Fighting for the U.S. Cattle Producer!
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R-CALF USA's Testimony to USTR Regarding Docket No. USTR-2017-0006, Negotiating Objectives Regarding Modernization of the North American Free Trade Agreement with Canada and Mexico

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If the goal of the USTR is to help President Trump make America great again, then we must reverse those policies that weakened America in the first place.

The North American Free Trade Agreement (NAFTA) is one of those policies. It weakened America in large part by significantly weakening the single largest segment of American agriculture: the U.S. live cattle industry that annually generates $72 billion in cash receipts. Because of its size, prominence and distribution, the revitalization of the U.S. live cattle industry is the solution to rebuilding Rural America through new jobs and new revenue generation.

The live cattle industry is the agricultural side of the beef supply chain. It begins and ends with the 729,000 disaggregated U.S. farmers and ranchers in every state who raise and sell live cattle. Downstream from the live cattle, agricultural industry is the manufacturing sector of the beef supply chain. This manufacturing segment is dominated by four large beef packers that control 85 percent of the marketing outlets for the 24 million head of live, slaughter-ready cattle sold by U.S. cattle feeders.

This handful of very powerful beef packers in the manufacturing sector of the beef supply chain are benefiting from NAFTA, but they are doing so at the expense of the hundreds of thousands of disaggregated farmers and ranchers who comprise the agricultural sector's live cattle industry.

Since NAFTA's implementation, the cattle industry has shrunk in terms of cattle operations, cattle feedlots, cattle inventories, and production output.

- About 20 percent of U.S. beef cattle operations disappeared during NAFTA's first 19 years of operations. About 178,000 operations exited the industry representing a loss rate of more than 9,000 ranches per year for the first 19 years of NAFTA.

- About 75 percent of U.S. feedlots in business during the first two years of NAFTA are gone today. About 82,000 U.S. feedlots were lost since 1996. Those that exited were typically referred to as farmer-feeders, which had small environmental footprints as they were widely dispersed and had one-time capacities of less than 1,000 head.

- The U.S. cow herd shrank about 10 percent since NAFTA's implementation. In 2014 it had fallen to a 70-year low. Even after three years of rebuilding, it is still over three million head smaller than in 1994.

- The output of beef produced from U.S. cattle trended downward throughout NAFTA. Just two years ago, during 2015, U.S. production of beef from U.S. cattle fell to the lowest level since 1993, the year before NAFTA was implemented.

A principal reason for the contraction of the U.S. cattle industry is because not only did NAFTA's promise of new, net marketing opportunities not materialize for the U.S. cattle industry; but instead, the opposite occurred. The U.S. cattle industry was forced to absorb a persistent and ever-mounting trade deficit in the trade of cattle, beef, beef variety meats and processed beef with Canada and Mexico.

The U.S.'s 25-year cumulative value-based trade deficit in cattle and beef with Canada and Mexico is nearly $32 billion, averaging about $1.3 billion per year.

The absorption of this persistent trade deficit by the U.S. cattle industry has cost America both jobs and economic opportunities.

Using the economic Implan multiplier model indicates that a decline in $1 of sales for the cattle ranching and farming sector will have a $3.87 impact on total output in the economy.

Considering the cattle industry's NAFTA $1.3 billion annual trade deficit as lost sales opportunities, this rule of thumb suggests that NAFTA has reduced economic opportunities in Rural America by over $5 billion per year.

Several economic analyses found correlations between import and export values and job losses and job creations. In general, these analyses suggest that each $1 billion in additional imports or exports is associated with between 4,500 to 5,400 jobs. Applying this rule of thumb to the U.S. cattle industry reveals that the annual NAFTA trade deficit is costing the U.S. between 5,800 to 7,000 jobs each year. The referenced Implan model also provides an employment multiplier indicating that for every $1 million in sales of cattle or beef is associated with 43.5 jobs generated in the economy. Applying this factor to the annual deficit reveals potential job losses ten times larger than the previously mentioned analyses.

During each of the past three years, the U.S. imported roughly $4 billion in cattle and beef from Canada and Mexico and exported to those countries roughly $2 billion in cattle and beef, resulting in annual trade deficits of about $2 billion.

This means that during the past three years, each time the U.S. sold Canada and Mexico about $2 billion in cattle and beef, Canada and Mexico turned around and sold the U.S. about $4 billion worth of the same commodities. It should be clear that Canada and Mexico will continue playing this game until the United States quits.

For many years the meatpacking lobby convinced decision-makers that the ongoing trade deficit does not matter because NAFTA imports complement, rather than compete with, U.S. production. They claim the U.S. principally exports high value beef products and imports low value products, such as trimmings to mix with fattier trimmings in the U.S. to produce ground beef.

