



R-CALF
USA

Fighting for the U.S. Cattle Producer

R-CALF United Stockgrowers of America

P.O. Box 30715

Billings, MT 59107

Phone: 406-252-2516

Fax: 406-252-3176

E-mail: r-calfusa@r-calfusa.com

Website: www.r-calfusa.com

August 17, 2007

Ms. Marilyn Abbott
Secretary
United States International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436

**Re: R-CALF USA Request to Testify Regarding China: Description of
Selected Practices and Policies Affecting Decision-Making in the
Economy (Inv. No. 332-492)**

Dear Ms. Abbott:

The Ranchers-Cattlemen Action Legal Fund – United Stockgrowers of America (R-CALF USA) hereby submits this request to testify at the U.S. International Trade Commission hearing on September 6, 2007 regarding selected government practices and policies affecting decision-making in China's economy (Inv. No. 332-492). This request to testify is submitted in response to the notice of institution published at 72 Fed. Reg. 35,260 on June 27, 2007.

R-CALF USA requests that Eric Nelson, Chair of the R-CALF USA Trade Committee, be granted the opportunity to testify on government practices and policies in China that affect economic decision-making in the agriculture sector, particularly the cattle and beef sector.

Thank you for this opportunity to present our views in this important investigation.

Sincerely,

R. M. Thornsberry, D.V.M.
President, R-CALF USA Board of Directors



R-CALF
USA

Fighting for the U.S. Cattle Producer

R-CALF United Stockgrowers of America

P.O. Box 30715

Billings, MT 59107

Phone: 406-252-2516

Fax: 406-252-3176

E-mail: r-calfusa@r-calfusa.com

Website: www.r-calfusa.com

August 17, 2007

Ms. Marilyn Abbott
Secretary
United States International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436

**Re: R-CALF USA Pre-Hearing Brief Regarding China: Description of
Selected Practices and Policies Affecting Decision-Making in the
Economy (Inv. No. 332-492)**

Dear Ms. Abbott:

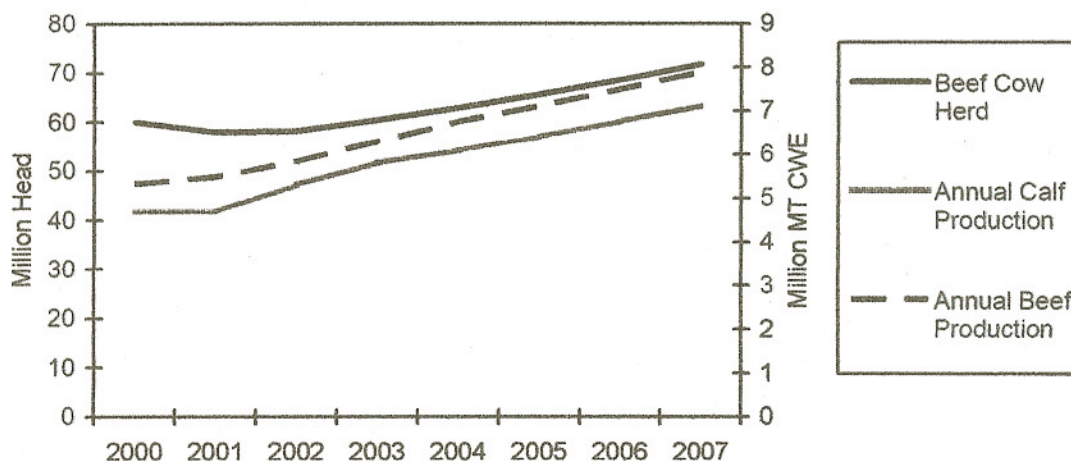
The Ranchers-Cattlemen Action Legal Fund – United Stockgrowers of America (R-CALF USA) appreciates this opportunity to submit its views regarding the Commission's investigation on selected government practices and policies affecting decision-making in China's economy (Inv. No. 332-492). R-CALF USA represents thousands of U.S. cattle producers on domestic and international trade and marketing issues. R-CALF USA, a national, non-profit organization, is dedicated to ensuring the continued profitability and viability of the U.S. cattle industry. R-CALF USA's membership consists primarily of cow-calf operators, cattle backgrounders, and feedlot owners. Its members are located in 47 states, and the organization has over 60 local and state association affiliates, from both cattle and farm organizations. Various main street businesses are associate members of R-CALF USA.

