R-CALF USA Overview of International Trade and the U.S. Cattle and Beef Industries

Presented by

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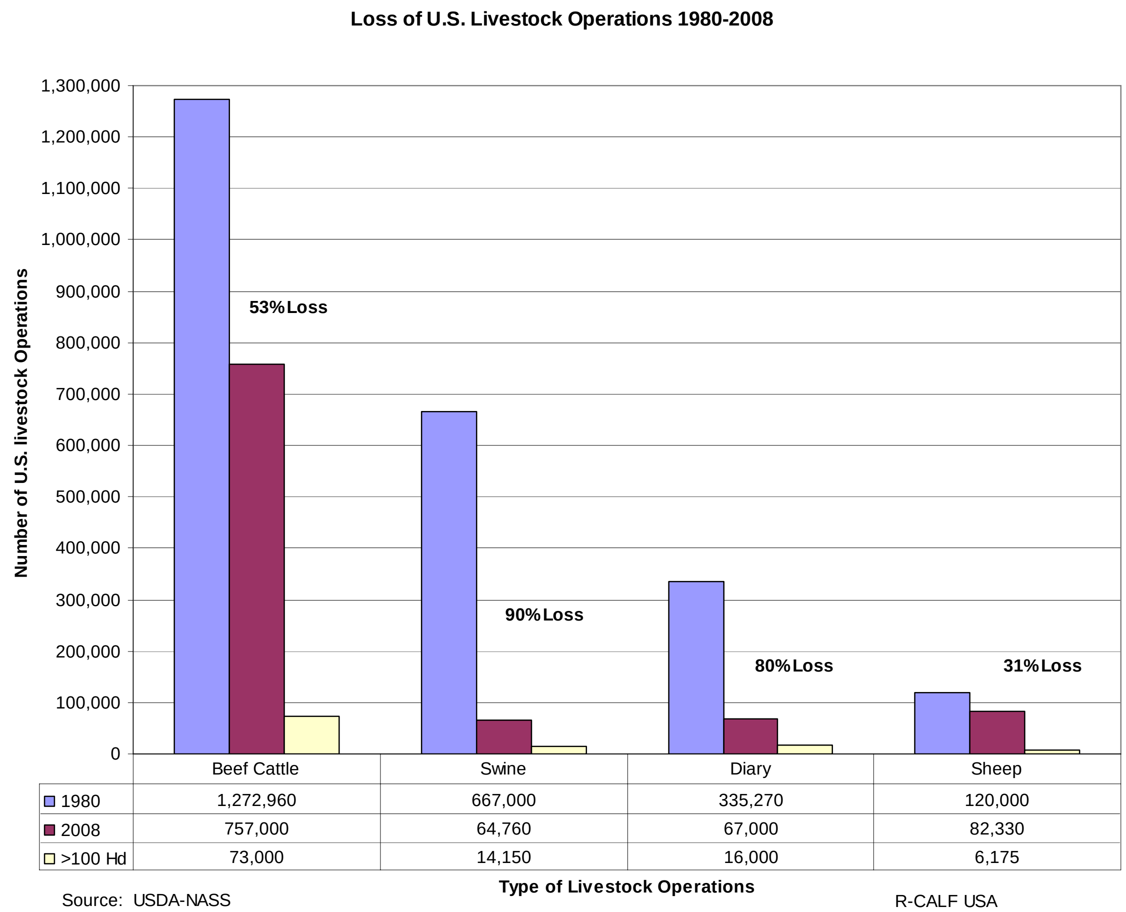
The Entire U.S. Livestock Industry Is in a Severe State of Crisis!



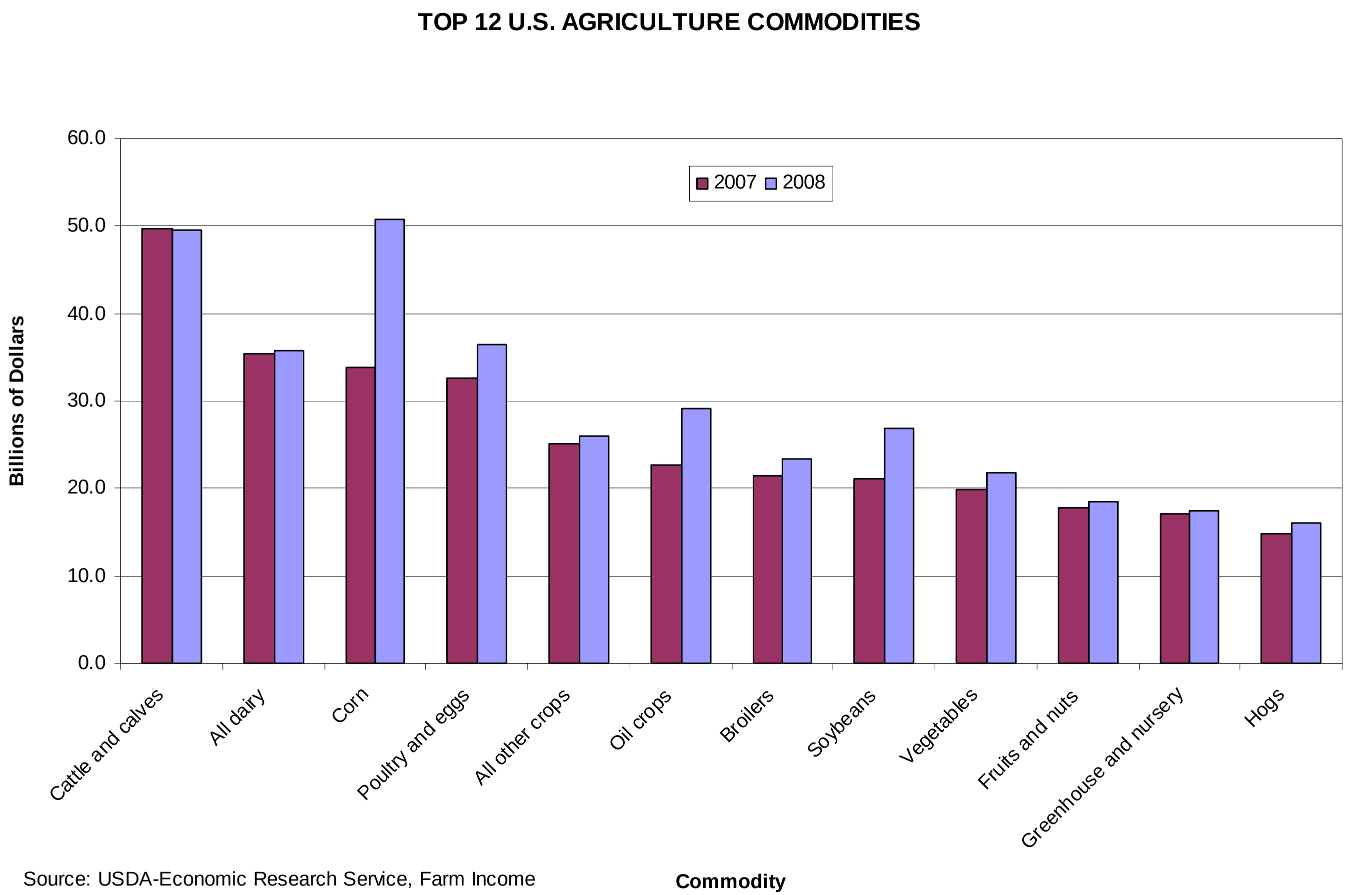
	Beef Cattle	Swine	Diary	Sheep
1980	1,272,960	667,000	335,270	120,000
2008	757,000	64,760	67,000	82,330
>100 Hd	73,000	14,150	16,000	6,175

I. **Trade Policy Must Distinguish the U.S. Cattle Industry From the U.S. Beef Industry**

First, What is the U.S. Cattle Industry?

- Single Largest Segment of American Agriculture until 2008.
- 12 states each generate over $1 billion annually in the sale of cattle and calves, with these 12 states generating over $36 billion (2008).
- Only a portion of the $50 billion in annual cattle sales is sold to the U.S. beef industry.
- In 2008, consisted of 956,500 cattle operations (including dairy) in all 50 states that raise and sell live cattle. 757,000 are beef cattle operations and fewer than 73,000 beef cattle operations have a herd size of over 100 head.
- Consists of seed stock producers who raise and sell breeding stock, cow/calf producers who raise and sell calves, backgrounders and feeders who grow calves until they are ready for feeding, and feedlot operators who feed cattle until ready for slaughter.
- The cattle industry is highly sensitive to supply increases.
- Fundamentally wrong to view the beef industry as a representative of the interests of the “cattle industry.”

