



## CRS Report for Congress

# U.S.-Russia Meat and Poultry Trade Issues

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### Summary

Russia announced on August 29, 2008, that it was banning poultry imports from 19 U.S. establishments due to safety concerns, and that 29 others could lose approval if they do not improve their standards. Russian officials also signaled that they might reduce U.S. permits to import poultry and pork under that country's quota system. The economic stakes of Russian import actions are high for U.S. poultry producers — 29% of their exports went to that market in 2007 — and red meat producers, who also are experiencing strong growth in the Russian market. In Congress, any potential options likely would be reviewed within the context of the broader geopolitical situation.

### U.S. Exports to Russia

Foreign sales are a critical source of income for the U.S. meat and poultry industries, with the United States now exporting an estimated 26% of its pork production, 18% of poultry production, and 7% of beef production.<sup>1</sup> Russia has become an important, and expanding, market. It purchased an average of \$740 million annually in U.S. meat and poultry from 2005 to 2007, compared with \$480 million annually during the early part of the decade.

In 2007, Russia was the number one foreign destination for U.S. poultry meat (much of it broiler meat plus some turkey), purchasing nearly 871,000 metric tons (MT) or nearly 29% of all U.S. poultry exports. The United States is now the leading supplier of Russian poultry imports; it provided 79% of all broiler cut imports in 2007, for example. Russia was the number five foreign buyer of U.S. pork in 2007, purchasing more than 80,000 MT or nearly 8% of all U.S. pork exports. (The United States provided 11% of Russia's pork imports in 2007.)

Russia was among the many countries to ban U.S. beef imports after the December 2003 discovery of a cow in the United States with bovine spongiform encephalopathy

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<sup>1</sup> *CattleFax Update*, August 29, 2008.

(BSE or mad cow disease), although it not had been a major purchaser of such products before then. However, the country is again accepting U.S. beef and veal; it imported more than 3,100 MT during the first six months of 2008, nearly as much as it took in all of 2003 (see **Table 1**).

**Table 1. U.S. Meat and Poultry Exports to Russia**

(metric tons, calendar year)

	2003	2004	2005	2006	2007	2008 (Jan.-Jun.)
Poultry meats	677,400	725,625	771,934	716,931	870,559	444,587
Pork	5,457	22,751	31,621	71,254	80,386	74,605
Beef & veal	3,488	360	395	5	3	3,103

**Source:** USDA, Economic Research Service (ERS), *FATUS Export Aggregations*, accessed on the Internet September 5, 2008.

## Russian Agriculture and Import Quotas

Agriculture has been a sensitive part of the economy throughout Russian (and Soviet) history. Its political importance far outweighs its share of the Russian economy (7.2% of Russian GDP in 2001). Agriculture has been severely affected by the transition to a market economy, as much as, or more than, any other economic sector. According to one estimate, agricultural production declined around 40% in volume since 1991, with much of the decline occurring in livestock production.<sup>2</sup>

Russia is not competitive on the global market in red meats and poultry, and its domestic production has not kept pace with consumption as incomes rise. In recent years, imports have accounted for half or more of Russian poultry consumption, even though government policies have attempted to encourage domestic production. Imports have accounted for roughly 30% of pork consumption, and roughly 40% of beef production.<sup>3</sup> Some analysts conclude that this domestic situation underlies Russian actions that periodically have constrained the country's imports of poultry and meat products. The Russian federal government has been under pressure from regional and local governments and from factions within the Russian parliament to protect agriculture from further erosion and to provide time and resources to permit it to become competitive.

One major trade constraint was Russia's imposition, in early 2003, of new import quotas on poultry, and of tariff-rate quotas (TRQs) on beef and pork, affecting not only the United States but other exporting countries.<sup>4</sup> The poultry quotas threatened what had

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<sup>2</sup> Parts of this section are adapted from CRS Report RL31979, *Russia's Accession to the WTO*, by William H. Cooper, where a more detailed discussion and additional sources may be found.