As the Commission investigates government practices and policies in China that affect decision-making in the economy, including in the agriculture sector, R-CALF USA believes it is important to include a consideration of government policies affecting decision-making in the cattle and beef sector in China. While China does not currently export large amounts of beef to the United States due to health and safety concerns, aggressive government policies in China to encourage investment, production and exports, and to discourage imports, may help China rise as a major producer and exporter of beef. R-CALF USA believes it is important for policymakers to understand the wide range of policies that China uses to promote domestic production, increase exports, and control imports in order to ensure that effective tools are in place to hold China to its international commitments and to ensure that U.S. producers can compete on a level playing field as China continues to develop and engage more vigorously in the global economy.

I. Beef Production and Trade in China

China's cattle and beef production have grown significantly from 2000 to 2007. China's beef production grew by more than 48 percent, from 5.3 million MT CWE in 2000 to an estimated 7.9 million MT CWE in 2007.¹ During the same time, China's annual beginning stocks of beef cows grew by 20 percent (from 60 million head to 71.8 million head), and its annual production of calves grew by 51 percent (from 41.8 million head per year to 63.3 million head per year).² This astronomical growth has helped China grow in importance as a global cattle and beef producer. More than 30 percent of the world's entire beef cow herd is in China.³ In 2007, China had the third largest stocks of cattle in the world, with more than 145 million total head (beef and dairy included).⁴ In 2007, China was the number one country in the world in terms of annual calf production. In 2007, one out of every five calves born in the world was born in China.⁵ China's role as a global producer of beef has grown at the same time. In 2007, China was the second largest beef producer in the world, accounting for a full 14 percent of all global beef production.⁶

China's Rising Cattle and Beef Production



¹ USDA Production and Supply Database.

² *Id.*

³ *Id.*

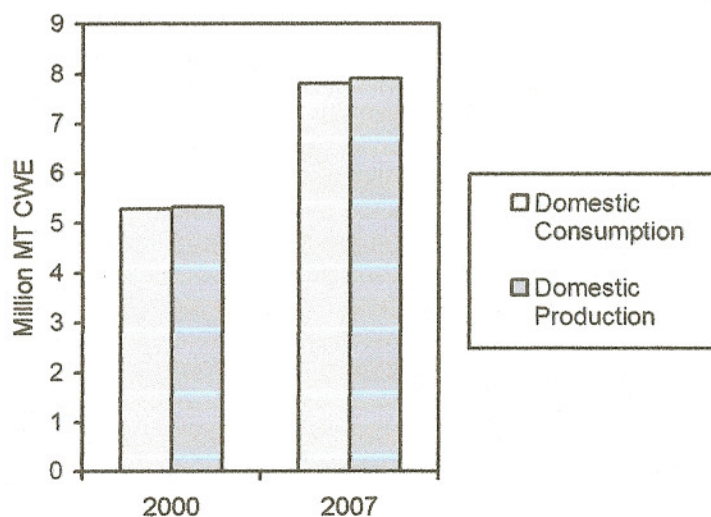
⁴ USDA Production and Supply Database, Cattle Selected Countries Summary.

⁵ *Id.*

⁶ *Id.*

While China's domestic consumption of beef has risen since 2000, that rising demand has been met almost entirely by rising domestic beef production rather than imports. China's domestic beef production exceeds its domestic consumption, and the volume by which domestic production exceeds domestic consumption has actually grown since 2000 even during a time of surging domestic demand.⁷ In fact, China's beef imports account for less than 0.03 percent of China's domestic consumption, and that proportion has actually fallen since 2000.⁸ At the same time, China's beef exports, while small, have risen, nearly doubling from 2000 to 2007.⁹ As a result, China's trade surplus in beef has more than doubled since 2000, from 44,000 MT CWE in 2000 to 100 MT CWE in 2007.¹⁰