Cattle Industry Was Largest Sector of U.S. Agriculture Until 2008

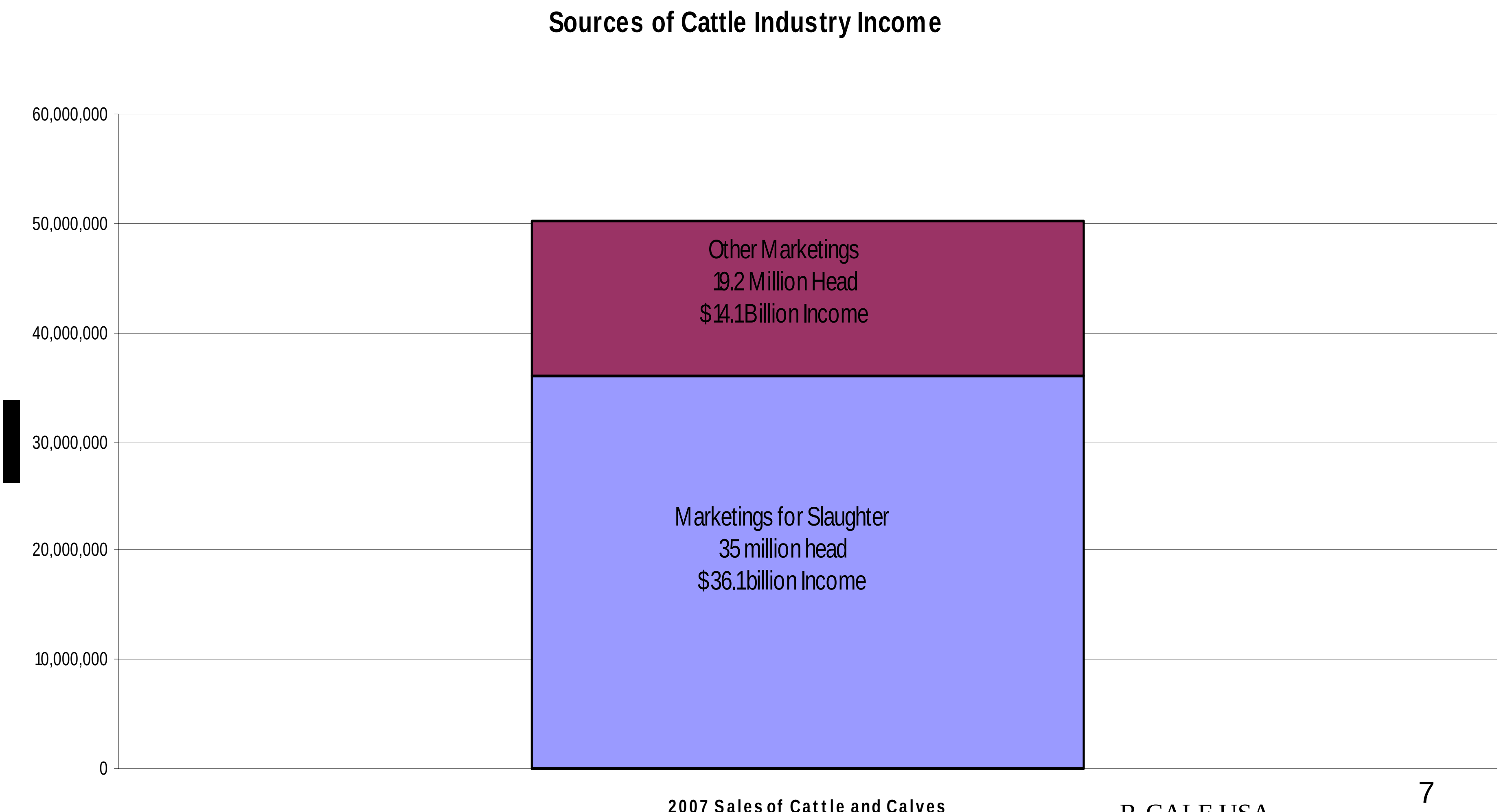


Source: USDA-Economic Research Service, Farm Income

12 States Each Generate Over $1 Billion in Cattle and Calf Sales

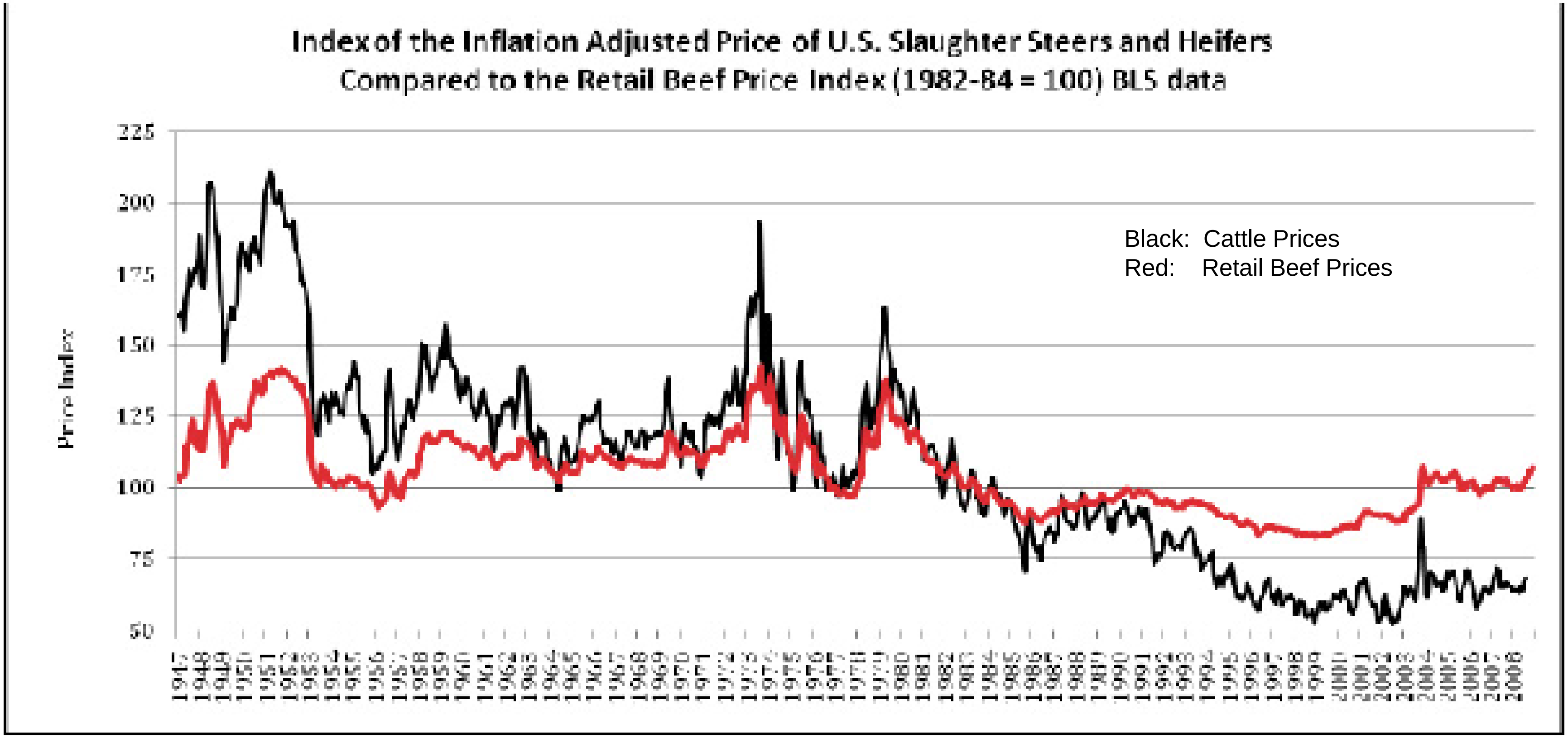
Nebraska	$7.1
Texas	$6.9
Kansas	$6.2
Colorado	$3.0
Iowa	$2.9
Oklahoma	$2.4
California	$1.8
S. Dakota	$1.7
Missouri	$1.2
Idaho	$1.2
Minnesota	$1.1
Montana	$1.0
2008 Total:	$36.5

Beef Industry Purchases Only a Portion of Annual Cattle Marketings



Source: USDA-NASS

U.S. Cattle Markets Have Been Broken for Past Two Decades



Source: Dr. Robert Taylor, Auburn University

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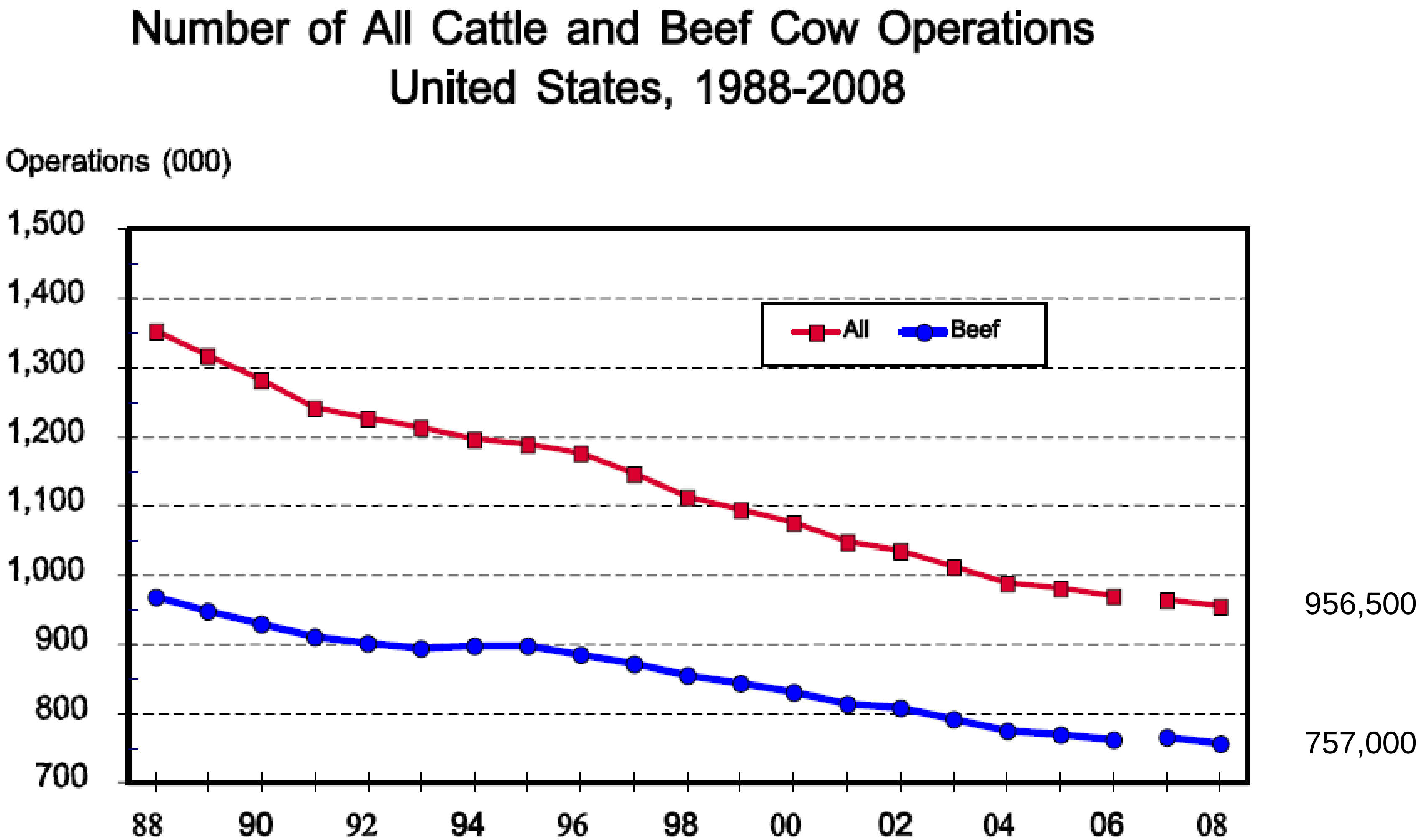
U.S. Cattle Industry is Shrinking: Industry Participants



