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***U.S. Trans-Pacific Partnership Free Trade Agreement:  
Advice on Probable Economic Effect of Providing Duty-Free  
Treatment for Imports***

**(Investigation Nos. TA-131-034 and TA 2104-026)**

**Testimony**

**of the**

**Ranchers-Cattlemen Action Legal Fund, United Stockgrowers of  
America (R-CALF USA)**

**Before the**

**United States International Trade Commission**

**Presented by**

**Bill Bullard, CEO**

**March 2, 2010**

R-CALF USA appreciates this opportunity to provide information to demonstrate the probable economic effect on the U.S. live cattle industry from providing duty-free treatment for imports under the proposed U.S.-Trans-Pacific Partnership Free Trade Agreement (TPP). Such duty-free treatment would entail the elimination of both tariffs and tariff rate quotas (non-tariff barriers) on imports of beef.

R-CALF USA exclusively represents U.S. farmers and ranchers who raise and sell cattle within the multi-segmented beef supply chain. With approximately 8,000 all-voluntary members in 46 states and 34 state and county organizational affiliates with thousands more members, R-CALF USA is the largest U.S. trade association exclusively dedicated to representing the interests of the live cattle industry in trade and marketing matters. R-CALF USA's members include cow/calf producers, cattle backgrounders, stockers and feedlot owners.

It is critically important that the U.S. International Trade Commission (USITC) recognize that the live cattle industry is a distinct industry segment within the U.S. beef supply chain and that a clear demarcation point exists between the live cattle industry and the beef commodity industry – a demarcation point so profound that not only is the economic prosperity of the two industries unrelated, but often, the economic prosperity in the live cattle industry and economic prosperity in the beef commodity industry are inversely related.<sup>1</sup>

I testify today on behalf of a domestic industry that is in severe crisis and contracting rapidly, with beef cattle operations exiting the industry at a rate of more than 11,000 per year. As documented in my pre-hearing brief, the U.S. cattle industry is not facing this crisis because it has done anything wrong: it is both efficient and productive and is producing more beef per animal than ever before. Instead, the U.S. cattle industry is suffering from persistent downward price pressure caused by ever-increasing supplies of foreign imports.

Longer than two decades ago, the U.S. established a trade policy expressly designed to assist foreign countries by giving them greater access to our U.S. beef market.<sup>2</sup> This goal was accomplished by setting very low tariffs on imported cattle and beef and establishing a generous

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<sup>1</sup> See, e.g., Sparks Companies Inc., “Potential Impacts of the Proposed Ban on Packer Ownership and Feeding of Livestock,” A Special Study, (March 18, 2002) at 24 (“Vertical integration [of the live cattle industry and the beef commodity industry] often attracts investors because of the negative correlation between profit margins at the packing stage [beef commodity stage] and the feeding stage [live cattle stage].”).

<sup>2</sup> The U.S. granted significant concessions during the 1979 Tokyo Round of Multilateral Trade Negotiations on several agriculture products including livestock and livestock products, and imports of these and certain other products were expected to increase by about \$155 million. See *Agricultural-Food Policy Review: Perspectives for the 1980s: International Trade Policy Issues*, U.S. Dept. of Agriculture Economic Research Service, Bulletin No. (AFPR4), April 1981, at 102, available at <http://www.ers.usda.gov/Publications/AFPR4/AFPR4f.pdf>; also, an express U.S. goal in the 1994 Uruguay Round Agreement was to “improve market access for agricultural products so that countries will increasingly export commodities in which they have a comparative advantage.” See *Trade Agreements: Liberalizing Multilateral and Regional Trade*, U.S. Department of Agriculture, Economic Research Service, Bulletin No. 664-22, April 1993, available at <http://www.ers.usda.gov/publications/aib664/ISS-TRAD.PDF>; see also *A Short History of U.S. Agricultural Trade Negotiations*, U.S. Department of Agriculture, Economic Research Service, AGES 89-23, August 1989 (to accommodate imports from countries engaged primarily in trade in certain agriculture commodities including frozen beef, the U.S., in the late 60s and early 70s granted concessions on “livestock and meat imports valued at \$221 million.”), available at <http://www.ers.usda.gov/Publications/AGES8923/>.

