

Fighting for the U.S. Cattle Producer!



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March 24, 2010

The Honorable Sander M. Levin
Chairman
Committee on Ways & Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington D.C. 20515

Re: R-CALF USA's Written Submission Regarding Hearing on China's Exchange Rate Policy Scheduled for March 24, 2010

Dear Chairman Levin:

The Ranchers-Cattlemen Action Legal Fund, United Stockgrowers of America (R-CALF USA) appreciates the opportunity to make this written submission for the record of the *Hearing on China's Exchange Rate Policy* scheduled for March 24, 2010.

R-CALF USA is a national, non-profit organization dedicated to ensuring the continued profitability and viability of the U.S. cattle industry and represents thousands of U.S. farmers and ranchers, whose businesses involve the raising and selling of live cattle, on domestic and international trade and marketing issues. R-CALF USA's membership consists primarily of cow-calf operators, cattle backgrounders, and feedlot owners. Its members are located in 46 states, and the organization has numerous local and state association affiliates, from both cattle and farm organizations. Various main-street businesses are associate members of R-CALF USA.

The distortions that persist in global beef and cattle trade have contributed significantly to the long-term contraction of the U.S. cattle industry. Since 1980, U.S. Department of Agriculture (USDA) data show that the U.S. has lost over 40 percent of its U.S. cattle farms and ranches that raise beef-type cattle, representing an exodus of over half a million U.S. cattle businesses from all across the United States.¹ Data from USDA also show the U.S. cattle industry has been shrinking the size of its cattle herd, which now consists of nine million fewer cattle than were in

¹ See Number of Operations with Cattle and Milk Cows, 1979-1980, Cattle, U.S. Department of Agriculture (USDA), Economic Research Service (ERS) (Jan. 30, 1981), at 16 (There were 1,272,950 beef cattle operations in the U.S. in 1980), available at <http://usda.mannlib.cornell.edu/usda/nass/Catt/1980s/1981/Catt-01-30-1981.pdf>; see also Cattle and Calves: Number of Operations and Percent of Inventory by Size Group, United States, 2008-2009, Farms, Land in Farms, and Livestock Operations 2009 Summary, USDA, National Agricultural Statistics Service (NASS) (February 2010), at 20 (There were 753,000 remaining beef cattle operations in the U.S. in 2009.), available at http://usda.mannlib.cornell.edu/usda/current/FarmLandIn/FarmLandIn-02-12-2010_new_format.pdf.

the domestic production chain in 1996.² Ironically, other major cattle-producing countries increased their respective herd sizes while the U.S. herd was shrinking.³ Brazil is just one notable example of this phenomena, as is the growth in the collective herd size of the 17 countries with which the U.S. currently has free trade agreements.⁴

China is viewed by many in the U.S. as a potential customer of U.S. beef. But, the distortion created by China's undervaluation of its currency likely would price U.S. beef beyond the reach of even China's middle-income population. In 2009, the U.S. cattle producer received less than 43 percent of the value of Choice beef sold at retail.⁵ Thus, in order for U.S. cattle producers to at least maintain the economic returns realized in 2009, they would need to continue receiving approximately \$1.81 per pound retail weight from each carcass that actually sold at retail for \$4.26 per pound in 2009.⁶ However, with an estimated per-capita income of only \$6,500 in 2009 dollars,⁷ the Chinese population is not likely to consume significant volumes of U.S. beef at the price U.S. cattle producers must receive to maintain economic par with 2009 (i.e., \$1.81 per pound retail weight), let alone at the average 2009 retail price of \$4.26 per pound, which is the retail price necessary for U.S. cattle farmers and ranchers to maintain the economic returns realized in 2009 under the current structures of the U.S. cattle and beef industries.

Before introducing the added effect of China's exchange rate policy, it should be noted that the United States, where per-capita income is estimated at \$46,400⁸ (which is more than seven times greater than in China), consumed more beef than it produced in 2009.⁹ China,

² See Cattle and Calves, Number by Class and Calf Crop, United States, January 1, 1995-1996, Cattle, USDA NASS (January 1997), at 3 (On Jan. 1, 1996, the number of U.S. cattle and calves in the U.S. was approximately 103.5 million head.), available at <http://usda.mannlib.cornell.edu/usda/nass/Catt/1990s/1997/Catt-01-31-1997.pdf>; see also, Cattle, USDA NASS (Jan. 29, 2010), at 1 (On Jan. 1, 2010, the number of U.S. cattle and calves in the U.S. was 93.7 million head.), available at <http://usda.mannlib.cornell.edu/usda/current/Catt/Catt-01-29-2010.pdf>.