Source: USDA-NASS

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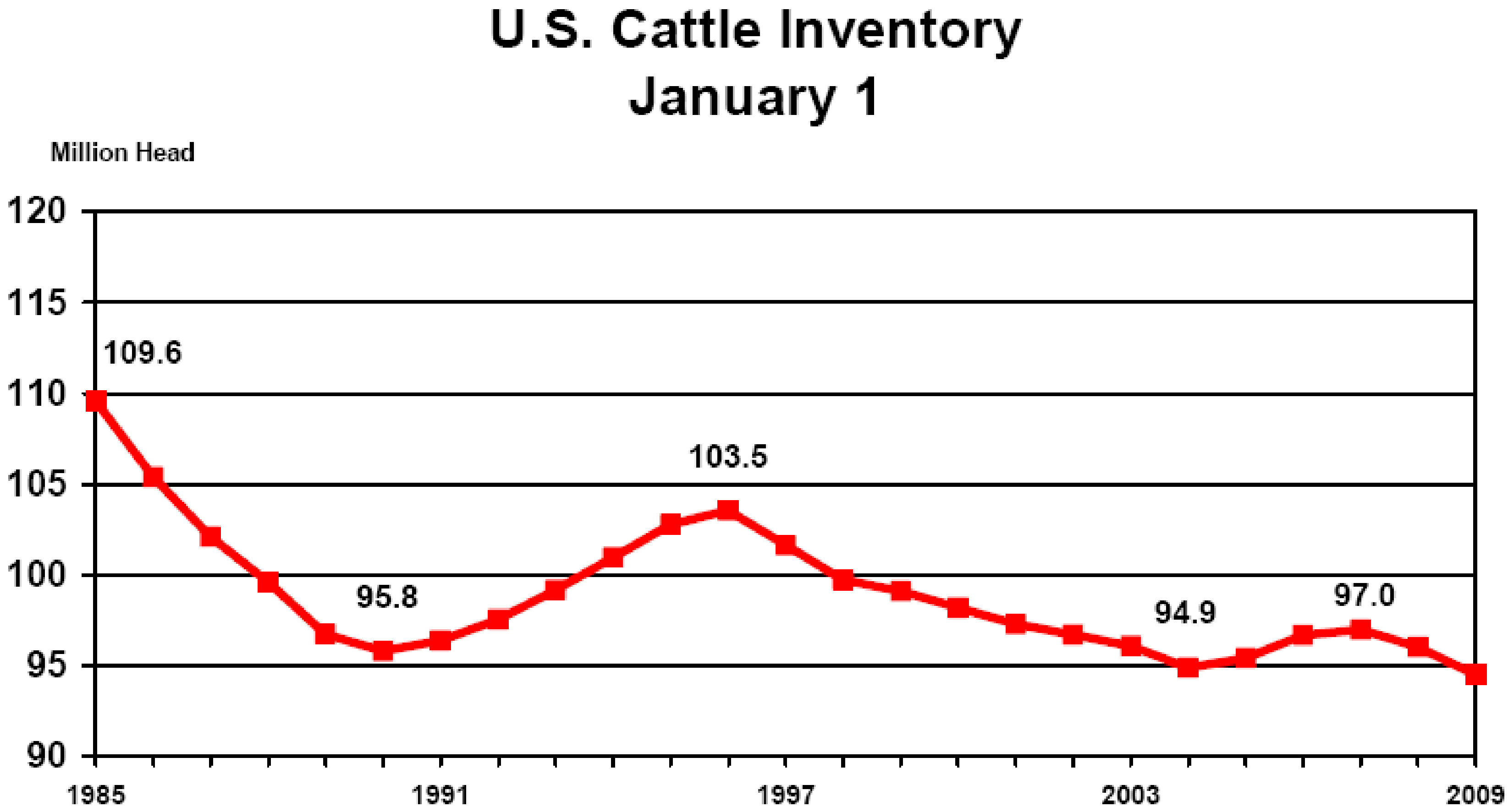
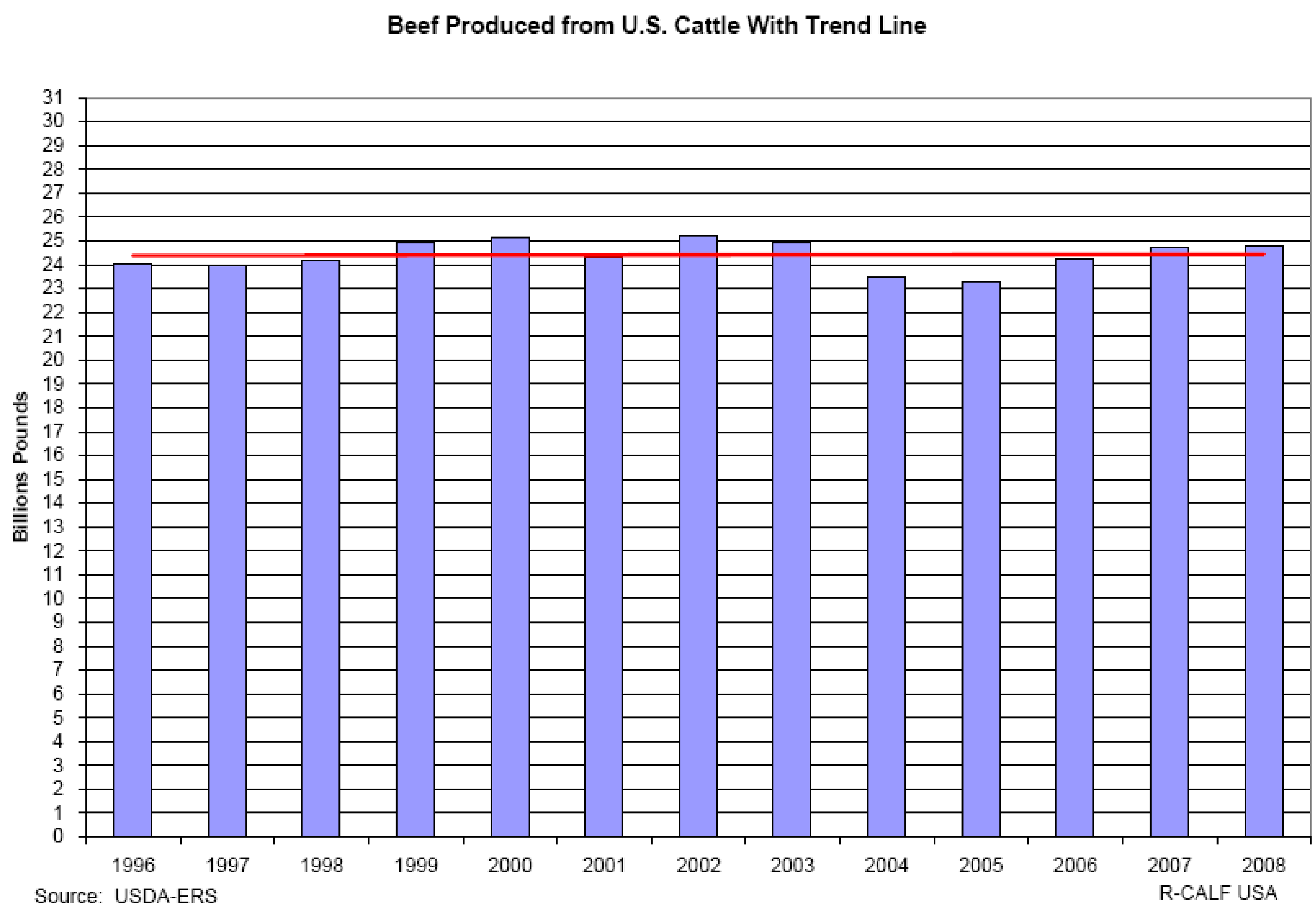
The Size of the U.S. Cattle Herd is Shrinking



Source: USDA-NASS

Domestic Beef Production is Stagnant



Note: The volume of beef produced from imported cattle (No. of imported cattle x each year's average carcass weight) is excluded from these data.

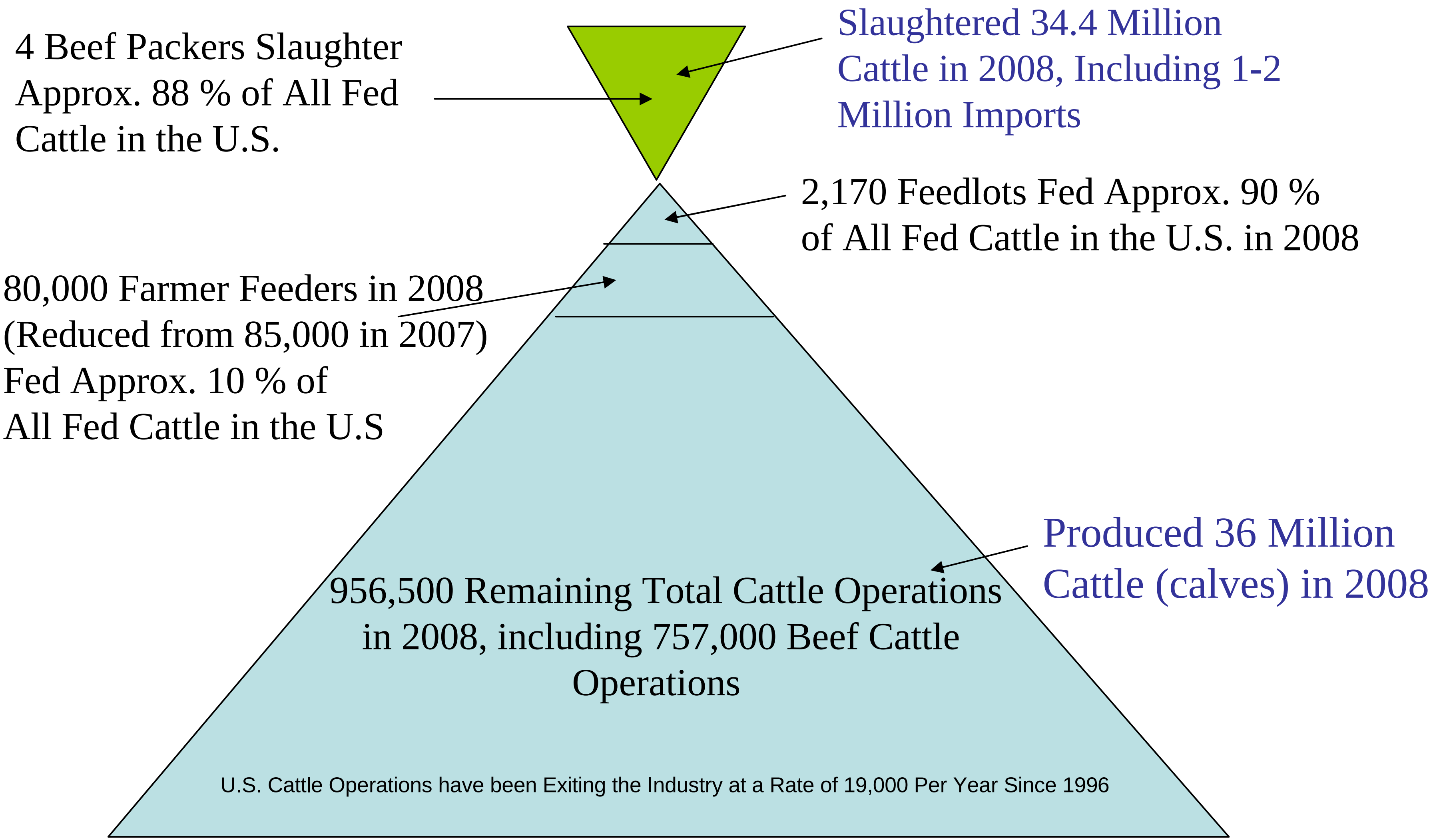
Domestic Beef Production v. Total U.S. Beef Production Explained

- USDA currently includes all beef produced at U.S.-based packing plants as domestic beef production.