import quota for foreign beef imports.<sup>3</sup> Under this policy, the volume of beef imports grew faster than predicted and the volume of beef exports were unable to keep up, leaving the U.S. beef market awash in imported beef.<sup>4</sup>

This did not create a free market. The U.S. cattle industry is in a crisis today because the trade relationships established years ago to actually help foreign countries gain access to the U.S. market have never been changed back, even after it was clear that export markets were not reciprocating and the U.S. cattle industry was suffering from a severely distorted global marketplace.

Policy makers continue to believe the elimination of tariffs, quotas, and tariff-rate quotas for beef imports and exports, as is envisioned under the proposed TPP, will result in increased trade that will increase U.S. beef exports and increase beef demand. This, they believe, will increase the welfare of U.S. farmers and ranchers who raise and sell cattle from which the commodity beef is derived. Increased exports presently are viewed as both the immediate and long-term solution to address the ongoing global market distortions faced by the U.S. cattle industry, and free trade agreements (FTAs) remain the preferred means of achieving those increased exports.

The U.S. has experienced increased trade in cattle and beef as a result of its ongoing FTA strategy, but this strategy is silent on who gets any of the resulting gains, i.e., either the importing or exporting country, and silent on which industry segment or segments within the advantaged country shares in those gains. The welfare gains and increased prosperity promised by FTAs and current U.S. trade policy have neither materialized for the hundreds of thousands of U.S. farmers and ranchers whose business venture is cattle production, nor have they materialized for the rural economies they support.<sup>5</sup> In fact, just the opposite occurred as evidenced by the severe contraction of the U.S. cattle industry, which has led directly to the deterioration of the economic conditions of rural communities all across the United States. (Charts 1 and 2)

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<sup>3</sup> See, e.g., Impacts of the Uruguay Round Trade Agreement on U.S. Beef and Cattle Prices, Gary W. Brewster, et al., Montana State University, Policy Issues Paper No. 6, September 1998, at 5 (The 1994 Uruguay Round Agreement established a U.S. tariff-rate quota that was 69,428 metric tonnes higher than the trigger levels for import quotas under the U.S. Meat Import Act of 1979, representing an 11.8 percent increase.), available at <http://www2.montana.edu/jantle/trc/pdf/policypapers/pp6.pdf>.

<sup>4</sup> See *id.*, at 4 (In 1998 researchers expected the rapid growth in U.S. beef exports (relative to beef imports) to position the U.S. as a net exporter of beef in the near future.); at 5 (USDA projected imports to increase by only 6-10 percent over 1994 levels by the year 2005. However, by 2005 imports had increased by over 35 percent); at 6 (USDA predicted the volume of U.S. exports would increase between 10-14 percent over 1994 levels by 2005. However, by 2005, the volume of U.S. exports decreased by nearly 29 percent.)

<sup>5</sup> See, e.g., *id.*, at 7 (The 1994 Uruguay Round Trade Agreement was expected to increase U.S. fed cattle prices “by \$0.62-\$5.46/cwt relative to average prices received during the 1990-1994 period.” However, the average Nebraska Direct Choice fed steer price for the 1990-1994 period was \$74.66/cwt. It was not until nearly a decade later, in 2003 when Canadian cattle and beef imports were halted, that U.S. fed cattle prices ever increased above the 1990-1994 average price of \$74.66/cwt. From 1994-2002, fed cattle prices remained well below the 1990-1994 average and dropped to a low of \$61.47/cwt in 1998.).

