Statement of Mr. Bob McCan, President, National Cattlemen's Beef Association
Submission for the record to the
United States House Committee on Ways and Means, Subcommittee on Trade
Hearing on Advancing the U.S. Trade Agenda:
Benefits of Expanding U.S. Agriculture Trade and
Eliminating Barriers to U.S. Exports
June 11, 2014

Chairman Nunes, Ranking Member Rangel and members of the committee, on behalf of the U.S. beef industry, I thank you for holding this hearing on the benefits of expanding U.S. agricultural trade and eliminating barriers to U.S. exports. The elimination of tariff and non-tariff trade barriers is a top priority for the U.S. beef industry, and I strongly encourage you to work with President Obama to craft current and future trade agreements based on free market, science-based principles. If there is one industry that has witnessed both the benefits and tragedies of U.S. trade policy it is the U.S. beef industry. It is my hope that my testimony will highlight expanded trade opportunities as well as the barricades to trade that we continue to face in the U.S. beef industry.

I am a rancher from Victoria, Texas, located in southern Texas near the Gulf of Mexico not far from the Mexican border. I work on my family-owned ranching operation where we focus on cow-calf production of Braford cattle, a Brahman-Hereford cross breed that consists of approximately 3/8 Brahman and 5/8 Hereford that has natural genetic traits that allow them to thrive in warmer climates like south Texas. In my part of the country it can be hot throughout most of the year and like other parts of Texas, it has been dry due to the ongoing drought. Unfortunately, many parts of the southern and western United States have suffered tremendous loss from the ongoing drought and our industry has seen a significant reduction in our national herd.

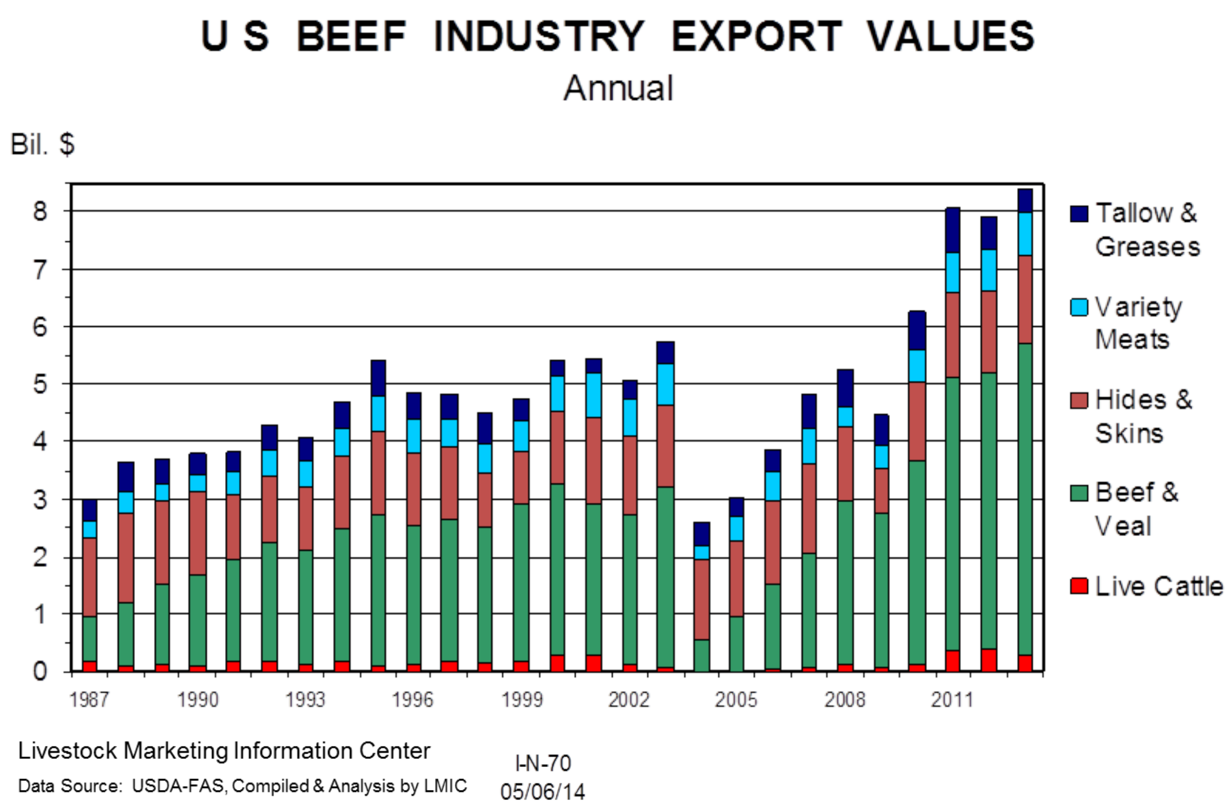
Meanwhile, beef demand around the world continues to grow at a strong and steady pace. In order to keep up with demand we rely on science and technology to assure our natural resources are efficiently used. We also rely on proper conservation practices to make sure our pasture and grazing lands remain healthy even in tough times like these. The judicious use of scientific interventions such as antibiotics, pest control, and growth promotants allow me and other producers to compete with beef producers across America and around the world for a growing consumer base that is hungry for the safe and delicious beef we produce. It is very important to me and many other ranching families that we do everything possible to ensure that the next generation will have the opportunity to continue providing high quality beef to consumers around the world. While government incentives for young and beginning producers may sound good in theory, the truth is nothing attracts workers like the promise of the almighty dollar. I believe that exports will help provide the real economic incentive needed to stem the tide of disappearing farmers and ranchers needed to continue providing safe and affordable food to a growing global consumer base.