- However, this is inaccurate because millions of imported cattle are slaughtered in U.S. packing plants each year, including animals imported for immediate slaughter.

- R-CALF USA subtracted the annual production of beef derived from imported cattle from USDA's annual production estimates to arrive at a more accurate estimate of "domestic beef production," i.e., beef produced from animals exclusively born, raised, and slaughtered in the USA. (R-CALF USA multiplied the number of annual cattle imports by the average annual carcass weight to determine the volume of beef produced annually from imported cattle, and then subtracted this amount from USDA's annual production estimates.)

Today's U.S. Cattle Industry



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A. U.S. Cattle Industry is Highly Sensitive to Changes in Imported Cattle Supplies

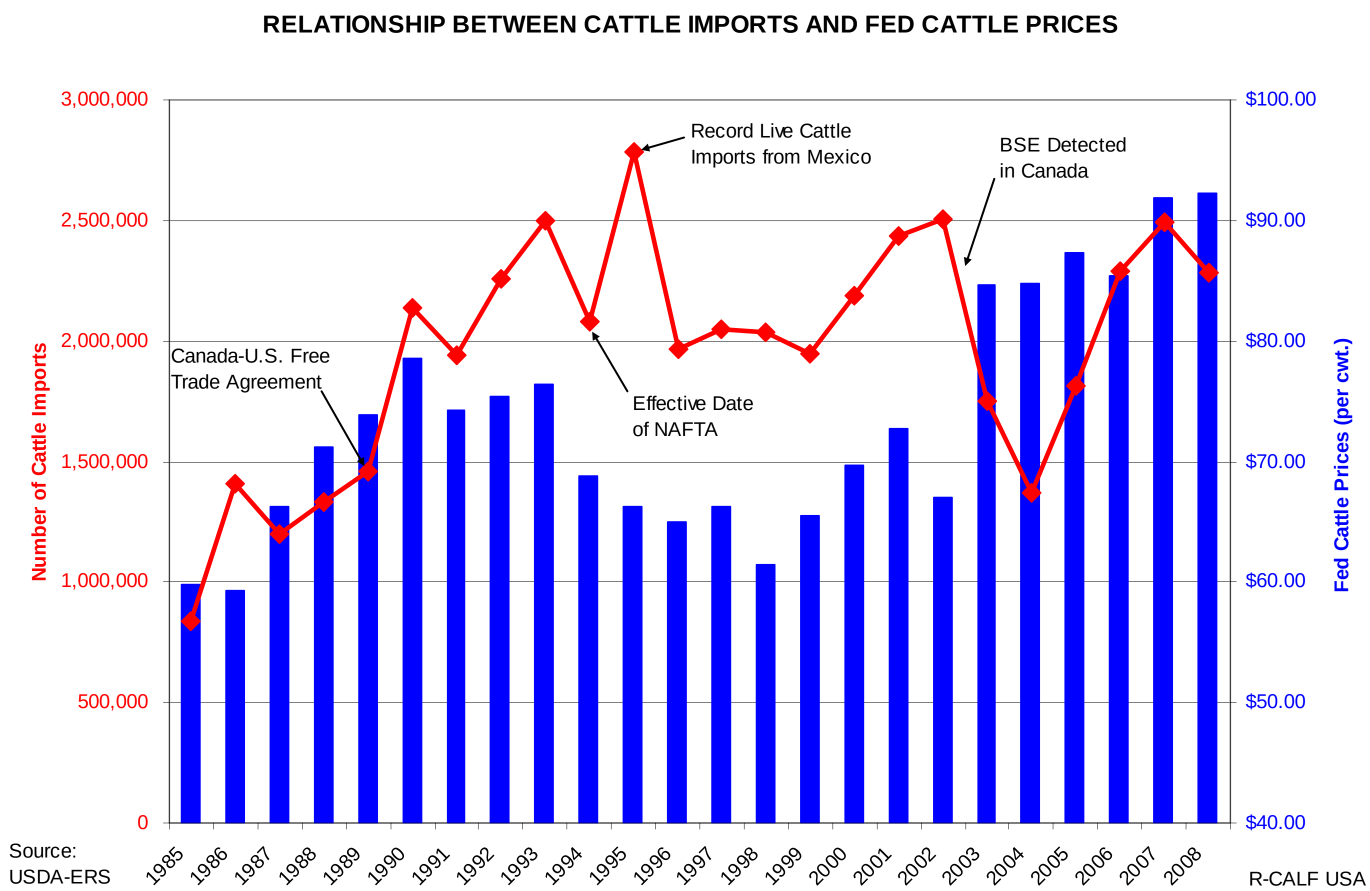
- The U.S. International Trade Commission (USITC) has confirmed that the U.S. live cattle industry is highly sensitive to even slight changes in increased imports of live cattle.

- The staff at the ITC found that the farm level elasticity of demand for slaughter-ready cattle is such that:

  "[E]ach 1 percent increase in fed cattle numbers would be expected to decrease fed cattle prices by 2 percent."

  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.

Long-Run Price Depression Coincides with Increased Cattle Imports



B. The U.S. Beef Industry's Focus Is On Exports

What is the U.S. Beef Industry?

- The U.S. beef industry consists of beef packers and beef processors that are classified under the 2007 North American Industry Classification System (NAICS) as Food Manufacturers.

- As manufacturers, the economic interests of the beef industry are distinct from the economic interests of the U.S. cattle industry.

- The beef industry buys slaughter-ready cattle; the cattle industry sells slaughter-ready cattle.

The Beef Industry is Excessively Concentrated

- In 2001, Oklahoma State University Economist Clement Ward found that the concentration levels in the U.S. meatpacking industry were already among the highest of any industry in the United States, "and well above levels generally considered to elicit non-competitive behavior and result in adverse economic performance."[1] At that time, the four largest meatpackers controlled over 80 percent of U.S. steer and heifer slaughter.

- Notwithstanding the fact that this conclusion strongly suggests that no additional concentration should have been allowed, in October 2008 the U.S. Department of Justice allowed the 3rd largest U.S. beef packer – Brazilian-owned JBS, to acquire the nation's 5th largest beef packer – Smithfield Beef Group, which raised the four-firm concentration ratio to an unprecedented level of approximately 88 percent.

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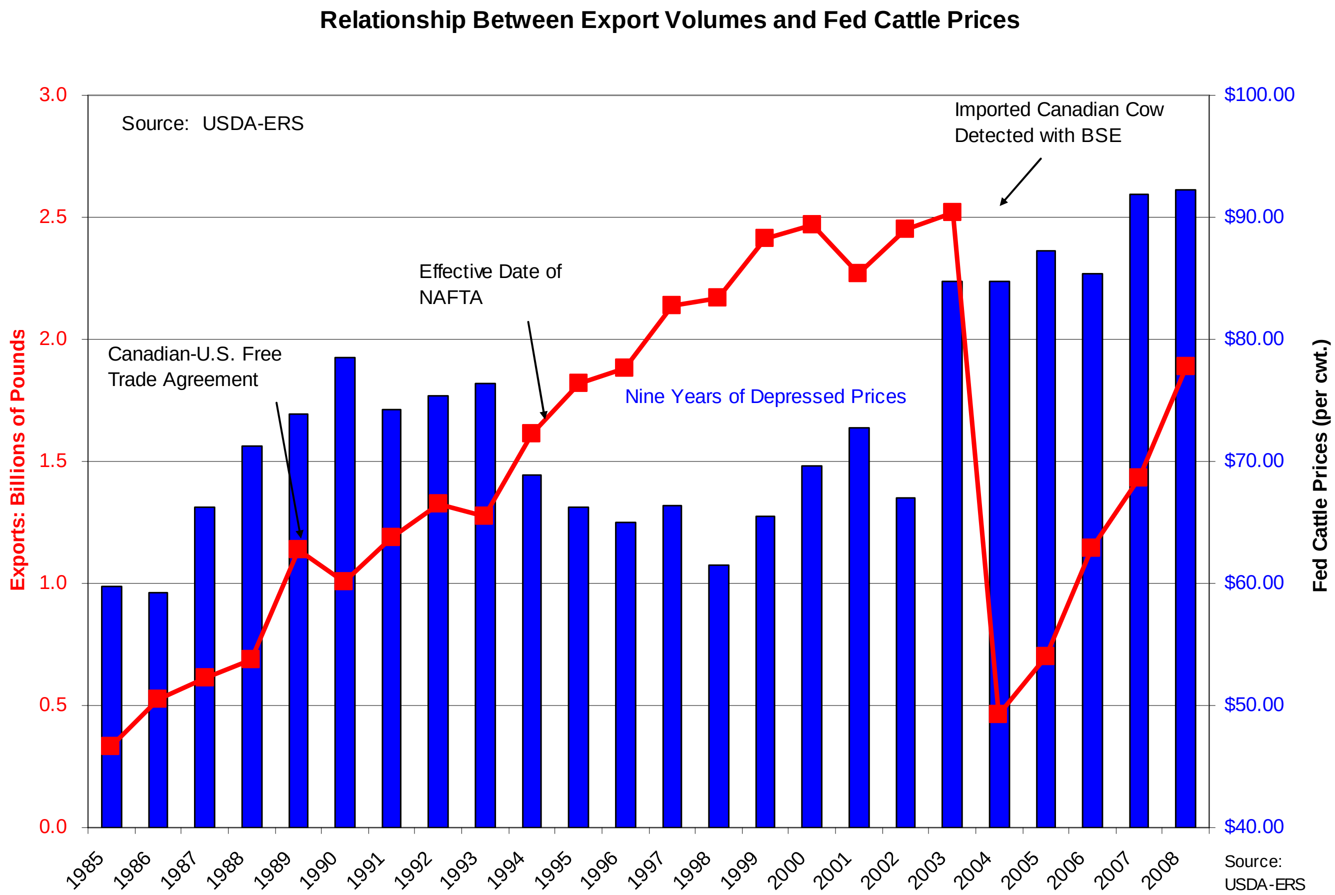
[1] *A Review of Causes for and Consequences of Economic Concentration in the U.S. Meatpacking Industry, Clement E. Ward, Current Agriculture Food and Resource Issues, 2001, at 1.*

Current Trade Policies Reflect the Interests of the Beef Industry, Not the Cattle Industry