This outcome occurred because the United States' trade strategy was, and still is, fundamentally flawed. The fundamental flaws of this strategy, as they relate to the impact duty-free treatment of imports from TPP countries likely will have on the U.S. cattle industry, include:

***Whatever benefits that may arise from FTAs are being captured by the beef commodity industry; they are not being allocated to the upstream cattle industry.***

Current trade strategy ignores completely important elements of both the monopolistic structure of the U.S. cattle market and the anticompetitive procurement practices of dominant U.S. meatpackers. This structure and those procurement practices enable the dominant beef commodity industry to exercise monopsony market power that effectively blocks economic demand signals from passing through the demarcation point between the beef commodity industry and the upstream live cattle industry. This allows the beef commodity industry to capture any increased profits that a competitive market should allocate to cattle industry participants when either or both beef demand and beef consumption increases and all else remains constant. The U.S. cattle industry is being pushed to the wall by monopsony power and FTAs, like the TPP, only worsen the situation. As an added challenge, the price of the U.S. cattle industry's product – its cattle – is highly sensitive to increases in supplies<sup>6</sup> and the extraordinarily long biological cycle of cattle makes domestic cattle supplies inelastic with respect to demand signals.<sup>7</sup> These intrinsic cattle industry characteristics put undue market leverage into the hands of the highly concentrated beef commodity industry and take leverage out of the hands of cattle industry participants. As a result, the beef commodity industry is advantaged by relaxed trade policies that enable it to access additional supplies of beef and cattle from foreign sources, and it uses this advantage to exploit both U.S. cattle producers and U.S. consumers. (Charts 3, 4, 5, and 6)

***Whatever the benefits that may be ascribed to FTAs, reciprocal trade in cattle and beef is not among them.***

The problem with our current trade strategy is that in order to expand export opportunities, we simultaneously invite more and more imports into the U.S. market. Current trade policy ignores this problem and continues to emulate an open, free trade environment through low beef tariffs, generous tariff-rate quotas for beef, and low to non-existent tariffs on

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<sup>6</sup> See The Economics of Carcass Weight: A Classic Micro-Macro Paradox in Agriculture, Cornhusker Economics, Institute of Agriculture & Natural Resources, Department of Agriculture Economics, University of Nebraska – Lincoln, March 20, 2002, (“So, if quantity [of fed cattle] increased one percent from q1 to q2, and if demand remained constant, then price would be expected to decrease 1.4 to 2.5 percent.”).

<sup>7</sup> See Economic Models of Cattle Prices, How USDA Can Act to Improve Models to Explain Cattle Prices, U.S. Government Accountability Office (formally the General Accounting Office), (GAO-020246, March 2002), at 30 (“Cattle have the longest biological cycle of all meat animals.”); see also, Cattle: Background, Briefing Room, USDA, ERS, updated June 7, 2007 (explaining that the historical cattle cycle “arises because biological constraints prevent producers from instantly responding to price.”), available at <http://www.ers.usda.gov/Briefing/Cattle/Background.htm>.

cattle.<sup>8</sup> But other countries have not reciprocated. Many important U.S. export markets have not reduced their tariffs even close to U.S. levels, e.g., Japan and South Korea.<sup>9</sup> And many of the United States' global beef-export competitors (which also are major U.S. beef importers) refuse to reciprocate by buying meaningful quantities of U.S. beef, particularly in comparison to the volume they export to the United States, e.g., Australia, New Zealand.<sup>10</sup>

Despite this outcome, the U.S. remains undeterred in its quest and already has implemented FTAs with 17 countries, three of which already are major beef and/or cattle exporters to the United States (Australia, Canada and Mexico). And now, the TPP proposes to add New Zealand, already the third-largest U.S. beef commodity importer (third to Canada and Australia), as the fourth major beef and/or cattle exporting nation to have duty free access to the U.S. market (the four would include Canada, Australia, Mexico (a major cattle importer), and New Zealand).

