largest potential market for U.S. agricultural products – importing around $200 million worth in 2006 while we imported roughly $65 million worth of Panamanian product – half of which was sugar. Nonetheless, the inclusion of Panama completes the connection of U.S. free trade agreements running from Canada down to Chile. As noted in the following table, six of the top 20 agricultural products imported by Panama are of direct interest to this Committee.

Panama Agricultural Imports
(Source: FAO)

	Commodity	Quantity			Value (000 US$)		Unit value (US$)
1	Beverages Dist Alcoholic	Mt	17246	P	150284	P	8714
2	Food Prepared nes	Mt	11087	P	70410	P	6351
3	**Maize**	Mt	256365	P	35940	P	140
4	**Cake of Soya Beans**	Mt	106085	P	29243	P	276
5	Cigarettes	Mt	2446	P	24731	P	10111
6	**Wheat**	Mt	194328	P	24167	P	124
7	Infant Food	Mt	4610	P	18027	P	3910
8	Pastry	Mt	7165	P	13198	P	1842
9	Wine	Mt	3487	P	11900	P	3413
10	Cheese (Whole Cow Milk)	Mt	3569	P	11643	P	3262
11	Coffee, Green	Mt	6442	P	11545	P	1792
12	**Oil of Soya Beans**	Mt	16951	P	10801	P	637
13	Vegetables Prepared nes	Mt	7359	P	10739	P	1459
14	Food Wastes	Mt	6350	P	10696	P	1684
15	Breakfast Cereals	Mt	4098	P	10566	P	2578
16	Chocolate Products nes	Mt	2498	P	9220	P	3691
17	Sugar Confectionery	Mt	4783	P	8987	P	1879
18	Beverages Non-Alcoholic	Mt	12502	P	8975	P	718
19	**Margarine + Shortening**	Mt	8179	P	7473	P	914
20	**Oil of Sunflower Seed**	Mt	8887	P	6335	P	713

Feedgrains

The reduction and elimination of tariffs on U.S. corn and corn co-products, sorghum and barley in the U.S.-Panama Trade Promotion Agreement (PTPA) should be beneficial to future U.S. feed grain exports to Panama. Upon implementation, tariff elimination under a nearly 300,000 metric ton corn tariff rate quota (TRQ) will grow three percent per year compounded, which will allow the United States to capture overall demand growth in that market. Binding barley and corn co-products (corn gluten feed/meal and distiller's dried grains) at zero across the board bodes well for developing markets for those products in Panama as well. While Panama historically has not been a market for U.S. sorghum, tariff elimination in the fifth year will create a potential market opening for this commodity dependent on its future relative price versus U.S. corn.

In addition, the agreement fulfills other long-standing objectives of the U.S. feed grains industry. Under the agreement, Panama will no longer be allowed to impose a domestic content requirement (absorption of local crop) as a precondition to import; there will be no special safeguard mechanisms; and, strong provisions to ensure the filling of TRQ volumes will be established.

Because of the inherent delay between concluding the negotiations and when the agreement ultimately goes into effect, it will be beneficial that U.S. negotiators were able to gain agreement that first year tariff reductions and TRQ growth factors take effect in year one of the agreement.

Corn: The agreement establishes a 298,700 metric ton initial TRQ with zero in-quota duty. The TRQ has a 3 percent compounded yearly growth factor which will result in a 438,651 metric ton TRQ in year 14 before being completely eliminated in year 15. The 40 percent over-quota tariff will remain constant for the first five years of the agreement and phased out linearly over the following 10 years.

Panama will be allowed to continue its auctioning system as a means to administer the corn TRQ. However, there is a strong review clause in the agreement that guards against under-fill of the TRQ as the quota volume expands in future years.

Panama has been a stable importer of U.S. corn, totaling about 250,000 to 325,000 tons per year (the U.S. accounts for essentially 100 percent of all corn imports). Currently, Panama applies a 3 percent duty on corn imported by processors. However, processors are obligated to purchase from domestic production the equivalent of about 35,000 tons, or about one month's consumption. Because of this system, all other importers are subject to a 58 percent duty. These requirements will be eliminated as part of the agreement.

Refined Corn Products: Most refined corn products have already faced low (>15 percent) or zero duties. The TRQ on refined corn oil is relatively small and takes ten years to phase out while facing an over quota duty of 30 percent during the first five years, and then phasing out. The duties on dextrose and crystalline fructose phase out from 15 percent over 15 years. It would have been desirable to have acquired a larger refined oil TRQ and a speedier phase-out of the duty on dry corn sweetener. However, on the positive side, the immediate duty-free status for corn gluten feed (CGF) is a helpful development. CGF has faced a 15 percent duty in Panama. The tariff is also eliminated immediately on distillers dried grains, which has faced a 15 percent duty (3 percent for processors).

Sorghum: The 15 percent tariff will be phased out in equal annual reductions starting in year one and eliminated on January 1 in the fifth year of the agreement. Panama's WTO bound rate is 25 percent while it currently applies a 15 percent duty. With the elimination of the tariff in five years, sorghum will compete on a level tariff basis to in-quota corn and have a tariff preference to out-of-quota corn throughout the implementation period. Mid-term to long-term export opportunities for sorghum will depend on the pricing relationship between U.S. corn and sorghum.