In addition to being a husband, father, and rancher, I am also the current president of the National Cattlemen's Beef Association (NCBA). NCBA is the nation's oldest and largest national trade association for cattlemen and represents more than 140,000 cattle producers through direct membership and our state affiliates. NCBA is producer-directed and consumer-focused and represents all segments of the beef industry. Our top priority is to produce the safest, most nutritious and affordable beef products in the world. This has been consistent throughout our industry's history and in our long-term efforts to continually improve our knowledge and ability to produce beef products to meet consumer preferences. I also serve on the Agricultural Technical Advisory Committee for Trade (ATAC). I have been fortunate to have a front row vantage point to the successes and failures of U.S. trade policy and how these actions have impacted the U.S. beef industry. I appreciate the opportunity to appear before you today and share these views with you.

<u>Overview of U.S. Beef Industry and Exports</u>
According to the U.S. Department of Agriculture, the U.S. beef industry consists of nearly 915,000 cattle and calf operations with a national herd size of 89 million head of cattle, with 90 percent of cow herds consisting of less than 100 head (average is 44 cows per operation). In 2013, the U.S. beef industry generated $44 billion in farm gate receipts and the average American spent approximately $300 per capita on U.S. beef products. Without question, our domestic market is our largest consumer base and the focus of most of our marketing campaigns. Americans love beef, and we enjoy a dominant share of the domestic market place. At the same time, international consumers are often willing to pay premiums for cuts and variety meats such as tongue, livers, short ribs, skirts, and stomachs that are not as valuable in the U.S. market.

The U.S. beef industry has traditionally exported 10 to 15 percent of our products and we expect that percentage to rise as more consumers are exposed to U.S. beef in other countries. In 2013, foreign consumers purchased 1.17 million metric tons of U.S. beef and beef products at a total of $6.1 billion. In addition to beef and veal, we also export hides and skins, tallow, live cattle, semen, embryos, and even rendered cattle. If there's a market demand for any part of the animal we do our best to meet it. According to CattleFax, a global leader in beef industry research, analysis, and information, exports accounted for $307 per head of fed cattle in 2013.

Beef and beef products are the largest segment of our export portfolio. According to the U.S. Meat Export Federation, our top five export markets in 2013 were: Japan ($1.39 billion, 234,615 metric tons), Canada ($1.17 billion, 173,030 metric tons), Mexico ($925 million, 216,386 metric tons), Hong Kong ($823 million, 130,112 metric tons), and Korea ($609 million, 105,406 metric tons).



Success Stories for U.S. Beef Trade

Quite possibly one of the greatest success stories for the U.S. beef industry has been the North American Free Trade Agreement (NAFTA). In 1993, the pre-NAFTA level of U.S. beef exports to Mexico were 39,000 tons valued at $116 million. As a result of NAFTA, Mexico eliminated its 15 percent tariff on live cattle slaughter, the 20 percent tariff on chilled beef and the 25 percent tariff on frozen beef. Fast forward to 2013—Mexico is now our third largest export market, valued at nearly $1 billion. With the recent announcement that Mexico has lifted the 30-month age-based restriction on U.S. beef products, we anticipate further growth in our exports to Mexico. Meanwhile, Canada has traditionally been our largest export market for U.S. beef, but finished second to Japan with $1.17 billion in sales. Having two large export markets at our borders has greatly benefitted the U.S. beef industry.