China's Domestic Beef Consumption and Production



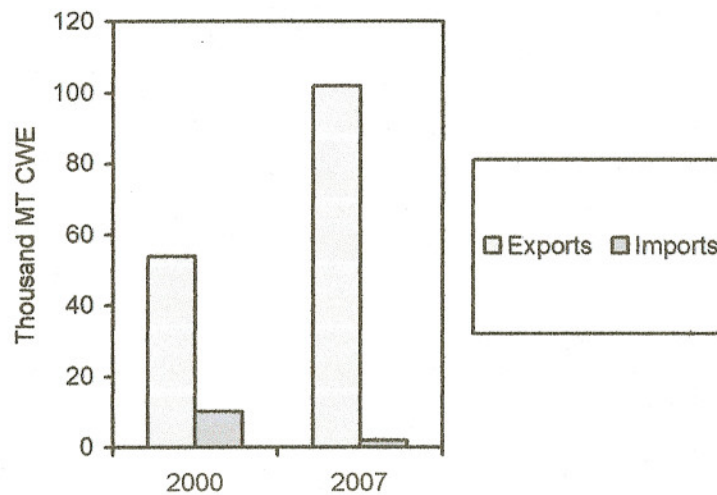
⁷ USDA Production and Supply Database.

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*

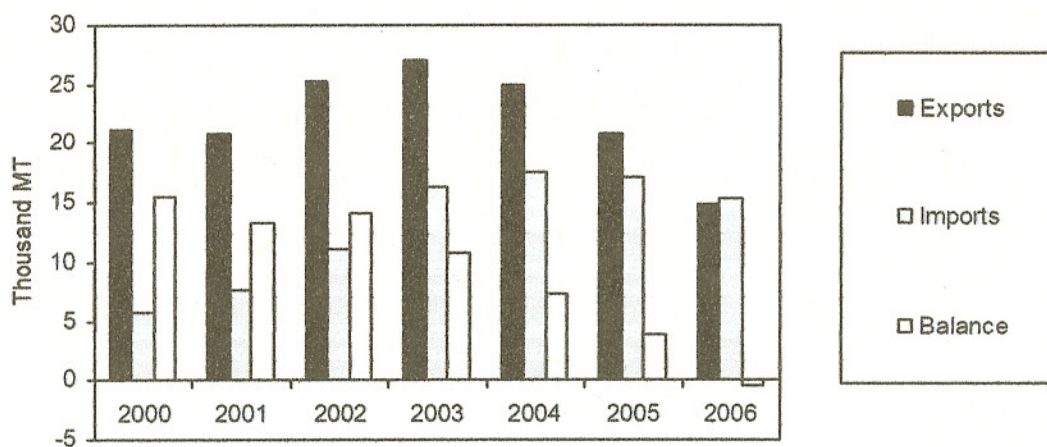
China's Beef Exports and Imports



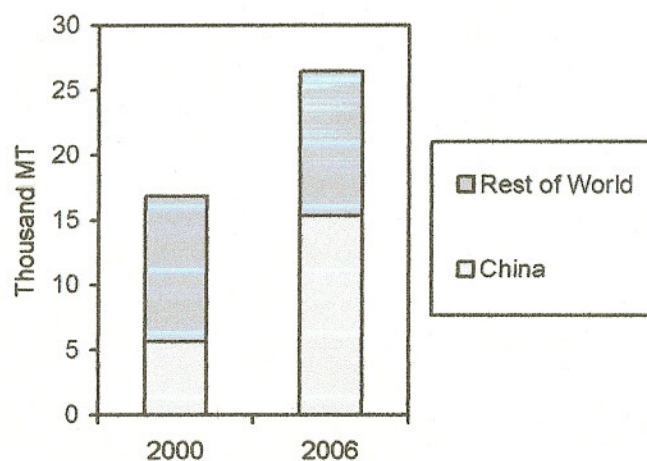
During this time, China's trade balance in beef with the United States has also shifted. Since the discovery of a Canadian animal with bovine spongiform encephalopathy in Washington State in late 2003, China has stopped importing fresh, frozen, and chilled cuts of beef from the United States almost entirely. As a result, the bulk of U.S. beef exports to China have shifted to lower-value offal and variety meats. At the same time, while health and safety restrictions limit the importation of most beef products from China into the United States, imports of some varieties of offal from China have increased to the point where China accounts for nearly 60 percent of the imports in at least one category.¹¹ This is at the same time that imports in that category from all other countries have remained flat. As a result of this decline in exports and rise in imports, the traditional U.S. trade surplus in beef products with China became a trade deficit for the first time in 2006.