<sup>3</sup> Source: USDA, Foreign Agricultural Service, *Livestock and Poultry: World Markets and Trade*, April 2008.

<sup>4</sup> Quotas and TRQs are both import barriers that historically have been used by many countries (including the United States) to protect their domestic industries, including in agriculture. Under  
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become an important market for U.S. producers. Although the United States was selling relatively limited quantities of pork or beef to Russia at the time, the new TRQs would effectively block any future U.S. growth there, industry officials contended. In late September 2003, the U.S. Trade Representative (USTR) announced a new market access agreement in principle with Russia that, the USTR declared, would maintain historical levels of U.S. sales of poultry, beef, and pork there (see below for details).

## Negotiations on Russian Market Access

Russia in 1993 formally applied for accession to the World Trade Organization (WTO, then the General Agreement on Tariffs and Trade). In accordance with WTO procedures, since then it has been negotiating not only multilaterally but also bilaterally with individual WTO members, including the United States, on each country's conditions for Russian entry. When Russia announced the imposition of quotas and TRQs for meat and poultry in early 2003, the United States and other meat-exporting WTO member countries expressed stiff opposition, claiming that the restrictions would retard the process of Russia's accession. They specifically argued that Russia was violating the "standstill" principle under which countries applying for WTO membership are to refrain from imposing new trade restrictions during the accession process. Russia countered that it was imposing the restrictions to protect its domestic meat producers from import surges, a right that is enjoyed by WTO members.<sup>5</sup>

Following several months of negotiations, the United States secured the agreement in principle that would effectively continue U.S. exports of meat and poultry to Russia under the new quota systems, while allowing for future growth. A formal bilateral agreement was signed by the two parties on June 15, 2005, which set the U.S. share of Russia's worldwide quota for poultry, and its share of the TRQs for pork and for beef, through the end of calendar 2009. The agreement also provides for rules on the allocation of veterinary permits and import licenses necessary to ship products to Russia, and establishes mechanisms for resolving trade-related problems, including sanitary and phytosanitary (SPS) issues.<sup>6</sup>

Under this agreement, the United States has 901,400 MT or 74% of Russia's 2008 worldwide quota of 1,211,600 MT for poultry. It also has 49,800 MT or 10% of Russia's 2008 worldwide TRQ of 493,500 MT for pork, and 18,300 MT or 18% of the TRQ of 445,000 MT for beef.

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<sup>4</sup> (...continued)

TRQs, countries are permitted to export a specified quantity of a product or commodity at a relatively low tariff, with any quantity above that subject to a much higher tariff. For both quotas and TRQs, an importing country generally determines an overall quantity and then allocates amounts from that quantity among exporting countries.

<sup>5</sup> CRS Report RL31979, *Russia's Accession to the WTO*.

<sup>6</sup> USTR, "United States and Russia Sign Agreement on Meat Market," press release, and "Agreement Between the Government of the United States of America and the Government of the Russian Federation on Trade in Certain Types of Poultry, Beef, and Pork," both dated June 15, 2005.

**Table 2. Russian Meat and Poultry Quotas**  
(thousand metric tons; worldwide and *U.S. share*)

	2005	2006	2007	2008	2009
Poultry quota	1090.4/811.3	1130.8/841.3	1171.2/871.4	1211.6/901.4	1252/931.5
Pork TRQ	467.4/53.8	476.1/54.8	484.8/49	493.5/49.8	502.2/50.7
Beef TRQ	430/17.7	435/17.9	440/18.1	445/18.3	450/18.5

**Source:** "Agreement Between the Government of the United States of America and the Government of the Russian Federation on Trade in Certain Types of Poultry, Beef, and Pork."