³ See FAOSTAT Production Database, Food and Agricultural Organization of the United Nations, available at <http://faostat.fao.org/site/573/DesktopDefault.aspx?PageID=573#ancor>.

⁴ See *id.*

⁵ See Choice Beef Values and Price Spreads and the All-Fresh Retail Value, USDA ERS, available at <http://www.ers.usda.gov/Data/meatpricespreads/>.

⁶ See *id.* (These values reflect the 2009 average Choice beef retail value (retail beef price) and the 2009 average net farm value (the average price paid to U.S. cattle producers based on the retail beef price.).

⁷ See The World Factbook: China, U.S. Central Intelligence Agency, available at <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>.

⁸ See *id.*, United States, available at <https://www.cia.gov/library/publications/the-world-factbook/geos/us.html>.

⁹ See Beef and Veal Selected Countries, Livestock and Poultry: World Markets and Trade, U.S. Department of Agriculture, Foreign Agricultural Service (October 2009) (The U.S. consumed 12.3 million metric tons of beef but produced only 11.8 million metric tones, making the U.S. a net importer of beef and veal.), available at http://www.fas.usda.gov/psdonline/circulars/livestock_poultry.pdf.

however, produced more beef than it consumed in 2009.¹⁰ Thus, China's prospects of soon becoming a significant purchaser of U.S. beef, particularly at prices necessary to sustain a U.S. cattle industry, do not appear promising.

China's currency undervaluation is an effective tariff on U.S. beef exports. When China's undervalued currency is factored into the consideration of China as a potential market for U.S. beef, the prospect of exporting beef to China at prices necessary to sustain the U.S. cattle industry at even the 2009 economic level (albeit a level that is insufficient to reverse the ongoing contraction of the domestic industry) is dismal. China's currency is undervalued between 30 and 50 percent.¹¹ The effect is that the \$4.26 per pound Choice beef price in the U.S. (which, again, is the price necessary to sustain the economic condition of U.S. cattle producers at the 2009 level) becomes anywhere from \$5.54 per pound to \$6.39 per pound when sold to Chinese buyers because of the currency tariff. The effect is to price U.S. beef beyond the reach of the Chinese population, which already has limited purchasing power in a country that produces more beef than it consumes.

In addition, though China does not currently export beef to the United States, it has a cattle herd size of approximately 82.6 million cattle,¹² which is comparable to the United States' herd size of 93.7 million cattle.¹³ Thus, China has the potential to significantly increase beef production, particularly if it attempts to emulate cattle production and beef processing practices in the United States. And, this appears to be China's intention. China's currency policy could facilitate this transformation by subsidizing exports and deterring imports of beef, just as it has already done for corn, apples and apple concentrate, and countless other products.

In 2001, China began a \$200 million development project (backed by the World Bank) to build an infrastructure of feedlots and slaughterhouses and give assistance to small-scale cattle producers in east-central China to build a competitive beef production industry in the region.¹⁴ In

¹⁰ See Beef and Veal Selected Countries, Livestock and Poultry: World Markets and Trade, U.S. Department of Agriculture, Foreign Agricultural Service (October 2009) (China produced 5.76 million tons of beef and veal and consumed 5.75 million tons of beef and veal, meaning that China likely is a net beef and veal exporter.), available at http://www.fas.usda.gov/psdonline/circulars/livestock_poultry.pdf.

¹¹ See Hearing Advisory, Web Site of Committee on Ways & Means, available at <http://waysandmeans.house.gov/press/PRArticle.aspx?NewsID=11060>.

¹² See FAOSTAT Production Database, Food and Agricultural Organization of the United Nations (estimate based on 2008 data.), available at <http://faostat.fao.org/site/573/DesktopDefault.aspx?PageID=573#ancor>.

¹³ See January 1 Cattle Inventory Down 1 Percent, Cattle, U.S. Department of Agriculture, National Agricultural Statistics Service (Jan. 29, 2010), available at <http://usda.mannlib.cornell.edu/usda/current/Catt/Catt-01-29-2010.pdf>.

¹⁴ See Subsidies Enforcement Annual Report to the Congress, Joint Report of the Office of the U.S. Trade Representative and the U.S. Department of Congress, February 2001.