Not only do we trade beef with Mexico and Canada, the live cattle trade is also a very lucrative business for all three nations. In 2013, we imported over one million head of cattle from Canada and just under one million head of cattle from Mexico. Mexican-born and Canadian-born cattle are a critical component to the success of the U.S. beef industry, something on which U.S. cattlemen depend in order to supplement our herd shortage.

Likewise, our trade agreements with other countries in the western hemisphere have proven to be very successful for the U.S. beef industry. This year we celebrate the ten year anniversary of Central American Free Trade Agreement (DR-CAFTA) where we are experiencing the benefits of elimination of 15-40% tariffs over 15 years and the strengthening of SPS measures.

Of course, we are very excited to see the growth and opportunities that have been created with the implementation of the free trade agreements with Korea, Colombia, and Panama. Korea is a top five market for U.S. beef exports and the 15 year phase out and elimination of the 40 percent tariff on U.S. beef allows us to sell more U.S. beef to more Korean consumers. We currently enjoy an eight percent tariff rate advantage over Australia and Canada because Congress implemented our agreement before Australia and Canada. Some have questioned whether the Korea FTA was beneficial to the beef industry because sales have not been as high as the year before the FTA was implemented. One important fact they do not take into account is that prior to the implementation of the FTA, Korea was suffering from a massive shortage in their domestic livestock production due to animal health issues that led to a spike in beef imports. Domestic production in Korea has been recovering at a rapid pace, and even in spite of that, U.S. beef sales continue to increase in Korea. We see great opportunity in the Korean market.

Just as important as tariff elimination is the strong agreement we now have with Korea on sanitary and phytosanitary standards (SPS). The Korea FTA's SPS agreement is considered the gold standard of SPS agreements and is something we want reflected in all future agreements. Similarly, the SPS agreements in the Colombia and Panama FTAs are also very strong. Prior to the FTA with Colombia, we had virtually no presence in the Colombian market due to the massive 80 percent tariff. After one year of implementation and removal of the tariff we have experienced a 117 percent increase in sales to $9.1 million.

One market that has been beneficial for U.S. beef exports is Hong Kong. The cause of this increase in sales has not had as much to do with the removal of tariff barriers as the removal of a non-science based, age-based restriction on U.S. beef. In May 2013, the U.S. was designated as "negligible risk status" for bovine spongiform encephalopathy (BSE) by the World Organization for Animal Health (OIE). Under a previous agreement Hong Kong agreed to grant full market access (no more restriction on age) for U.S. beef. In 2008, Hong Kong purchased $43 million in U.S. beef. In 2013, that number grew to $823 million.

At the rate sales are growing Hong Kong could surpass Mexico and even Canada in U.S. beef sales in the near future.

Without question, one of the greatest developments for the U.S. beef industry was Japan lifting their age-based restriction on U.S. beef from 20 months to 30 months on February 1, 2013. Prior to that time Japanese protocol limited imports of beef from the U.S. to cattle slaughtered before they reached 21 months of age. The removal of that arbitrary trade barrier caused the sale of U.S. beef to climb from $4 million in 2004, to $1.39 billion in 2013. Japanese consumers want U.S. beef, and the removal of the age-based restriction will further encourage our sales to grow.

Hindrances to U.S. Beef Trade

Unfortunately we continue to face many unnecessary barriers from tariffs, tariff rate quotas, and non-science based non-tariff barriers. Many of these restrictions have been the result of government reaction to cases of BSE.

China

China's market remains closed to U.S. beef since the 2003 discovery of a Canadian-born cow infected with BSE in the U.S. Since 2003, China has continuously used non-science based standards to ban imports of U.S. beef, a product that is recognized internationally as a safe product. Arbitrary guidelines not based on science have resulted in lost profits for U.S. beef exports across the globe. According to CattleFax, the U.S. beef industry lost nearly $22 billion in potential sales through 2010 due to BSE bans and restrictions around the world.

The U.S. beef industry has taken great strides to open markets and promote U.S. beef in Asia. As the middle-class grows throughout Asia, consumers are switching to a protein-based diet. There are tremendous opportunities for beef, pork, and poultry in China, a place with a high population and a growing demand for protein. It has been estimated that U.S. beef sales in China could exceed $300 million annually if given access.

