Fighting for the U.S. Cattle Producer!
R-CALF USA

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November 4, 2015

Lisa R. Barton
Secretary to the Commission
U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436

**Re:** ***Investigation No. 332-555, "Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2016 Report"***

Dear Ms. Barton:

The Ranchers-Cattlemen Action Legal Fund, United Stockgrowers of America (R-CALF USA) appreciates the opportunity to submit this pre-hearing brief regarding the U.S. International Trade Commission's (USITC's) Investigation No. 332-555: *Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2016 Report.*

R-CALF USA is a national, non-profit industry trade organization dedicated to ensuring the continued profitability and viability of the U.S. cattle and sheep industries and represents thousands of U.S. cattle producers on domestic and international trade and marketing issues. It is the largest producer-only trade association representing the U.S. cattle industry and it now also represents the U.S. sheep industry. R-CALF USA's membership consists primarily of cow-calf operators, cattle backgrounders, feedlot owners and sheep producers. Its members are located in about 40 states, and the organization has numerous local and state association affiliates, from both cattle and farm organizations. Various main street businesses are associate members of R-CALF USA.

R-CALF USA does *not* represent the entire U.S. beef supply chain nor the entire lamb supply chain. Rather, R-CALF USA exclusively represents the live cattle segment of the beef supply chain and the live sheep segment of the lamb supply chain, meaning it represents the farmers and ranchers from across the U.S. who breed, birth, and raise live cattle and/or live sheep for breeding purposes and for beef and lamb production. The live cattle and live sheep produced by R-CALF USA members are subsequently marketed to packers that transform the livestock into the commodities beef, beef products, lamb or mutton, which are then further processed and/or marketed to other entities within the beef commodity industry and lamb commodity industry (e.g., meat processors, meat wholesalers and distributors, and meat retailers).

Although the industries that produce cattle and sheep are separate and distinct from the industries that transform cattle and sheep into meat products, for purposes of this pre-hearing brief R-CALF USA will include under its meaning of "cattle industry" live cattle and the products that are subsequently produced from live cattle by other entities along the beef supply chain, principally beef and beef products. Similarly, the term "sheep industry" will include live sheep and the products that are subsequently produced by other entities along the lamb and mutton supply chain, principally lamb and mutton.

The economic interests of R-CALF USA members have been directly impacted by the numerous trade agreements the United States has implemented with respect to which Congress has enacted an implementing bill under trade authorities procedures since January 1, 1984. These agreements are more commonly known as free trade agreements (FTAs) and R-CALF USA will accord them this common vernacular throughout this brief. Below R-CALF USA will explain the economic impact that each of the FTAs has had on U.S. cattle and sheep producers and on the U.S. cattle and sheep industries.

## I. ANALYSIS OF TRADE FLOWS TO DETERMINE ECONOMIC IMPACTS OF FREE TRADE AGREEMENTS ON THE U.S. CATTLE AND SHEEP INDUSTRIES

A key variable for determining changes to a nation's economic strength is net exports, or exports minus imports.[1] So significant is this variable that it anchors the mathematical equation for finding a country's gross domestic product (GDP). That equation, GDP = C + I + GS + X – M (where C is consumption, I is investment, GS is government spending, and X – M is net exports), demonstrates that a nation's economy is strengthened when exports exceed imports and weakened when the opposite occurs – *i.e.*, when imports exceed exports.[2]

It follows, therefore, that the economic strength of domestic industries within a nation is similarly impacted by changes to net exports. This is particularly true for industries that are engaged in the economic practices of exporting and importing, thus functioning as microcosms of the nation itself. The products produced by the U.S. cattle industry (live cattle and beef and beef products derived therefrom) and the U.S. sheep industry (live sheep and lamb and mutton derived therefrom) are exported and imported around the world.

Because trade agreements are designed to impact trade flows, *i.e.*, exports and/or imports between and among nations, the determination of whether the economic conditions of the U.S. cattle and U.S. sheep industries have been strengthened or weakened by trade agreements implemented since 1984 can be directly measured by calculating and analyzing annual net exports, *i.e.*, trade surpluses or trade deficits, for those industries.

In conformity with the scope of the USITC's instant investigation, this brief includes an analysis of net exports resulting from trade with each of the 20 countries with respect to which

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[1] *See, e.g.*, Balanced Trade: Fighting the New Mercantilism, Coalition for a Prosperous America, Fact Sheet, available at https://d3n8a8pro7vhmx.cloudfront.net/prosperousamerica/pages/650/attachments/original/1425070057/150227_Flyer_Trade_Deficit.pdf?1425070057.

[2] *See id.*

the United States has executed a formal free trade agreement. Such free trade agreements include the North American Free Trade Agreement (NAFTA – Canada and Mexico), and U.S. FTAs with Australia, Bahrain, Canada, Chile, Colombia, the Central American Free Trade Agreement and the Dominican Republic (CAFTA-DR, which includes Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), Israel, Jordan, South Korea, Morocco, Oman, Panama, Peru, and Singapore. In addition, this brief will briefly analyze the impacts of the Uruguay Round Agreements.