¹¹ Dept. of Commerce, Census Bureau, Foreign Trade Stats for HTS 0504.

U.S. Beef Trade with China¹²



U.S. Imports of Certain Offal¹³



¹² Dept. of Commerce, Census Bureau, Foreign Trade Stats for HTS 0102.90, 0201, 0202, 0206, 0210, 0504, 1602.

¹³ Dept. of Commerce, Census Bureau, Foreign Trade Stats for HTS 0504.

II. Government Practices and Policies Affecting the Cattle and Beef Sector in China

One reason that China has been able to increase its cattle and beef production so dramatically is because of active government programs that encourage and support domestic production while shielding it from international competition. In a major step to boost the competitiveness of the domestic agriculture industry, all agricultural taxes have been cancelled for producers in China since 2004.¹⁴ The government takes a number of steps to ensure a plentiful and affordable feed supply for Chinese cattle producers, including subsidized grain prices.¹⁵ In addition, the government of China has intervened in the market to keep prices low through reductions in corn exports and control of corn stocks.¹⁶

China has also launched an effort to improve the genetics of its cattle herd. These efforts include technical training for cattle producers in artificial insemination skills.¹⁷ While China maintains a number of trade barriers to beef imports, it has more open health and safety policies, and low to zero tariffs, on imports of bovine semen and breeding stock.¹⁸ This targeted trade policy is designed to allow China to improve its beef cow genetics while protecting domestic producers from direct competition.

China's growing cattle herd and increasing beef production have also been helped by a number of government programs to promote cattle and beef production in the early 2000's. In 2001, China began a \$200 million development project (backed by the World Bank) to build an infrastructure of feedlots and slaughterhouses in east-central China and assist cattle producers to build a competitive and beef production industry in the region.¹⁹ Targets for infrastructure investment were created to ensure that at least 10 percent of investment in agricultural infrastructure related to cattle production.²⁰ In 2001, the government also instituted a preferential tax rate for cattle producers in China's western provinces lasting through 2010.²¹ In 2003, as part of a national plan to develop competitive agricultural zones within China, the government focused on creating a beef production zone in central China.²² The program was designed to last through 2007, and

¹⁴ USDA, *China: Livestock and Products Semi-Annual Report 2007*, GAIN Report No. CH7014 (March 1, 2007) at 4.

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ USTR and Department of Commerce, *Subsidies Enforcement Report*, 2001.

²⁰ USTR and Department of Commerce, *Subsidies Enforcement Report*, 2003.

²¹ *Id.*

²² *Id.*

it prioritized moving China's cattle and beef producers to higher-quality and more competitive products.²³ In addition, China employs a wide range of policies to support favored industries such as the cattle and beef industry, including preferential access to land and utilities at discounted rates, access to credit and debt forgiveness from state-owned banks at favorable terms, price controls, and various other tax and production subsidies.²⁴

At the same time that China invests public funds in its domestic cattle and beef industry, the government also maintains a number of practices to make exports more competitive and discourage imports. One such practice that has received significant attention is China's manipulation of its currency, the yuan, by pegging that currency to the dollar. Economists estimate that China's currency is undervalued by as much as 40 percent, making China's exports less expensive than they would be if the currency was traded at a free market rate, and making imports into China more expensive (and thus less competitive) than they otherwise would be. In addition, China employs a number of health and safety measures to keep out agricultural products where it is trying to develop its own domestic industry. China has remained largely closed to any imports of fresh, chilled, and frozen beef from the United States since 2003 due to concerns about BSE. As the U.S. Trade Representative has noted with regard to China's import ban, "China still has not provided any scientific justification for continuing to maintain its ban, nor has it identified any of the administrative and regulatory steps necessary to lift the ban."²⁵ While the U.S. has worked with China to resume imports of U.S. beef, such imports have not begun. After a unilateral announcement of limited market opening in June of 2006, China subsequently announce nearly two dozen burdensome additional conditions on importation even for beef meeting the limited entry criteria announced by the Chinese government. Thus, the U.S. continues to struggle to have China live up to international health and safety standards regarding U.S. beef.