This simply is not true. The data below from the USDA Agriculture Marketing Service show, for example, that in 2016, most imports from Canada and Mexico (more than 63 percent) were muscle cuts, primals and subprimals. Only about 28 percent were low value trimmings. (Note that the USDA Foreign Agriculture Service data cited in my written comments indicate an even higher percentage (85 percent) of high value imported product from Canada and Mexico.)

2016 Fresh Beef Imports from Canada and Mexico
Metric Tons

	AMR	Boneless Trimmings	Cheek Meat	Cuts	Edible Offals	Head Meat	Other Intact	Primals & Subprimals	
Total	184	114,823	3,429	129,756	24,964	4,790	1,203	129,443	408,592

Thus, the U.S. imports the same type of beef from Canada and Mexico that it exports. In fact, these imports are a direct and often, undifferentiated market substitute for domestic beef production. Indeed, in their lawsuit against COOL, the packers and the National Cattlemen's Beef Association, and their counterparts in Canada and Mexico, argued that "beef is beef whether the cattle were born in Montana, Manitoba, or Mazatlán." This explains why the meatpacking industry supports NAFTA – it provides them with growing volumes of undifferentiated imports that they can use as strategic substitutes for domestic cattle and domestic beef to effectively lower the prices paid to U.S. farmers and ranchers for their cattle.

When domestic cattle prices are going up, the dominant beef packers can shift their focus to imported NAFTA beef and beef from NAFTA cattle to reduce the demand for domestic cattle, thereby reducing the price of domestic cattle.

Consumers are harmed as well because Mexican and Canadian beef and cattle substitutes are cheaper than similar domestic products; yet because they are undifferentiated, the packers and retailers can price them as if they are an exclusively U.S. product to unsuspecting American consumers.

Indeed, a comparison of 2016 prices between heavy-weight Canadian and U.S. cattle reveals that the Canadian cattle averaged about $61 per head cheaper than U.S. cattle. Similarly, lighter-weight Mexican cattle averaged about $70 cheaper than comparable U.S. cattle.

When the beef from these cheaper animals remains undifferentiated to consumers, the "buy low, sell high" tenet in the beef manufacturing sector allows them to exploit U.S. ranchers on one side of the supply chain and consumers on the other.

President Trump said he wants Americans to buy American products, which will help support and invigorate the domestic economy. But American's cannot choose to help support the

American cattle industry by buying American beef under NAFTA because Congress repealed mandatory country of origin labeling (COOL) and the NAFTA rules of origin allows beef from Canadian and Mexican cattle to be deceptively labeled as a product of the USA.

The most important modernization that the USTR can make to NAFTA for the U.S. live cattle industry is to require mandatory COOL for all beef sold in America at retail and to change the NAFTA rule of origin so only beef from animals exclusively born, raised and slaughtered in the U.S. can bear a USA label. There is a no-cost way to implement COOL that will allow packers to accurately identify the origins of all live cattle offered for slaughter. If the U.S. removes live cattle from the so-called J-list that currently exempts them from being permanently marked as a condition of entry into the United States, then every animal that does not bear such a permanent import marking could be none other than an animal that was exclusively born and raised in the United States. Cattle with import markings, would be known to have been born and raised at least partially in whichever country affixed the mark. Thus, a comprehensive, mandatory COOL requirement could be implemented at no cost to any of the 729,000 remaining cattle farmers and ranchers in the United States.

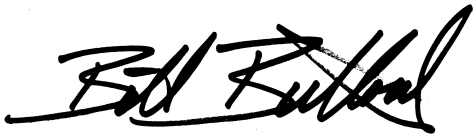
Additional NAFTA modernizations important to the U.S. cattle industry include the establishment of special rules that recognize the perishable and supply-sensitive nature of the cattle industry. Such rules should provide automatic snap-back provisions in the event of a surge of price-depressing imports. To make this effective, cattle and beef should be designated as like/kind products so live cattle producers can effectively remediate reduced cattle prices caused by surges in beef imports.

To correct the imbalance manifested by cheaper production costs (which may also be attributed to industry subsidization) that empower multinational packers to strategically use substitute beef and cattle from Mexico and Canada to suppress domestic cattle prices, the USTR should rebalance the playing field by reinstating tariffs on imports of beef and cattle.

NAFTA modernization should also include the reinstatement of the requirement that Canada and Mexico must maintain food safety inspection systems that are at least equal to those in the United States. The ongoing experiment of allowing imported food to enter the U.S. when subjected to food safety systems deemed close enough under the current equivalency standard should be abandoned.

Finally, the U.S., which is the largest beef producing beef consuming nation in the world has more to lose than any other country when it comes to foreign animal diseases. NAFTA rules should disallow imports of beef or cattle into the U.S. unless Canada and Mexico eradicates pernicious animal diseases and pests from within their respective borders.

Sincerely,



Bill Bullard, CEO