U.S. beef isn't the only industry to suffer from these non-science based trade restrictions. On a larger scale, the elimination of China's tariffs and other trade restrictions could lead to an additional $3.9 to $5.2 billion in U.S. agricultural exports to China, according to a study by U.S. International Trade Commission.

One of the greatest hindrances for the U.S. beef industry has been China's reluctance to embrace internationally recognized science-based standards for beef such as those standards recommended by the World Organization for Animal Health (OIE) and the Codex Alimentarius (Codex).

According to a March 2011 report by the United States International Trade Commission, U.S. and Chinese officials have been unable to reach an agreement on requirements for trade in a variety of beef products, owing to China's regulations related to BSE. In June 2006, China agreed to allow imports of boneless U.S. beef from cattle less than 30 months of age. However, approval was subject to a number of stipulations, many unrelated to BSE risk, and an agreement has not been reached.

On May 29, 2013, the OIE upgraded the United States' designation for BSE from controlled-risk to negligible risk for BSE. The *negligible BSE risk* distinction applies to cattle and commodities from countries or zones that pose a negligible risk of transmitting the BSE agent as demonstrated by: 1) a risk assessment; 2) the appropriate level of BSE surveillance; 3) one of the following: no BSE cases, only imported BSE cases or indigenous BSE cases born no more recently than 11 years; 4) an existing education and reporting program; and 5) a feed ban that has been in place for at least eight years if an indigenous or imported case or other risk factors exist.

Negotiators were able to reach agreement on trade in several other bovine products that present a low risk of BSE (bovine semen and embryos), but were unable to reach an agreement on trade in beef tallow. Today, in order to export U.S. beef to China the product must meet all 22 requirements set by the Chinese government.

It is unfortunate that China will import beef from other countries that have negligible risk status, such as Australia and New Zealand, and even from countries such as Canada that have controlled-risk status, a lesser status in the OIE scale of designations, but not from the U.S.. NCBA encourages U.S. and Chinese negotiators to develop a beef protocol based on sound science and commercial feasibility instead of political interests.

Another area of concern is China's opposition to the proper use of internationally-approved technologies, particularly beta agonists such as ractopamine. Beta agonists are fed to cattle (steers and market heifers) in feedlots during the last 28 to 42 days of the finishing period to safely increase carcass gain, feed efficiency and carcass leanness while maintaining beef's natural taste, tenderness and juiciness. The Codex Commission, the international food standards-setting body recognized in the WTO-SPS Agreement, has established a set of Maximum Residue Levels (MRLs) widely accepted in international trade. On July 5, 2012, Codex adopted standards for maximum residue levels for ractopamine. The establishment of international standards for veterinary drugs like ractopamine is important since many countries rely on science based food standards to ensure that the food they are importing is safe. U.S. agricultural exporters and consumers worldwide benefit from the adoption of international standards for food safety. Unfortunately, China continues to find reasons to delay approval of technologies like ractopamine, instead of incorporating into their protocol the proven scientific standards of the international community. Other countries have changed their beef protocols in the wake of the Codex approval. NCBA encourages China to do the same. As the global population continues to grow, and as a result a growth in the demand for protein, food production must adapt through the use of safe technological advances that rely on fewer available natural resources.

Russia

Prior to 2013, Russia was the fifth largest market for U.S. beef exports with Russian consumers purchasing more than $300 million of U.S. beef in 2012. Unfortunately, at the end of 2012 Russia closed its doors to beef from the United States, Canada, Mexico, and Brazil due to non-science based concerns over production technologies used in each of those countries. While the impact of unnecessarily closing a $300 million market to U.S. beef has impacted our industry, this unfortunate move by the Russian government did not come as a surprise.

On August 22, 2012, Russia officially joined the WTO. As part of Russia's accession agreement with the U.S., Russia agreed to expand market access for U.S. beef to 60,000 metric tons (frozen beef) and an unlimited supply of High Quality beef at a 15 percent tariff rate. Even though the U.S. beef industry raised concerns with our government over Russia's history of implementing market-disrupting non-science based trade barriers, the increase in available quota for U.S. beef was viewed as a promising move for U.S. beef producers and Russian consumers who continually purchased more U.S. beef year after year (2010: $152 million in annual sales / 57,453 metric tons; 2011: $256 million in annual sales / 72,797 metric tons; 2012: $307 million in annual sales / 80,408 metric tons).