III. Conclusion

The government of China employs a number of policies and practices to support its domestic cattle and beef industry, encourage beef exports, and discourage imports of beef. Such policies include feed subsidies, targeted regional development plans, large infrastructure investments, technical assistance, and genetics programs. In addition, continued government control over access to basic assets such as land, utilities, and credit is used to favor preferred industries targeted by the government for support, such as the cattle and beef industry. China also manipulates its currency to keep exports competitive and imports uncompetitive, and protects domestic producers through health and safety

²³ USTR and Department of Commerce, *Subsidies Enforcement Report*, 2004.

²⁴ See *Antidumping Duty Investigation of Certain Lined Paper Products from the People's Republic of China – China's status as a non-market economy*, Department of Commerce Memorandum (Aug. 30, 2006).

²⁵ USTR, *2007 National Trade Estimate Report on Foreign Trade Barriers* at 99.

it prioritized moving China's cattle and beef producers to higher-quality and more competitive products.²³ In addition, China employs a wide range of policies to support favored industries such as the cattle and beef industry, including preferential access to land and utilities at discounted rates, access to credit and debt forgiveness from state-owned banks at favorable terms, price controls, and various other tax and production subsidies.²⁴

At the same time that China invests public funds in its domestic cattle and beef industry, the government also maintains a number of practices to make exports more competitive and discourage imports. One such practice that has received significant attention is China's manipulation of its currency, the yuan, by pegging that currency to the dollar. Economists estimate that China's currency is undervalued by as much as 40 percent, making China's exports less expensive than they would be if the currency was traded at a free market rate, and making imports into China more expensive (and thus less competitive) than they otherwise would be. In addition, China employs a number of health and safety measures to keep out agricultural products where it is trying to develop its own domestic industry. China has remained largely closed to any imports of fresh, chilled, and frozen beef from the United States since 2003 due to concerns about BSE. As the U.S. Trade Representative has noted with regard to China's import ban, "China still has not provided any scientific justification for continuing to maintain its ban, nor has it identified any of the administrative and regulatory steps necessary to lift the ban."²⁵ While the U.S. has worked with China to resume imports of U.S. beef, such imports have not begun. After a unilateral announcement of limited market opening in June of 2006, China subsequently announce nearly two dozen burdensome additional conditions on importation even for beef meeting the limited entry criteria announced by the Chinese government. Thus, the U.S. continues to struggle to have China live up to international health and safety standards regarding U.S. beef.

III. Conclusion

The government of China employs a number of policies and practices to support its domestic cattle and beef industry, encourage beef exports, and discourage imports of beef. Such policies include feed subsidies, targeted regional development plans, large infrastructure investments, technical assistance, and genetics programs. In addition, continued government control over access to basic assets such as land, utilities, and credit is used to favor preferred industries targeted by the government for support, such as the cattle and beef industry. China also manipulates its currency to keep exports competitive and imports uncompetitive, and protects domestic producers through health and safety

²³ USTR and Department of Commerce, *Subsidies Enforcement Report*, 2004.

²⁴ See *Antidumping Duty Investigation of Certain Lined Paper Products from the People's Republic of China – China's status as a non-market economy*, Department of Commerce Memorandum (Aug. 30, 2006).

²⁵ USTR, *2007 National Trade Estimate Report on Foreign Trade Barriers* at 99.

Pre-Hearing Brief

Inv. No. 332-492

August 17, 2007

import standards that fail to comply with international standards. As a result of these policies, China has become a world leader in cattle and beef production, and its exports are now growing ore rapidly than its imports despite quickly growing domestic demand.

Thank you for this opportunity to present our views in this important investigation.

Sincerely,

A handwritten signature in dark ink, reading "R. M. Thornsberry D.V.M.", written in a cursive style.

R. M. Thornsberry, D.V.M.

President, R-CALF USA Board of Directors