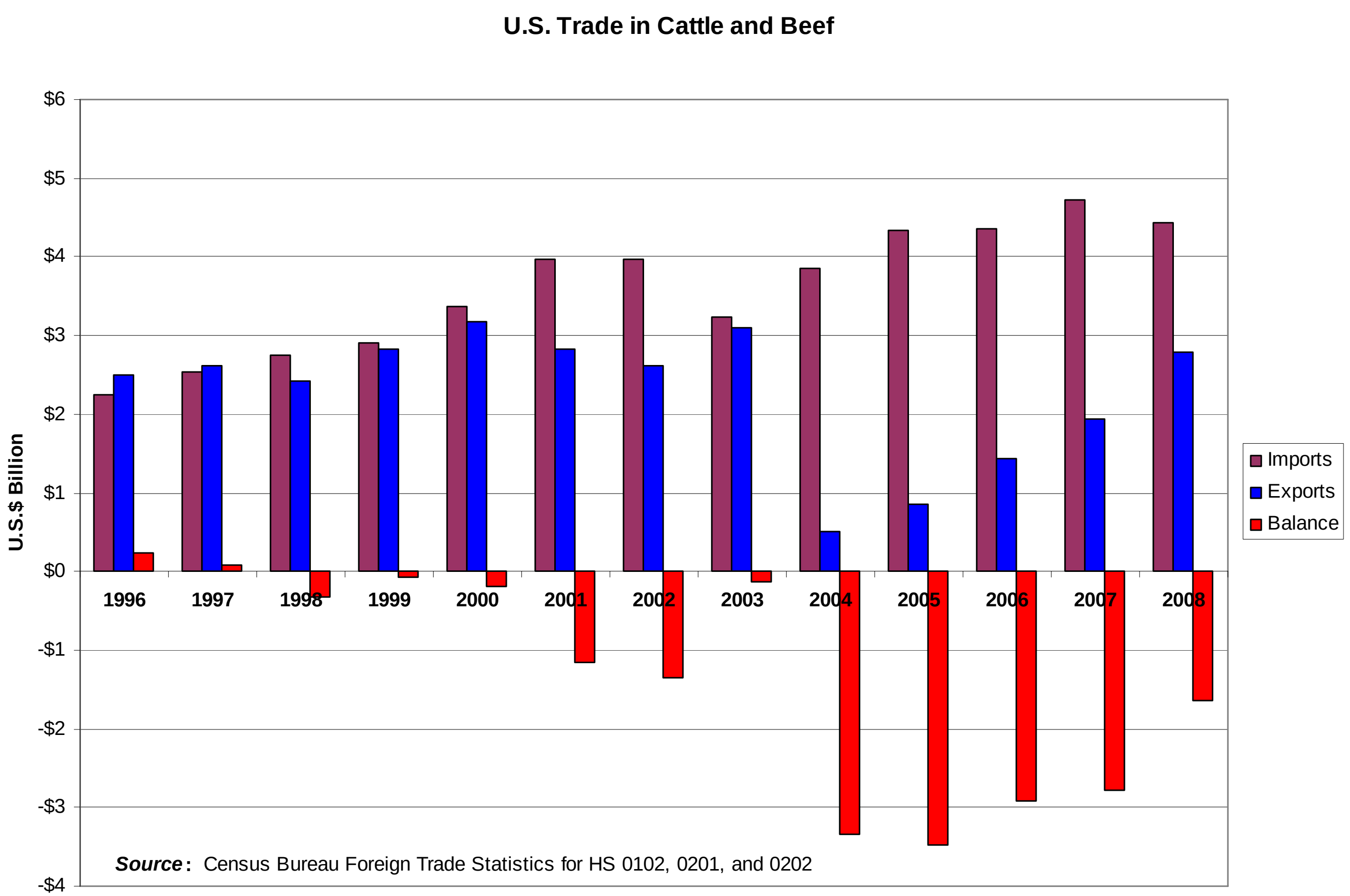
- No protections against import surges to reflect cattle industry's extreme sensitivity to increases in cattle imports.
- No quantity and price safeguards for both beef and live cattle.
- No acknowledgement that beef and cattle are like/kind products.
- No consideration for the perishable nature of both beef and cattle.
- No consideration for fact that beef is imported in two distinct forms: pre-slaughtered beef (live cattle) and post-slaughtered beef (beef).
- Foreign countries are granted access to the U.S. market before the U.S. is allowed access to foreign markets.
- Rules of Origin have not been reformed to require beef imports to be derived from cattle born raised and slaughtered in the participating country, resulting in transhipments of cattle from non-participating countries into participating countries.
- Rather than require importing countries to meet U.S. health and safety standards, the U.S. has systematically relaxed standards to facilitate more imports.
- Imported livestock are not required to be permanently marked with a mark of origin to aid in foreign animal disease trace-backs after importation (U.S. Department of Treasury's "J-List").
- No action to correct currency manipulation by trading partners that have taken action to under-value their currencies vis-à-vis the U.S. dollar to gain an unjust trading advantage.
- Cattle industry vulnerable to any country that decides to increase production to penetrate our U.S. market, and vulnerable to any beef packer that decides to import into the U.S. more cattle and beef to drive down domestic prices.

Increased Exports Do Not Always Lead to Higher Cattle Price



II. The U.S. Cattle Industry Suffers From a Substantial, Long-Run Trade Deficit

Long Run Value Deficit in Cattle and Beef Trade Exacerbates Broken Market Problems



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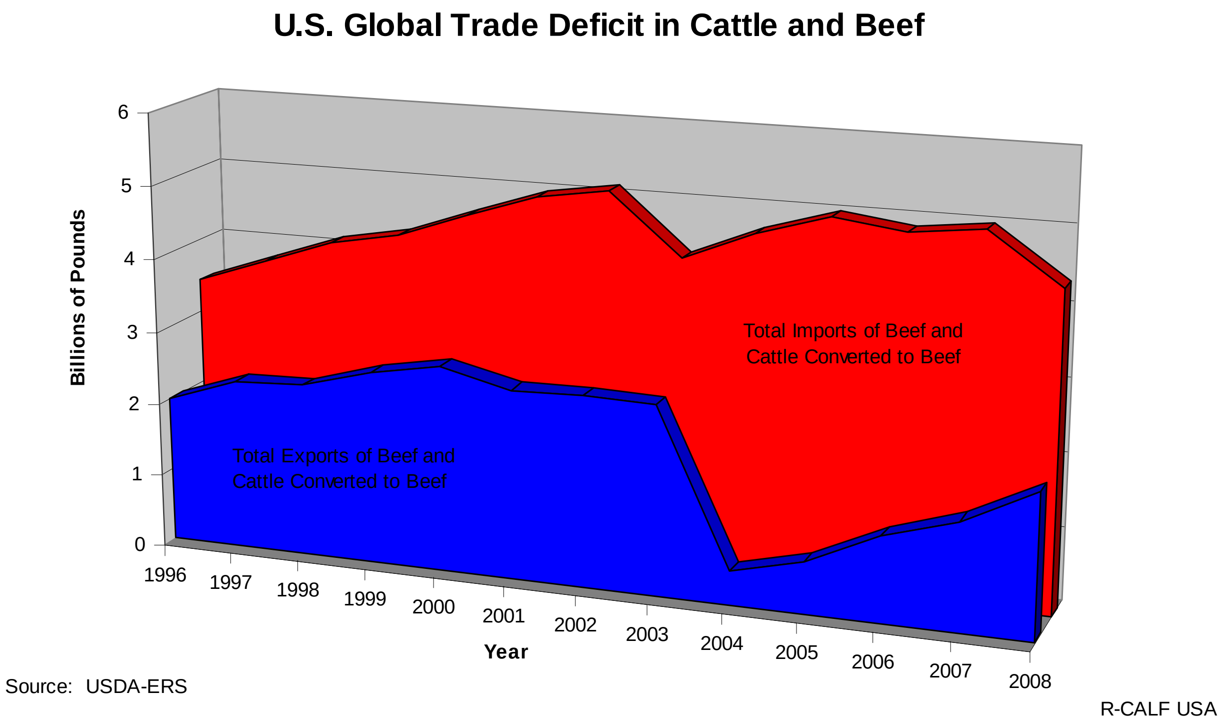
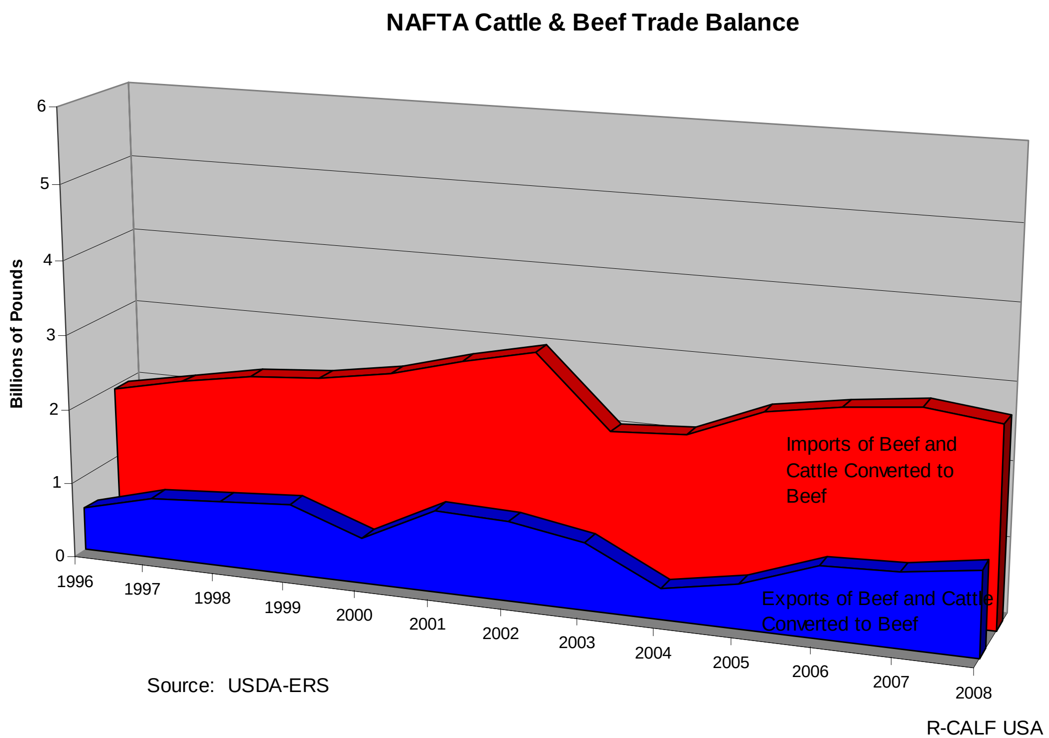
Tremendous Volume Deficit in Cattle and Beef Trade Forces Domestic Cattle Prices Lower