Current FTAs, like the proposed TPP, ignore completely the comparative advantage that developing and some developed countries have with respect to cattle production costs and cattle production capacity. The reasons for the comparative advantage held by some foreign countries are repulsive to U.S. consumers, e.g., their production costs are less because they don't have to meet the United States' higher level of food safety standards and environmental standards, and their wages are below subsistence levels. This comparative advantage often is augmented with investments by multinational corporations, or by the country's government, to maximize production potential through improved infrastructure, imported genetics and technology, and imported managerial know-how that have increased the volume of beef imports into the United States. Many of the improvements made to foreign cattle and beef production regimes are made possible with U.S. resources, and it is illogical for the U.S. to encourage even more imports from these countries when it is known that the effect is to supplant domestic production with imported beef (i.e., to outsource U.S. beef production), which ultimately harms the United States' rural economy.<sup>11</sup> (Charts 7, 8, 9 and 10)

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<sup>8</sup> See, e.g., Global Beef Trade: Effects of Animal Health, Sanitary, Food Safety, and Other Measures on U.S. Exports, U.S. International Trade Commission, USITC Publication No. 4033, September 2008, at 3-14 (U.S. In-quota tariffs for beef range from 4-10 percent); at 3-15 (describing tariff-rate quota allocations).

<sup>9</sup> See Global Beef Trade: Effects of Animal Health, Sanitary, Food Safety, and Other Measures on U.S. Exports, U.S. International Trade Commission, USITC Publication No. 4033, September 2008, at 5-13 (Japan's tariff on beef is 38.5 percent); at 6-2 (South Korea's beef tariffs range from 18-72 percent); at 7-13 ("In 2007, applied over-quota tariff rates [by the European Union] on most U.S. beef muscle cuts were well over 50 percent AVE.").

<sup>10</sup> See Livestock and Meat Trade Data, All years all countries, U.S. Department of Agriculture, Economic Research Service, (In 2008, the U.S. exported only 104,000 pounds of beef to Australia and only 180,000 pounds to New Zealand, while U.S. imports from those two countries in 2008 were 663,009,000 pounds and 527,332,000 pounds, respectively.) available at <http://www.ers.usda.gov/data/meattrade/BeefVealYearly.htm>.

<sup>11</sup> In 2008, e.g., the U.S. exported purebred breeding cattle, presumably to enhance the production potential of the destination country, to numerous FTA countries including Canada, Mexico, Honduras, Nicaragua, Costa Rica, Chile, Dominican Republic, Guatemala, Jordan, and Morocco. See Global Agricultural Trade System Online, U.S. Department of Agriculture, Foreign Agricultural Service, available at <http://www.fas.usda.gov/gats/ExpressQuery1.aspx>.

***Regardless of the gains in exports achieved by FTAs, increased imports continue to harm the U.S. cattle industry.***

There is an erroneous presumption that because FTAs, like the proposed TPP, likely will increase market opportunities for exports, that FTAs also will offset the negative impact caused by increased imports. But, empirical evidence demonstrates that due to the supply sensitive nature of the U.S. cattle industry, and the industry's intrinsic supply inelasticity with respect to demand, the harm arising from increased imports occurs regardless of countervailing export levels. This phenomenon was empirically demonstrated during the extended period when beef demand was increasing (1998-2002), domestic beef consumption was increasing (1993-2002), and U.S. exports were increasing to record levels (1993-2002). Despite such favorable market fundamentals, U.S. cattle prices remained depressed and the U.S. cattle industry continued to shrink. (Charts 11, 12, and 13)

***Eliminating tariffs and tariff-rate quotas exacerbate boom and bust cycles of cattle industries.***

Countries accorded increased access to the U.S. cattle and beef market through decreased tariffs, expanded tariff-rate quotas, or FTAs have historically increased their respective herd sizes in order to exploit their new-found market access. The result is lower world cattle and beef prices and increased volatility in the marketplace, which threatens the United States' ability to maintain a viable domestic cattle production industry. This risk recently was exemplified in Canada, which began to significantly increase its cattle herd size at the same time the world's largest beef producing nation – the U.S. – was rapidly contracting its herd. When Canada's price-depressing imports into the U.S. market were curtailed in 2003, U.S. cattle prices broke free from Canada's import pressure, and the ongoing contraction of the U.S. cattle industry was temporarily abated. The Canadian cattle industry, however, was devastated for it had increased production beyond what a rational world market could bear. Adding provisions to mitigate the inevitable harm to the U.S. cattle industry, caused by the known response from foreign beef-producing countries to relaxed U.S. tariffs and tariff-rate quotas, would provide only an after-the-fact and temporary reprieve. The solution, instead, is to address the underlying problem, which is that the action by the United States to relax tariffs and non-tariff barriers promotes volatility and market distortion. (Charts 14 and 15)