On November 19, 2006, the USTR and the Russian Minister of Economic Development and Trade signed the bilateral agreement on Russia's accession to the WTO and accompanying side letters while attending a regional economic summit in Hanoi, Vietnam. The agreement allowed the United States to address a broad number of sensitive issues in its economic relations with Russia, although it did not accomplish all of the original U.S. objectives.<sup>7</sup> With regard to agriculture, the agreement or side letters committed Russia to:

- permitting the immediate resumption of imports of de-boned beef, bone-in beef, and beef by-products from cattle younger than 30 months and allowing imports of beef and beef by-products from cattle of all ages, once the United States received a positive evaluation as a beef producer from the World Organization for Animal Health;<sup>8</sup>
- accepting safety certifications by the U.S. Department of Agriculture's (USDA's) Food Safety Inspection Service (FSIS) of pork and poultry slaughter, processing, and cold storage facilities to export their products to Russia, along with procedures to expedite the certification process;
- accepting U.S. freezing treatments as an adequate measure to prevent trichinae infestation in pork to be sold for retail sale as well as for further processing (Russia previously had only allowed frozen pork to be imported for further processing); and
- continuing to apply until 2009 the provisions of the 2005 U.S.-Russia bilateral agreement on meat that established tariff-rate quotas including in- and over-quota tariff rates and to conduct bilateral negotiations on the treatment of meat imports after the agreement expires.

## Sanitary and Phytosanitary (SPS) Concerns

Russia has imposed SPS measures that have impeded U.S. meat and poultry imports in recent years.<sup>9</sup> In March 2002, Russia announced a ban on U.S. poultry imports over

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<sup>7</sup> Portions of this section are taken from CRS Report RL31979, *Russia's Accession to the WTO*.

<sup>8</sup> As noted, all beef imports were banned after the 2003 U.S. BSE case, but have since been restarted under these limited terms.

<sup>9</sup> SPS measures refer to any of the laws, rules, standards, and procedures that governments employ to protect humans, other animals, and plants from diseases, pests, toxins, and other (continued...)

the possible presence of avian influenza in the United States. U.S. officials countered that the ban was not scientifically defensible and was discriminatory. Months of negotiations ensued, extending into 2003, when the two sides announced a resolution to the dispute. Nonetheless, U.S. meat and poultry exporters have remained wary that Russia would raise safety concerns as a reason to impose future import bans.

Exporter concerns were reawakened in 2008, when, on June 2, the Russian Chief Medical Officer signed a resolution that could, in effect, block all U.S. poultry imports by prohibiting the use of chlorine in antimicrobial washes to kill surface pathogens on poultry, a common U.S. industry practice. The rule, to be implemented on January 1, 2009, would set the maximum chlorine level at no higher than the hygienic requirements for drinking water. A similar European Union (EU) prohibition has kept U.S. chicken out of the EU since 1997. In late July 2008, U.S. and Russian poultry industry leaders reportedly forged a position whereby Russia would not enforce the antimicrobial rule and would extend the expiring poultry quota allocations beyond 2009, but at reduced levels. However, Russia entered Georgia in early August before either of their governments had formally endorsed this reported agreement.<sup>10</sup>

## Recent Developments

The diplomatic tensions over Russia's military incursion into Georgia have threatened to reverse long-term progress on many longstanding U.S.-Russia issues, including in agricultural trade. First, the Russians in late August announced a ban on poultry shipments from 16 U.S. establishments, effective September 1, 2008. (Three other establishments had been delisted on August 6, bringing the total to 19, the number widely reported in the press.) The bans followed a round of joint U.S.-Russian plant inspections in late July and early August 2008 that uncovered what the Russians claimed were a number of safety problems. Many plants had not corrected problems found in earlier visits, they stated, adding that another 29 plants could also lose their eligibility.

The Russian Veterinary and Phytosanitary Service (VPSS) claimed that tested products from the 29 plants were showing higher levels of antibiotics and arsenic than Russia allows.<sup>11</sup> One of the primary reasons VPSS cited for suspending the first 19 plants was an inability to visit U.S. poultry farms — even though the U.S.-Russia poultry agreement provides for no such visits, according to the USA Poultry and Egg Export Council. The council acknowledged that U.S. commercial producers administer small amounts of antibiotics and trace amounts of arsenic-containing compounds for animal health reasons, but stated that they are within established tolerances.