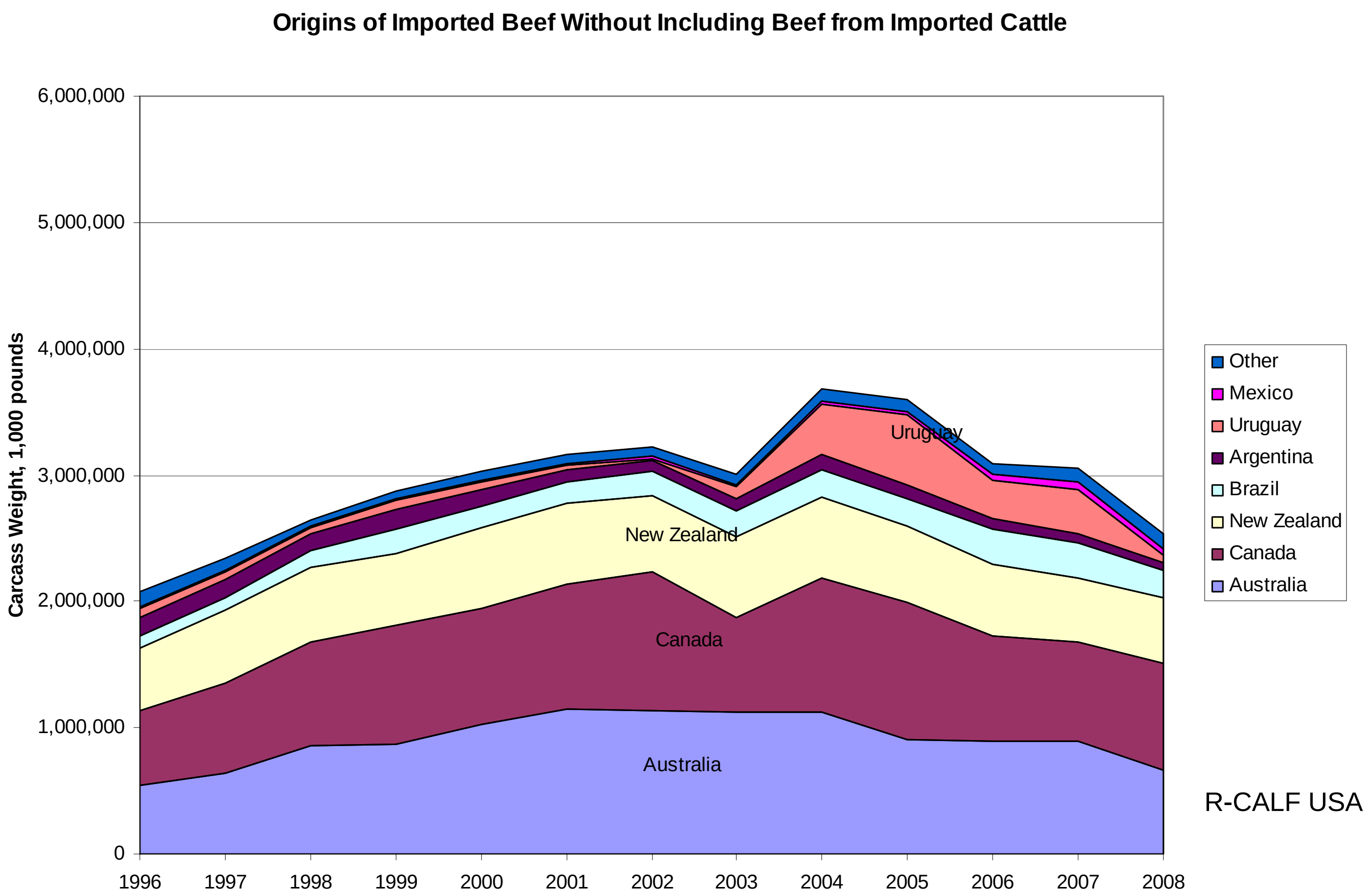
Conversion of imported cattle to beef accomplished by multiplying the number of imported cattle by each year's average slaughter carcass weight.

NAFTA Trade Deficit Represents Over Half of U.S. Global Trade Deficit in Cattle & Beef



Conversion of imported cattle to beef accomplished by multiplying the number of imported cattle by each year's average slaughter carcass weight.

Origins of Imported Beef When Only Imported Beef Product is Included



Source: USDA-ERS

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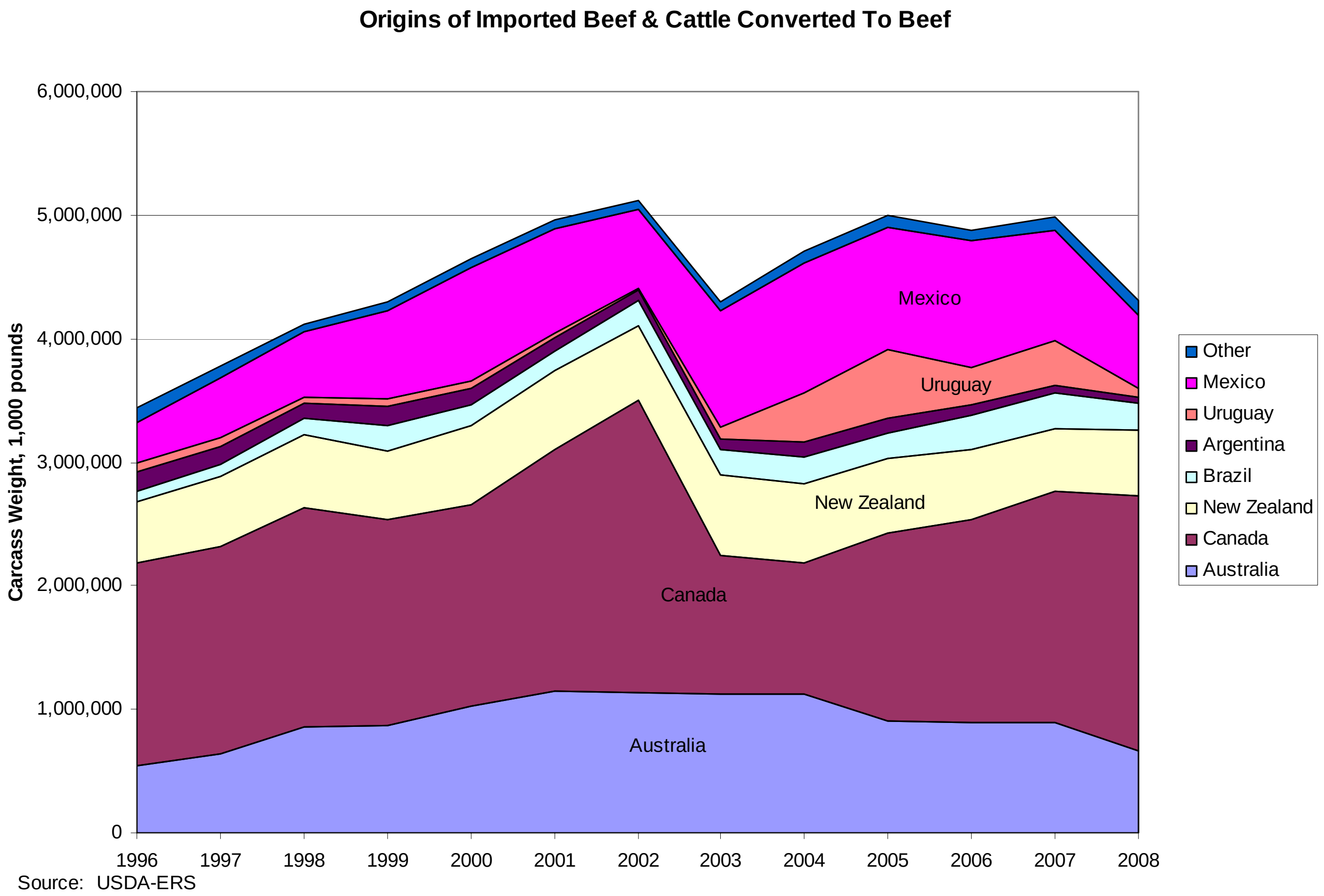
Canada is Largest Beef Source When Imported Cattle are Slaughtered and Mexico Rivals Australia for Second Place



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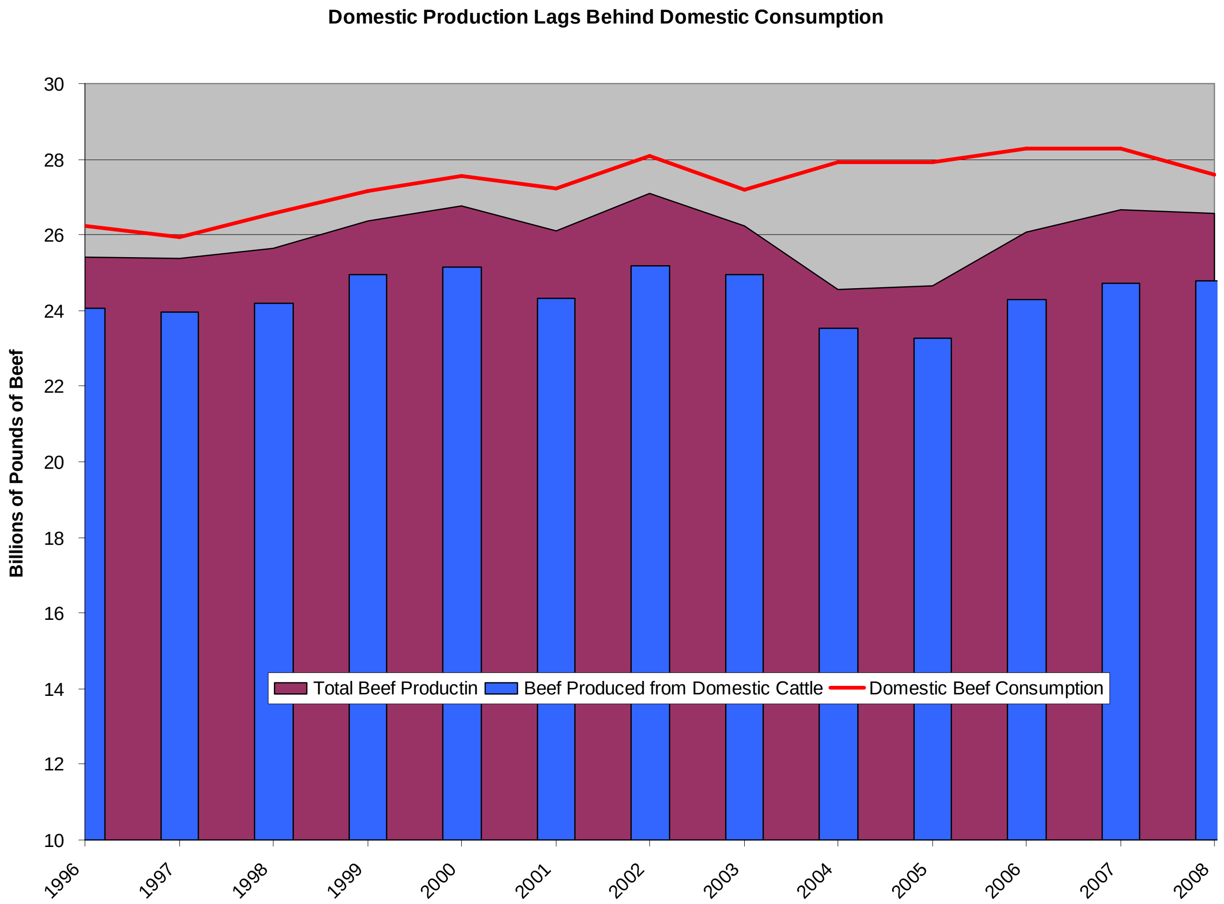
Changes in Trade Flows that Cause Small Impacts on Prices Have a Profound Effect on the Profitability and Viability of U.S. Cattle Producers