Prior to Russia joining the WTO, the U.S. beef industry had not been a target for Russia's non-science-based market closures suffered by other U.S. meat industries like pork and poultry. Russian consumers had not raised concerns about the safety of U.S. beef, nor had the Russian government. Even after Russia voted in opposition of the Codex Alimentarius' (Codex) establishment of a maximum residue level (MRL) for ractopamine, Russia continued to import record amounts of U.S. beef through 2012. It was not until the end of 2012, that Russia announced it would no longer accept beef and pork that was not certified as "ractopamine-free". Unfortunately, Russia has yet to provide any science-based standards to justify this action and has provided little direction to the U.S. beef industry on how to meet their demands for ractopamine-free beef.

Unfortunately, Russia continues to find reasons to delay approval of technologies like ractopamine instead of incorporating into their protocol the proven scientific standards of the international community. Other countries have changed their beef protocols in the wake of the Codex establishment of a MRL for ractopamine and NCBA encourages Russia to do the same.

<u>Hindrances to U.S. Beef Trade Caused By U.S. Policy</u>

Unfortunately, there are some policies enacted that have managed to restrict the U.S. beef producer's ability to sell beef in some countries.

One situation that is still fresh on our memories is the trade retaliation that resulted from the U.S. government failing to enact a cross-border trucking program with Mexico. While the U.S. may have been the first country to implement carousel retaliation schemes, other countries have picked up on the idea and are becoming experts at innovating its implementation. Fortunately U.S. beef was not on the first retaliation list for Mexico during the trucking dispute, but we are very confident that we will be on the top of the list for both Mexico and Canada following the decision from the World Trade Organization regarding the U.S. mandatory country-of-origin labeling (COOL) program.

Last year, the WTO Appellate Court ruled that the U.S. COOL program violates international trade laws and if the U.S. did not change its law Canada and Mexico will be authorized to sue for relief against the U.S., most likely in the form of retaliatory tariffs. As a result of that decision, the USDA published a new version of the COOL rule at an attempt to bring the U.S. into compliance. That rule only increased discriminatory practices against cattle born in Canada and Mexico, so the lawsuit has continued against the U.S.. On February 18, 2014 the WTO dispute panel met to determine if the new COOL rule published by USDA on May 23, 2013, brought the U.S. into compliance with the WTO Appellate Court decision against the U.S.. If the WTO rules against the U.S., then Mexico and Canada will start the process toward retaliation. Rest assured, U.S. beef and cattle will be at the top of the list for retaliatory tariffs, followed by a long list of other agricultural and manufactured goods. The only way to resolve this potential trade war is to repeal COOL and allow the beef industry to market our product competitively.

<u>NCBA Supports Science-Based and Market-Driven Trade Opportunities</u>

<u>Trans-Pacific Partnership</u>

The Trans-Pacific Partnership (TPP) is an ambitious, 21st-Century trade agreement that includes Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States. NCBA believes that the TPP has the potential to open a number of export opportunities for U.S. beef and expand our presence in Asia. NCBA has been strong supporter of our government's efforts to push for tariff elimination and strong science-based standards among all TPP nations for as long as the U.S. has been part of TPP. Prior to the addition of Canada, Mexico, and Japan; NCBA strongly stated that all TPP countries and any future additions must abide by the same terms as all other TPP nations. For many months, our negotiators were making progress, but unfortunately Japan has been unwilling to abide by the same principles of free trade as all of the other TPP countries and they are digging in and are refusing to negotiate on products they deem politically “sensitive”. This is discouraging and ultimately detrimental to the entire process. We encourage USTR to remain vigilant and to continue to push the Japanese toward tariff elimination on beef. The U.S. beef industry cannot afford to be handed a deal that resembles anything close to the terms given to the Australians. Under the Japan-Australia agreement, Japan will reduce its massive 38.5 percent tariff on frozen beef to 19.5 percent over 18 years, and reduce the tariff on chilled beef from 38.5 to 23.5 percent over 15 years.

We have always supported our government and we appreciate the hard work of our negotiators, but NCBA’s ultimate support for the TPP hinges on the terms of the deal. Make no mistake; the U.S. has been accused of taking similar action on sensitive products. And we know exactly what happens in this situation, beef always gets the short end of the stick. That is why NCBA’s message has been clear since the beginning: eliminate ALL tariff and non-tariff trade barriers. The era of protectionism is over.