2003, China initiated a national strategic 'Beef Advantageous Development Area Program' that was intended to shift their marketing focus to higher quality beef production.¹⁵

In a more recent USDA Foreign Agricultural Service (FAS) report, the agency predicted that 2009 beef consumption was expected to fall in China due to the high price of beef compared to other meats.¹⁶ The FAS report also indicated that beef production, likewise, was expected to decrease due to shrinking profits for Chinese cattle producers. The currency-devalued price of fed cattle in China in 2008 was approximately RMB 6,615 (\$965.70 U.S.), and production costs were estimated at RMB 6,340 (\$880.50 U.S.), which, according to the report, resulted in a per head profit of about \$40 for Chinese cattle producers.¹⁷ In comparison, the 2008 average market price for fed cattle in the U.S. was \$1,162.63 per head¹⁸ and the cost of production for U.S. cattle feeders was approximately \$1,315.5 per head,¹⁹ representing a per head loss to U.S. cattle feeders of approximately \$153 per head that year.

Should China increase its domestic beef production and/or begin exporting beef to the U.S. while its currency undervaluation remains unaddressed, the likely effect would be an accelerated contraction of the U.S. cattle industry. China's currency undervaluation alone would enable it to sell beef in the U.S. market for between 30 percent and 50 percent less than the value of domestic beef, not to mention the effect on the price of beef due to other internal government subsidies that may significantly lower the market price of Chinese beef.

The adverse effect of China's undervalued currency becomes more apparent to the U.S. cattle industry when costs and prices for live cattle are considered. For example, using the 2008 production costs and prices for fed cattle discussed above, a hypothetical Chinese fed steer sold in the U.S. market would net the Chinese producer about \$282 per head (U.S. price of \$1,162.63 less Chinese production cost of \$880.50). Thus, with China's subsidized currency, a hypothetical Chinese steer sold in the 2008 U.S. market would have given China a \$435 per head advantage over U.S. cattle producers whom sold cattle in the U.S. that year (calculated by adding China's \$282 profit to the United States' \$153 per head loss).

¹⁵ See Subsidies Enforcement Annual Report to the Congress, Joint Report of the Office of the U.S. Trade Representative and the U.S. Department of Congress, February 2004, at 41.

¹⁶ See China, Peoples Republic of, Livestock and Products, Semi-Annual Report, 2009, GAIN Report No. CH9017 (March 9, 2009) available at <http://www.fas.usda.gov/gainfiles/200903/146327423.pdf>.

¹⁷ See *id.* (Note, however, that while the GAIN report estimates the profit at \$40.00 per head, the numbers provided in the report to calculate production costs indicate the profit is about \$85.00 per head.), available at <http://www.fas.usda.gov/gainfiles/200903/146327423.pdf>.

¹⁸ See Choice Beef Values and Price Spreads and the All-Fresh Retail Value, USDA ERS (Estimate is based on the average 5 market steer price in 2008 and a 1,250 pound steer.), available at <http://www.ers.usda.gov/Data/meatpricespreads/>.

¹⁹ See High Plains Cattle Feeding Simulator, USDA ERS (Estimate is based on the average monthly cost of producing a fed animal in 2008).

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The introduction of increased supplies of lower-cost beef resulting from China's undervalued currency would have a tremendous, negative impact on the viability of the U.S. cattle industry that is extremely price-sensitive to increased supplies due to the industry's farm elasticity of demand. The U.S. International Trade Commission has determined that the farm level elasticity of demand for slaughter cattle is such that "each 1 percent increase in fed cattle numbers would be expected to decrease fed cattle prices by 2 percent."²⁰ By extension, increases in the supply of beef that is derived from fed cattle likewise would depress fed cattle prices in the same manner.

In conclusion, if the goal of Congress and the Administration is to increase exports of beef and other U.S. agricultural products, then this tariff caused by China's currency undervaluation must be neutralized. R-CALF USA urges the U.S. House Ways and Means committee to take immediate and decisive action to correct the untenable trade distortions caused by China's persistent currency undervaluation.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Bullard", written in a cursive style.

Bill Bullard
CEO

²⁰ U.S.-Australia Free Trade Agreement: Potential Economywide and Selected Sectoral Effects, United States International Trade Commission (Publication 3697; May 2004) at 44, fn 26, available at <http://hotdocs.usitc.gov/docs/pubs/2104f/pub3697.pdf>.