- "[E]ven seemingly small impacts on a $/cwt. basis may make substantial difference to livestock producers and rival meatpacking firms operating at the margin of remaining viable or being forced to exit an industry." [1]

[1] *A Review of Causes for and Consequences of Economic Concentration in the U.S. Meatpacking Industry, Clement E. Ward, Current Agriculture Food and Resource Issues, 2001, at 2.*

Domestic Beef Production Lags Behind Domestic Beef Consumption



Source: USDA ERS, FAS

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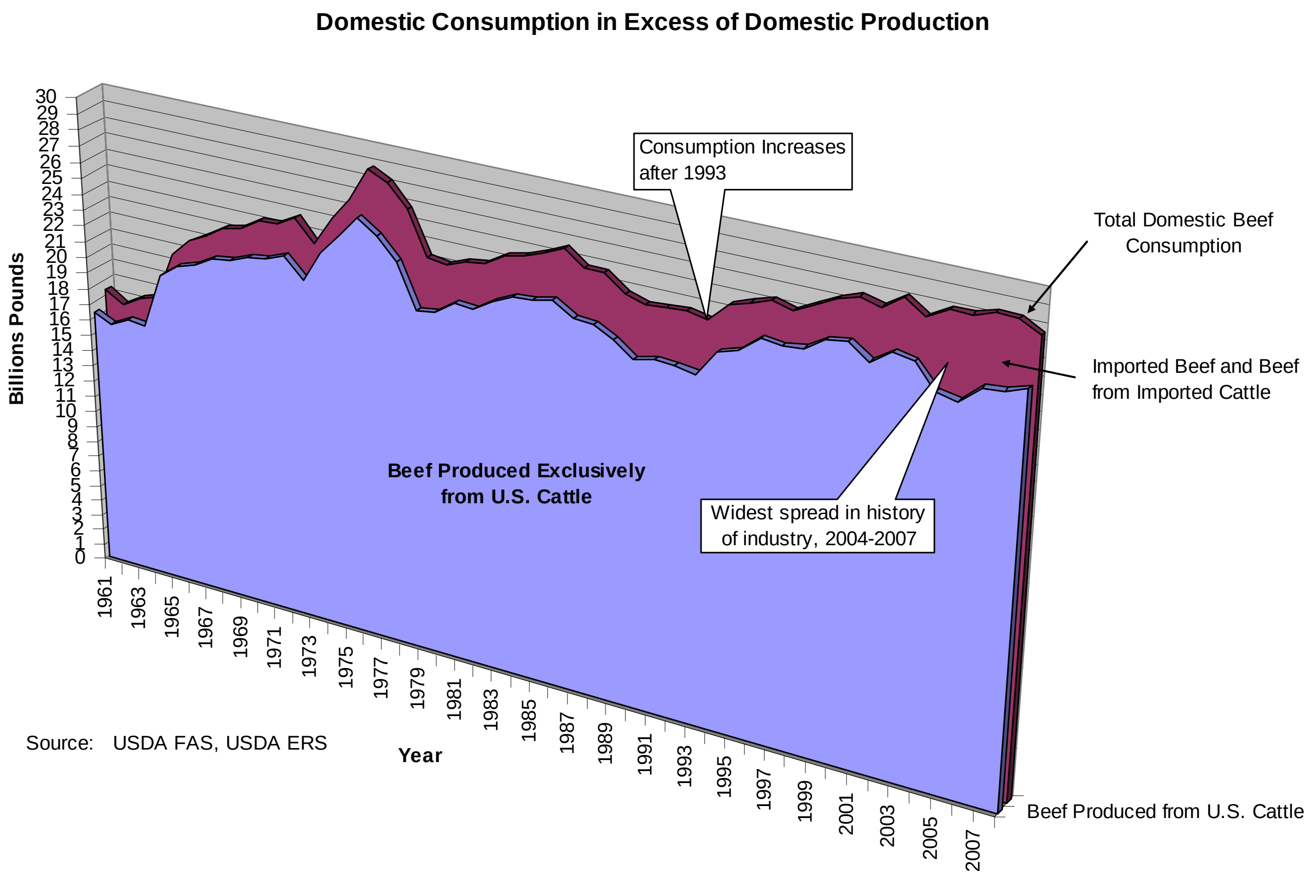
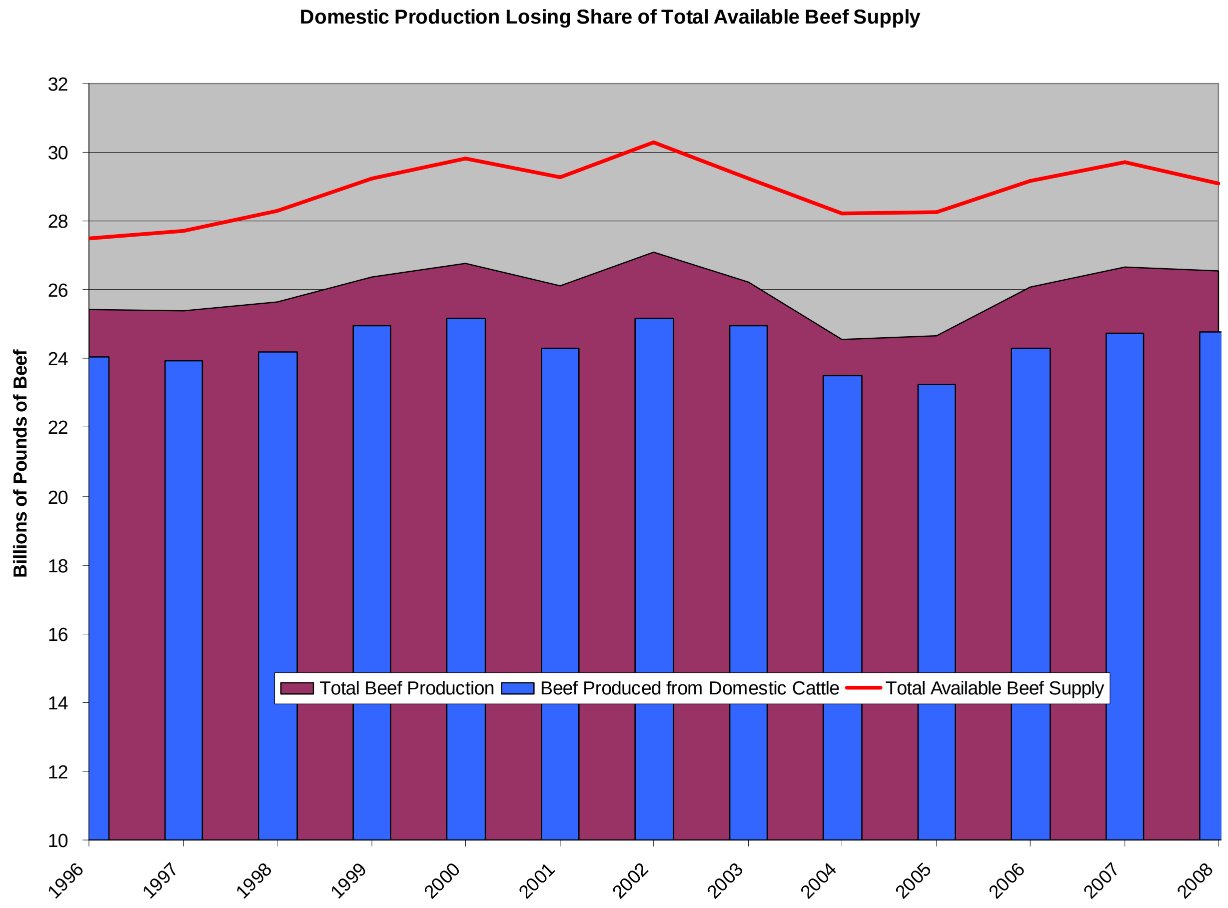
Historic Under-Production of Domestic Beef in Recent Years



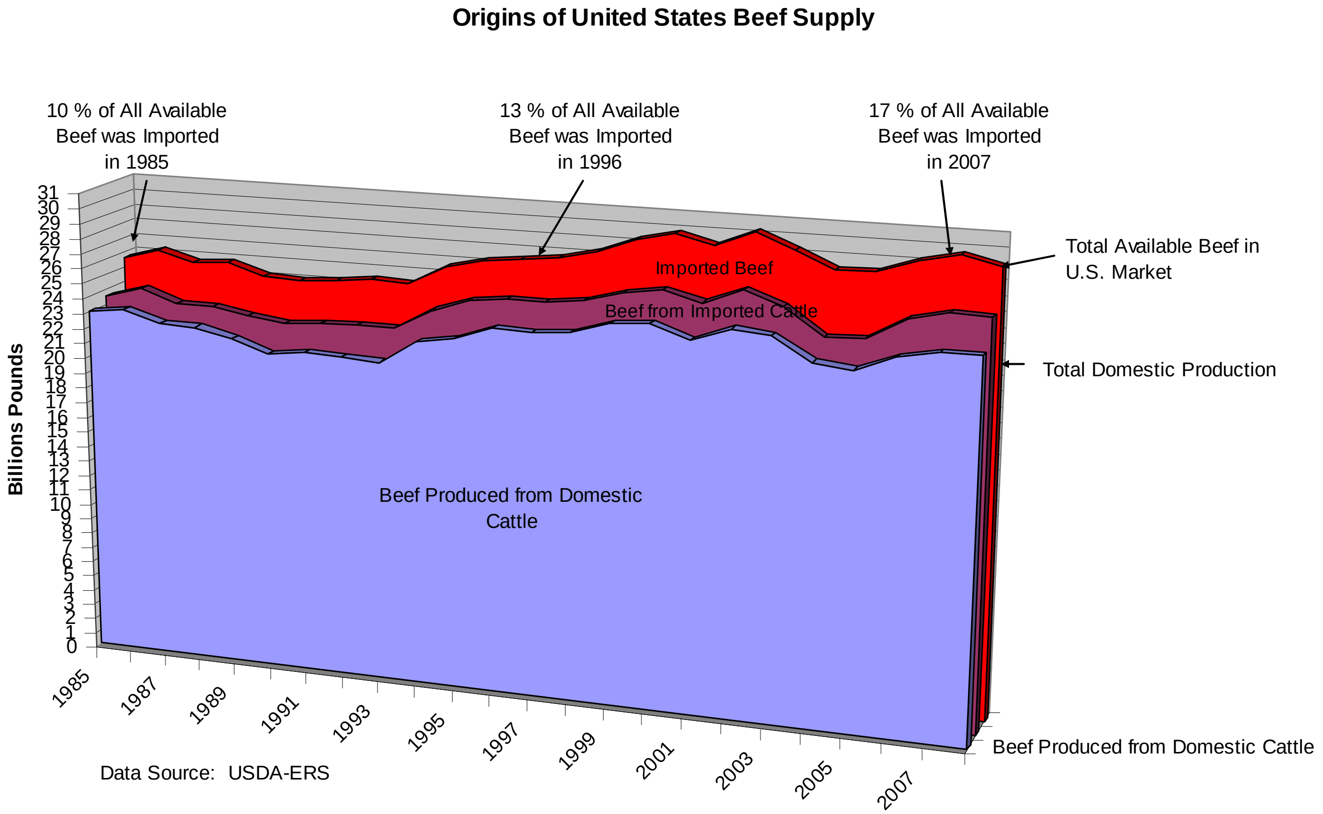
Conversion of imported cattle to beef accomplished by multiplying the number of imported cattle by each year's average slaughter carcass weight.