Current restrictions and tariffs on U.S. beef and beef products from the participating TPP countries:

Country	Tariff on Fresh/Chilled Beef	Tariff on Frozen Beef	Non-Tariff Restriction
Australia	0	0	Ban
Brunei	0	0	None
Canada	0	0	None
Chile	0	0	None
Japan	38.5%	38.5%	30 month age restriction
Malaysia	0	0	OIE Guidelines
Mexico	0	0	None
New Zealand	0	0	OIE Guidelines
Peru	FTA*	FTA*	OIE Guidelines
Singapore	0	0	30 month age restriction
Vietnam	21.3%	18%	30 month age restriction

Transatlantic Trade and Investment Partnership

Without question, the Transatlantic Trade and Investment Partnership (TTIP) between the United States and the European Union (E.U.) would be a great opportunity for the U.S. beef industry to expand market

* Peru’s WTO tariff bindings on beef are currently 30 percent, with applied tariff rates ranging from 0 to 25 percent. Under the agreement, the United States secured immediate duty-free treatment on the products most important to the U.S. beef industry; i.e., high quality USDA Prime and Choice cuts. All other tariffs on beef and beef products are eliminated within 15 years, earlier in a number of cases. For Standard Quality beef, the agreement also provides for an 800-ton TRQ with 6-percent annual growth and a 25-percent above-quota tariff phased out over 12 years. Additionally, there is a 10,000-ton beef offal TRQ with 6-percent growth and a 12-percent above-quota tariff phased out over 10 years. Peru will have the right to use safeguards on Standard Quality beef if imports surge.

Regarding SPS measures, Peru reopened its market to U.S. boneless beef and certain offals on April 12 and agreed to fully open to U.S. beef and beef products other than specified risk materials no later than May 31, 2006. Peru agreed to continue to recognize the equivalence of the U.S. meat inspection system and to accept beef shipments accompanied by a USDA FSIS Export Certificate of Wholesomeness with content of the certificate agreed between the two countries. http://www.fas.usda.gov/info/factsheets/peru.asp access in the E.U. The U.S. beef industry has a longstanding history of providing the E.U. with high quality U.S. beef and we look forward to improving that relationship through the TTIP. According to USDA data compiled by the U.S. Meat Export Federation, European consumers purchased approximately $252 million of U.S. beef in 2013, making the E.U. one of our top ten export markets for beef. Also in 2013, the U.S. and E.U. signed an agreement to extend Phase II of the current Memorandum of Understand (MOU) for another two years, through August 2, 2015. Under Phase II, the U.S. can provide up to 45,000 metric tons of beef from "non-hormone treated cattle" at zero tariff duty. In exchange, the U.S. will not re-instate retaliatory tariffs against the E.U. as it is our right to do so under the WTO decision on hormones.

Unfortunately, there are fundamental differences between the U.S. and the E.U. regarding the use of science and technology in food production. Production practices in the U.S. are based on rigorous scientific review and are continuously improved to employ the latest advancements in scientific research and animal husbandry, with the overall goal of improving production efficiency while improving the overall environmental impact. Meanwhile, the E.U. continues to abuse its precautionary principle which discourages the development and use of scientific advancements. As a result, U.S. beef has been the victim of unwarranted trade restrictions throughout the years.

For the benefit of both the U.S. and the E.U., we must set political interests aside and establish a 21st-century agreement based on internationally-recognized scientific standards, free from tariffs, quotas, and subsidies, where the free market allows competition to flourish and encourages sustainable trade. That being said, if the U.S. and E.U. truly want to establish a stronger trade relationship, science based and market driven agriculture policies must be part of the final trade agreement. Otherwise, our differences in agriculture will put at great risk the growing trade opportunities in the TTIP.

Conclusion

With 96 percent of the world's consumers living outside of the U.S., access to foreign markets for our beef and beef products is significantly important for our industry to grow. Exports are vitally important for the future success of U.S. beef producers and rural America. Future growth of the U.S. economy depends upon our ability to produce and sell products competitively in a global marketplace. Economic globalization is not simply a matter of ideological or political preference; it is a fundamental reality that will determine whether America remains an economic super-power or becomes a secondary economic force.

In closing, I appreciate the opportunity to testify before you today on an issue of such importance to our members. I support President Obama's effort to double U.S. exports and create jobs in rural America. On behalf of NCBA and many other stakeholders of the U.S. beef industry, I thank you for your continued efforts to open and expand market access for U.S. beef producers.

Sincerely,

Bob McCan

Bob McCan
President, NCBA