Barley/Malt: Barley and malt will receive immediate tariff elimination. Panama currently applies a zero duty on barley and malt (3 percent WTO bound duty).

Oilseeds and Products

Upon implementation of the FTA, most U.S. exports within the soybean complex (soybeans, crude soybean oil, soybean meal, and soy concentrates) will retain their current duty free status. Current duties of 15 percent on soybean flour and 6 percent on soybean isolate will be eliminated in year 1. The current 20 percent duty on refined soybean oil will continue to apply during years 1 through 5, but will be eliminated in equal annual increments during years 6 through 15. A 4500 MT safeguard trigger level with a 10 percent annual growth rate will apply during this period, but will expire in year 15.

Wheat

Under the agreement, wheat will be duty-free upon implementation. U.S. exports of wheat to Panama are already running ahead of last year.

Rice

Rough (unmilled) rice, which represents the vast majority of current rice exports to Panama, will enter Panama duty free under a TRQ. Milled rice, which has faced a 90 percent tariff, will also enter under a TRQ. Both TRQ's will transition to duty-free trade in rice in 20 years. The agreement prohibits a domestic absorption requirement as a condition for import. This FTA is of overall benefit to the U.S. rice industry, even though the 20-year transition period to free trade will limit the near-term options for marketers. The TRQ established for milled rice exceeds average imports from the United States in 2000-2006 beginning in year two, but the TRQ for rough rice is less than the average in all years of the transition period. The detailed requirements for TRQ administration are positive.

Careful implementation of this FTA is critical to achieving benefits for the U.S. rice industry, and the ATAC urges focused attention by the Administration. However, the 20-year transition period to free trade for rice in this agreement raises serious questions about the ability of U.S. negotiators to bring home meaningful benefits to the rice sector in the near-term.

VI. Grain, Feed and Oilseed ATAC Membership

NAME	ORGANIZATION	CITY/STATE
Donald E. Latham, Chairman	Latham Seed Company	Alexander, IA
Dan L. Anderson	Anderson Wheat Farms, Inc.	Haxtun, CO
Mark T. Anderson	Anderson Hay and Grain Co., Inc.	Ellensburg, WA
Gary R. Blumenthal	World Perspectives, Inc.	Washington, DC
Devry S. Boughner	Cargill, Inc.	Washington, DC
James E. Bowman	Monsanto Company	St. Louis, MO
Kyd D. Brenner	DTB Associates, LLP	Washington, DC
Fred J. Clark	Cornerstone Government Affairs	Washington, DC
Robert E. Cummings, Jr.	USA Rice Federation	Arlington, VA
Steven J. Daugherty	Pioneer Hi Bred International, Inc.	Des Moines, IA
Neal H. Fisher	North Dakota Wheat Commission	Bismarck, ND
John D. Gordley	Gordley Associates, Inc.	Washington, DC
Paul B. Green	Paul B. Green International Marketing	Washington, DC
John K. Hansen	Nebraska Farmers Union	Lincoln, NE
R. Rusty Harder	Competitive Strategic Intelligence, Inc.	Story City, IA
Kenneth L. Hobbie	U.S. Grains Council	Washington, DC
Lurlin L. Hoelscher	Hoelscher Ag Dist., Inc.	Alden, IA
Christopher D. Holdgreve	National Grain and Feed Association	Washington, DC
Daniel T. Kidd	Kidd Brothers Farms	Big Sandy, MT

Ronald J. Litterer	Pro-Net Farms and Four Seasons Pork, LLC	Greene, IA
David C. Lyons	Louis Dreyfus Corporation	Washington, DC
Timothy D. McGreevy	USA Dry Pea and Lentil Council	Moscow, ID
Robert J. Metz	Metz Farms, Inc.	Browns Valley, MN
Joel G. Newman	American Feed Industry Association	Arlington, VA
John G. Reed, Jr.	Archer Daniels Midland Company	Washington, DC
Robert M. Reeves	Institute of Shortening and Edible Oils	Washington, DC
Mark A. Rokala	Cornerstone Government Affairs	Washington, DC
Candace A. Roper	CoBank, ACB	Englewood, CO
Claude P. Rosson, III	Texas A&M University	College Station, TX
Michael E. Rue	Catlett Warehouse	Marysville, CA
Ladd M. Seaberg	MGP Ingredients, Inc.	Atchison, KS
Deborah J. Silverberg	National Corn Growers Association	Washington, DC
Robert H. Sindt	US Dry Bean Council	Washington, DC
Barbara R. Spangler	Wheat Export Trade Education Committee	Washington, DC
Alan T. Tracy	U. S. Wheat Associates, Inc.	Washington, DC
Margaret A. Tutwiler	International Food & Agricultural Trade Policy Council	Washington, DC
David M. Winkles, Jr.	South Carolina Farm Bureau	Columbia, SC