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<sup>9</sup> (...continued)

contaminants. See also CRS Report RL33472, *Sanitary and Phytosanitary (SPS) Concerns in Agricultural Trade*, by Geoffrey S. Becker.

<sup>10</sup> "Administration Pulls Support for Russia Nuke Deal Over Georgia," *Inside U.S. Trade*, August 22, 2008.

<sup>11</sup> "Statement of the USA Poultry and Egg Export Council Regarding Russia's Suspension of 19 Poultry Plants," August 29, 2008.

A poultry industry spokesman reportedly said some 80 poultry plants that remain eligible should be able to fill orders from any delisted plants, cushioning the problems for U.S. producers.<sup>12</sup> An official of Tyson Foods, which owns three of the affected plants, agreed, noting that his company had 16 other approved plants that could ship to Russia and that other countries are larger buyers of Tyson exports.<sup>13</sup>

Nonetheless, many analysts view the delisting of the 19 plants as a precursor to additional actions that could further constrain U.S. meat and poultry exports to Russia. A Russian health and safety official has threatened to enforce the ban on chlorine treatments, calling it “outdated technology.” At the same time, Russian agricultural officials predicted that they might reduce all poultry imports by 200,000 MT in 2009.<sup>14</sup> Currently, the worldwide quota for 2009 is 1,252,000 MT; the United States has 931,500 MT, or about three-fourths of it, under the TRQ. Russian Prime Minister Putin has gone further, indicating that the country might suspend several trade agreements reached during its WTO accession negotiations, including those covering pork TRQs as well as poultry quotas. Putin reportedly said that, under the agreements, Russia has not received anything in return of benefit to the economy, including agriculture. However, any suspensions could be reversed once Russia joins the WTO, he added.<sup>15</sup>

There are some indications that the Russians were considering quota reductions and/or a renegotiation of some import agreements even before tensions arose over the Georgia situation. Nonetheless, if any reductions are directed disproportionately against the United States, and/or various SPS actions are applied more broadly here, U.S. competitors may gain a larger share of the Russian market. Currently, Brazil and a number of EU countries are distant competitors of the United States there in poultry meats. Brazil already supplies more than three times as much pork as the United States. The United States was starting to overtake Denmark and remains ahead of Canada as the other leading sources for Russia’s pork imports. Brazil is the main supplier of Russian beef imports followed by Argentina, Uruguay, and Paraguay.

These developments began to unfold while Congress was in its August 2008 recess. Agricultural leaders in Congress could decide to wait to determine whether the Russians follow through with additional actions affecting the U.S. meat and poultry industries, before determining what, if any, options to consider. Decisions about U.S.-Russian agricultural trade relations could hinge largely on the broader geopolitical situation.<sup>16</sup>

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<sup>12</sup> “Russia warns that more U.S. poultry plants may be de-listed,” *Agri-Pulse*, September 3, 2008.

<sup>13</sup> “Russia ban not to significantly affect poultry exports: Tyson,” *Meatingplace.com*, September 2, 2008.

<sup>14</sup> “Russia aims to cut poultry imports by 17 percent,” *Meatingplace.com*, September 9, 2008.

<sup>15</sup> Various news reports, including “Putin confirms plan to suspend food import quotas,” *Food Chemical News*, September 2, 2008. The United States reportedly would not be the sole target; for example, the EU also has expressed concern about the status of its own agreements with Russia.

<sup>16</sup> For a listing of key CRS products on Russia, go to the following CRS website: [[http://apps.crs.gov/cli/cli.aspx?PRDS\\_CLI\\_ITEM\\_ID=283&from=3&fromId=29](http://apps.crs.gov/cli/cli.aspx?PRDS_CLI_ITEM_ID=283&from=3&fromId=29)].