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R-CALF USA Testimony for the Public Hearing of the U.S. International Trade Commission Regarding the United States-Mexico-Canada Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors, Investigation No. TPA-105-003

November 16, 2018

Distinguished Members: Thank you for this opportunity.

R-CALF USA is the largest trade association exclusively representing United States cattle farmers and ranchers within the multi-segmented beef supply chain. We also represent sheep producers.

Based on U.S. Department of Agriculture (USDA) data, world exports of beef and cattle through September of this year increased 18% in value compared to the same period in 2017, a $957 million increase. Four percent of that is attributable to exports to Canada and Mexico.

USDA data also show that wholesale beef prices through August of this year were about $14 per carcass higher than the same period in 2017.

On Wednesday, the CME Group reported that meatpackers are receiving record gross margins in 2018, with their margins gaining from 5% to 54% above the same months in 2017.

This is certainly wonderful news for the beef industry.

But, I don't represent the beef industry. I represent the beef industry's input supply chain – the U.S. live cattle supply chain comprised of about three-quarters of a million hard-working men and women who raise and sell cattle into the beef industry and, whose businesses either succeed or fail based on the price they receive for their cattle.

For them, USDA data show the average price they received for their cattle through August of this year was a full $85.28 less than they received during the same period in 2017, based on a 1,300 lb. Nebraska Direct steer.

The three panelists beside me each have contractual loyalties to multinational meatpackers, and the trade interests of those meatpackers are diametrically opposed to the interests of independent U.S. cattle farmers and ranchers.

During the 24 years that the North American Free Trade Agreement (NAFTA) has been in place, the U.S. live cattle supply chain was forced to absorb the overproduction and overcapacity of both Canada and Mexico, resulting in a cumulative $33 billion U.S. deficit in the trade of cattle and beef with those two countries, causing domestic cattle prices to fall even with record exports and record wholesale beef prices.

During each of the past four years, each time the U.S. sold Canada and Mexico $2 billion in cattle and beef, the U.S. turned around and purchased $4 billion of the very same commodities from them. This, ladies and gentlemen, is stifling investment in our domestic supply chain's infrastructure and eliminating profit opportunities for new entrants and current farmers and ranchers alike.

At some point we must stop pretending that our current trade agreements are good simply because the multinational corporations and the domestic trade associations they control say they are; *and*, their only offering of proof is that exports have increased.

President Trump and Ambassador Lighthizer clearly understood that NAFTA is fundamentally flawed and a disaster to the U.S. economy. They understood that cheaper imports were destroying U.S. supply chains and forcing manufacturers to offshore. They understood that U.S. supply-chain industries cannot survive when faced with persistent, price-depressing trade deficits.

We know this is true because the United States-Mexico-Canada Agreement (USMCA) makes important changes to the rules of origin for the auto and truck industries and other manufacturers, recognizing that improving those rules could reverse the outsourcing and offshoring that was destroying their U.S. supply chains. The USMCA also reflects a clear recognition that the origin of supply-chain inputs matter to the U.S. economy, as it promotes greater use of Made-in-the-USA fibers, yarns and fabrics for U.S. textile and apparel industries.

But, President Trump and Ambassador Lighthizer did the exact opposite for the largest and most important sector of American agriculture – the U.S. live cattle industry. It's the largest because it generates more cash receipts (about $70 billion annually) than any other agricultural commodity. It's the most important because cattle operations are more widely dispersed across America than are other commodity operations, thus it provides the economic cornerstones for much of Rural America.

President Trump and Ambassador Lighthizer did nothing for the U.S. live cattle supply chain. Worse, they memorialized the destructive provisions in the original NAFTA that will accelerate the contraction of our U.S. cattle industry.

During the 24 years of NAFTA, no significant investments were made to our nation's aging beef packing facilities. In fact, our packing and feedlot industries are shrinking while NAFTA incentivized significant investments in packing facilities and feedlots in both Canada and Mexico. Reports indicate 48 packing plants have exited the U.S. since 1995. The largest packers have been closing packing plants and selling assets, most notably to Brazilian interests.

We've wiped out 75 percent of our nation's feedlots, losing nearly 84,000 smaller feedlots that once provided significant economic activity for tens of thousands of rural communities.

Nearly 20% of U.S. beef cattle operations in existence when NAFTA was implemented are gone today, further causing a hollowing out of our rural communities.

Our industry's factory – its mother cow herd, is now 3 million head smaller than when NAFTA was implemented. This even after our industry has tried to rebuild in each of the past four years.

The USMCA will do to the U.S. cattle industry exactly what NAFTA was designed to do: It will reduce economic opportunities for U.S. cattle farmers and ranchers who exclusively produce cattle born, raised, and slaughtered in the United States, while simultaneously maximizing profit margins for multinational beef packers and their contractually-aligned feedlots.

NAFTA accomplished its objective by making foreign supply chains and domestic supply chains indistinguishable, by eliminating quintessential elements of competition such as product differentiation for cattle farmers and ranchers and product choices for beef consumers, and by granting multinational beef packers and their feedlots the ultimate tool for controlling domestic cattle prices. That tool is unlimited access to undifferentiated input supplies (*i.e.*, cattle and beef) from Canada and Mexico.

Here is what the USMCA will continue to do: it will increase available cattle inventories for U.S.-based multinational beef packers and their feedlots by a staggering 31 percent.[1] Then, because the product-specific rule of origin allows the beef from those additional cattle to bear a country-of-origin label (COOL) of "Product of U.S.A." when slaughtered in the U.S., these foreign cattle supplies are a direct substitute for U.S. cattle.

Worse, because even foreign beef imported from Canada and Mexico is eligible for the USA COOL label so long as it receives even minor processing in the U.S., such as taking it out of a big box and repackaging it in smaller boxes, that foreign beef becomes a direct substitute for beef produced by the U.S. supply chain.

It does not take rocket science to understand that if supplies for the supply-sensitive cattle industry, where a 1 percent increase in supplies is expected to reduce prices by 2 percent, the greatly expanded supply of undifferentiated beef and cattle the USMCA gifts to the multinational packers will greatly benefit those packers; but at considerable expense to U.S. cattle farmers and ranchers.

The likely impact of the USMCA on the U.S. cattle industry will be substantial, and it will be substantially negative.

It will stifle investments in both U.S. packing plants and U.S. feedlots, particularly small feedlots upon which many rural communities are dependent.

It will continue to cause the exodus of U.S. beef cattle operations and the shrinking of the U.S. cattle herd.

It will continue dismantling the U.S. cattle industry's infrastructure and encouraging the outsourcing of the U.S. cattle and beef supply chains.

It will shield the multinational beef packers and their feedlots from market competition while simultaneously precluding U.S. cattle farmers and ranchers from competing against their foreign counterparts in Mexico and Canada.

[1] The 2018 cattle inventory in the U.S. is 94.4 million; in Mexico 16.6 million; and in Canada 12.4 million.

Finally, it gifts to multinational beef packers the power to reverse domestic cattle price rallies and, concurrently, to effectively manage the price of domestic cattle.

It will devastate the economies of rural communities.

For the foregoing reasons, R-CALF USA strongly opposes the U.S.-Mexico-Canada Agreement.