Domestic Beef Production Losing Share of Total Available Beef Supply



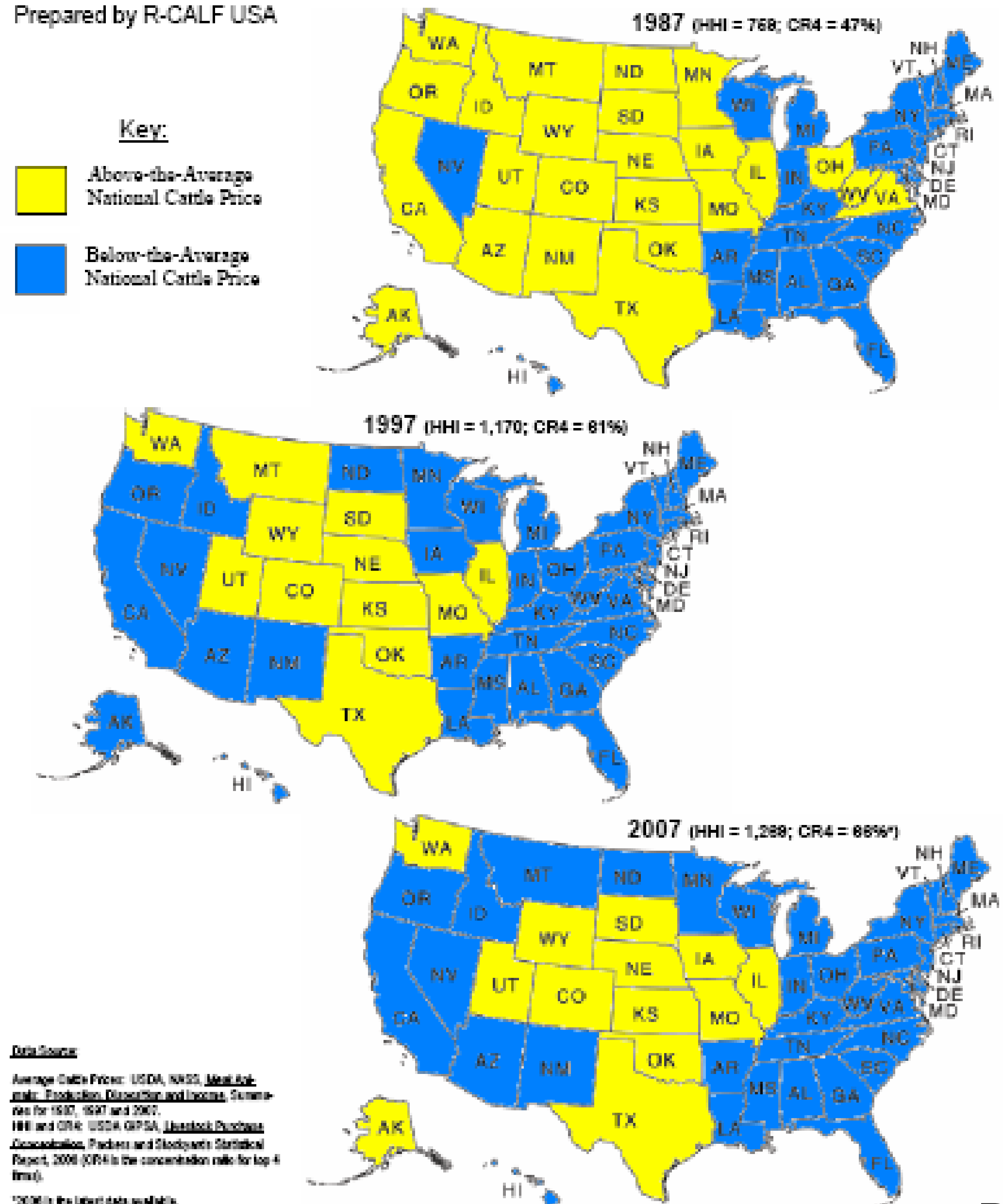
Source: USDA ERS

Cattle and Beef Imports Capturing Growth in Domestic Beef Supply



Conversion of imported cattle to beef accomplished by multiplying the number of imported cattle by each year's average slaughter carcass weight.

Effects of Declining Competition on Cattle Prices 1987 - 2007



Why Cattle Industry is Highly Sensitive to Price Changes

- Longest biological cycle of any farmed animal – inelastic supply.
- Finished cattle are highly perishable.
- Demand for cattle bounded on weekly basis – Packers set weekly limits by choice and by capacity constraints.
- Transportation costs limit marketing options.
- Competition for raw products, e.g., cattle, is inherently less intense than is competition for processed food products.
- Marginal transparency in cattle markets.
- Packers have superior marketing information, particularly those with substantial captive supply arrangements, which include imported cattle.

III. Trade Policies of Past 15 Years Have Failed the U.S. Cattle Industry and Must be Fundamentally Reformed

GOAL FOR FUTURE TRADE POLICY

- **International Trade Policy Must Facilitate the Restoration and Rebuilding of the Contracted U.S. Cattle Industry.**

Trade Strategy for Rebuilding the U.S. Cattle Industry

- **Achieve an Equitable Balance Between the Interests of the Cattle Industry and the Interests of the Beef Industry.**

Specific Trade Policy Reforms Needed

1. Specifically Assess Trade Impacts on the Cattle Industry:

- Cattle producers are the sector most likely to experience income, output and employment losses due to ongoing liberalization of U.S. beef imports.
- The U.S. should employ a partial equilibrium model, explicitly evaluate the likely impact of beef trade liberalization on upstream cattle producers, and take into account the market concentration and contracting practices in the meat packing industry, as well as the perishable nature of live cattle, in making its assessment.

Specific Trade Policy Reforms Needed

2. **Address Global Market Distortions that Disadvantage U.S. Cattle Producers:**

- Tariffs in the rest of the world on beef average 85%; on actual imports, those in the U.S. just 2.5% (26% on above quota imports).

- Massive subsidies by the EU and large subsidies by Brazil, Australia and Canada vs. essentially none from the U.S.

- State trading enterprises in grains which distort competition by making grains available to foreign cattle producers at prices not market driven.

Specific Trade Policy Reforms Needed

3. **As required in the Trade Act of 2002, special rules must be included in all trade agreements to recognize the perishable nature of cattle and beef, be applicable to both cattle and beef, and be automatic in application.**

Specific Trade Policy Reforms Needed

4. **Designate Cattle and Beef as Like/Kind Products Including:**

- Recognize that beef is imported in two distinct forms: pre-slaughtered beef (live cattle) and post-slaughtered beef (beef).

Specific Trade Policy Reforms Needed

5. Prevent Transhipment of Foreign Cattle in the Production of Beef in Exporting Countries:

- Rules of Origin must be modified to require that beef be derived from animals born, raised, and slaughtered in the country of export.

Specific Trade Policy Reforms Needed

6. Cease Practice of Ratcheting Down U.S. Health and Safety Import Standards to Accommodate More Imports:

- Importing countries must be required to meet U.S. health and safety standards, which standards must now be strengthened following recent actions that have effectively weakened restrictions against the importation of livestock diseases and pests.

U.S. Has Weakest Import Standards Against Introduction of Mad Cow Disease (BSE)

BSE STANDARDS OF MAJOR BEEF IMPORTING COUNTRIES

Country	Age Restriction	Specified Risk Material (SRM) Definition	Commodity Restrictions
Japan	20 months or younger	Head (excluding tongue and cheek meat), palatine and lingual tonsils, spinal cord and dura matter, distal ileum, vertebral column, and dorsal root ganglia.	No ground beef, processed beef, head meat, finely textured beef, or mechanically separated meat.
Korea	Under 30 months	Skull, brain, eyes, distal ileum, tonsils, spinal cord, vertebral column.	Cattle must be born and raised in the United States, or imported from a country deemed eligible by the Korean government to export beef or beef products to Korea, or raised in the United States for at least 100 days. Traceback records must be maintained for at least 2 years. No mechanically recovered meat or mechanically separated meat.
Mexico	Under 30 months	Skull, brain, eyes, tonsils, spinal cord, and small intestine.	No ground meat, feet, sweetbreads, weasand meat, or head meat.
Hong Kong	Under 30 months	Skull (including brain, eyes and trigeminal ganglia), tonsils, spinal cord, dorsal root ganglia (with the vertebral column) and intestine.	No ground beef, bone-in beef, edible offal, or beef derived from advanced meat recovery systems.

Source: USITC Publication 4033, September 2008, 4-9.

Specific Trade Policy Reforms Needed

7. Require All Imported livestock to be Permanently Marked with a Mark of Origin to Aid in Foreign Animal Disease Trace-backs After Importation (Remove Livestock from the U.S. Department of Treasury's "J-List").

Specific Trade Policy Reforms Needed

8. **Correct Currency Manipulation by Trading Partners that have Taken Action to Under-Value their Currencies Vis-à-vis the U.S. Dollar to Gain an Unjust Trading Advantage. We Urge Support of the Stabenow/Bunning Bill (S. 1027) to Address this Ongoing Problem.**

Specific Trade Policy Reforms Needed

9. Cease Practice of Allowing Foreign Countries Access to the U.S. Market Before the U.S. is Allowed Access to Foreign Markets.

We need a national trade and economic strategy. Unilateral free trade, where we drop barriers, and other countries do not reciprocate, has failed. A national trade and economic strategy has the support of a broad swath of U.S. economic sectors. See attached "Fixing America's Economy" document with signatories.

Specific Trade Policy Reforms Needed

10. Amend NAFTA to Provide U.S. Cattle Producers Relief from Price-Depressing Live Cattle Imports.

Fighting for the U.S. Cattle Producer!

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