***The United States' export-led strategy ignores disparities in purchasing power in many FTA countries that severely limits U.S. export opportunities.***

The continued promise of access to huge, untapped beef markets has not materialized under existing trade policy and likely will not materialize under the TPP due to the outright poverty in many of the developing countries. Of the seven TPP countries, Australia and New Zealand already are major world exporters of beef, i.e., they are fierce competitors of the U.S. for the available world beef market. These countries would not be expected to provide any significant market opportunities for U.S. beef exports. The countries of Chile, Peru, and Vietnam reportedly have per capita incomes of \$4,419, \$1,870, and \$392, respectively.<sup>12</sup> When compared

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<sup>12</sup> See Economy Statistics, Gross National Income (per capita) (most recent) by Country, NationMaster.com, available at [http://www.nationmaster.com/graph/eco\\_gro\\_nat\\_inc\\_percap-gross-national-income-per-capita#source](http://www.nationmaster.com/graph/eco_gro_nat_inc_percap-gross-national-income-per-capita#source).



to the U.S. per capita income of \$33,070, it is clear that the greater opportunity for the U.S. cattle industry is to regain its share of the U.S. market that has been captured by imports under current U.S. trade policies, and to continue capturing the future growth in the U.S. market. Singapore already has an FTA with the U.S., and trade with that country likely would be unaffected by the TPP. Brunei Darussalam is the only potential market opportunity for U.S. beef and because the U.S. has not exported any beef to Brunei Darussalam since 1996, there is a lack of evidence to indicate that current export opportunities would change with or without the TPP. (Chart 16)

It is clear that the resources once used in the U.S. cattle industry have *not* moved to other industries. Instead, gaping holes have been left in rural communities all across the U.S. as the largest segment of U.S. agriculture continues to contract. Unless the President desires to write-off those rural communities, the U.S. must rethink current trade policies and begin work to develop a national trade strategy that both recognizes and addresses the inherent market distortions caused by the differing socio-economic and political systems around the world.

Tariffs, in combination with either quotas or tariff-rate quotas, are successfully used by the United States and other countries to achieve important national objectives, such as improving the welfare of industry participants and the economies they support. They also are used to preserve such national security interests as maintaining a widely dispersed and vibrant food production system to ensure the highest possible level of food security and food safety.

The U.S. cattle industry is being crushed under the weight of current U.S. trade policies that are steeped in the same faulty beliefs that support the TPP. Under past Administrations, R-CALF USA's efforts were focused on attempting to prevent further harm to the U.S. cattle industry than what already was accruing under trade policies that completely ignored the unique characteristics of our industry.

Today, however, R-CALF USA urges the USITC to recommend to the President that he not only refrain from doing further harm to the U.S. cattle industry, as likely would occur if the TPP were patterned after existing FTAs, but also, that he begin development of an entirely new national trade strategy. The U.S. is in dire need of a new approach to international trade that better recognizes global realities and holds genuine promise to help the U.S. maintain a viable, competitive U.S. cattle industry.

As a starting point for the formulation of a new U.S. trade strategy, R-CALF USA encourages USITC to support a moratorium on all future trade agreements until a comprehensive evaluation is conducted on all existing FTAs to determine if they have achieved the results that were promised when they were implemented. For those that have not, R-CALF USA recommends that, at the very least, they be amended to incorporate the specific reforms listed in my pre-hearing brief.

Thank you, again, for the opportunity to present this information on behalf of the U.S. cattle industry.

Attachments: Charts 1-16