R-CALF USA obtained data from the U.S. Department of Agriculture (USDA) Foreign Agricultural Service's (FSA's) Global Agricultural Trade System (GATS) for calculating imports, exports and trade balances for the U.S. cattle and sheep industries. Unfortunately, those data are available only for years 1989 to present, but not for years prior to 1989 (data are not available for 1984 through 1988, which are relevant to the USITC's investigation). As a result, this analysis quantitatively covers only the 26-year and 8-month period from 1989 through August, 2015. Consequently, R-CALF USA makes the general assumption that trade patterns and resulting trends for the five-year period 1984-1988 are unremarkable and not substantively dissimilar to the trade patterns and trends identifiable during the five-year period from 1989 through 1994, during which time the U.S.-Canada FTA and NAFTA were implemented.[3]

R-CALF USA used the same Harmonized System (HS) six-digit subheadings to determine trade flows in beef and beef products as the USITC used in its 2008 report on Global Beef Trade.[4] R-CALF USA then added HS subheadings to cover the trade in live cattle as is shown in **Table 1**.

[3] This assumption is based in part on the author's general knowledge regarding trade flow data contained in USDA's Red Meat Yearbook, which contains volume-based trade flows for earlier years.
[4] Global Beef Trade: Effects of Animal Health, Sanitary, Food Safety, and Other Measures on U.S. Beef Exports, USITC, Investigation No. 332-488, Publication 4033 (September 2008), at 1-4, 1-5.

**Table 1**

## Trade Data for Live Cattle, Beef, Beef Variety Meats, and Processed Beef

*The U.S. International Trade Commission (ITC) has determined that the following major product categories account for trade in beef; and categories for live cattle have been added to the ITC's major beef categories*

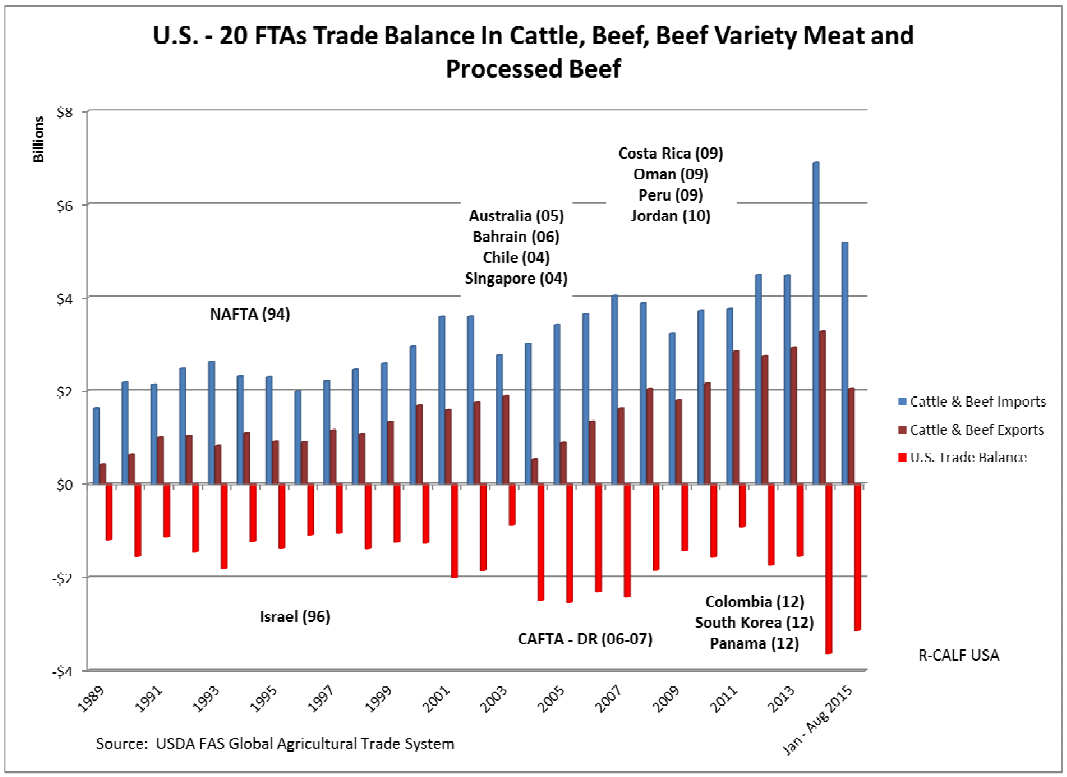
- HS 010210: Bovine Live, Pure
- HS 010221: Cattle, Pure-bred
- HS 010229: Cattle, not Pure-bred
- HS 010290: Bovine Live
- HS 020110: Bovine Carcass, Fr/Ch
- HS 020120: Bovine Bone in, Fr/Ch
- HS 020130: Bovine Boneless, Fr/Ch
- HS 020210: Bovine Carcass, Froz
- HS 020220: Bovine Bone in, Froz
- HS 020230: Bovine Boneless, Froz
- HS 020610: Bovine Offal, Fr/Ch
- HS 020621: Bovine Tongue, Fr/Ch
- HS 020622: Bovine Livers, Fr/Ch
- HS 020629: Bovine Offal, Froz
- HS 021020: Bovine Meat, Salted
- HS 160250: Bovine Meat, Prepared

### A. The U.S. Cattle Industry Is Experiencing Mounting Trade Deficits

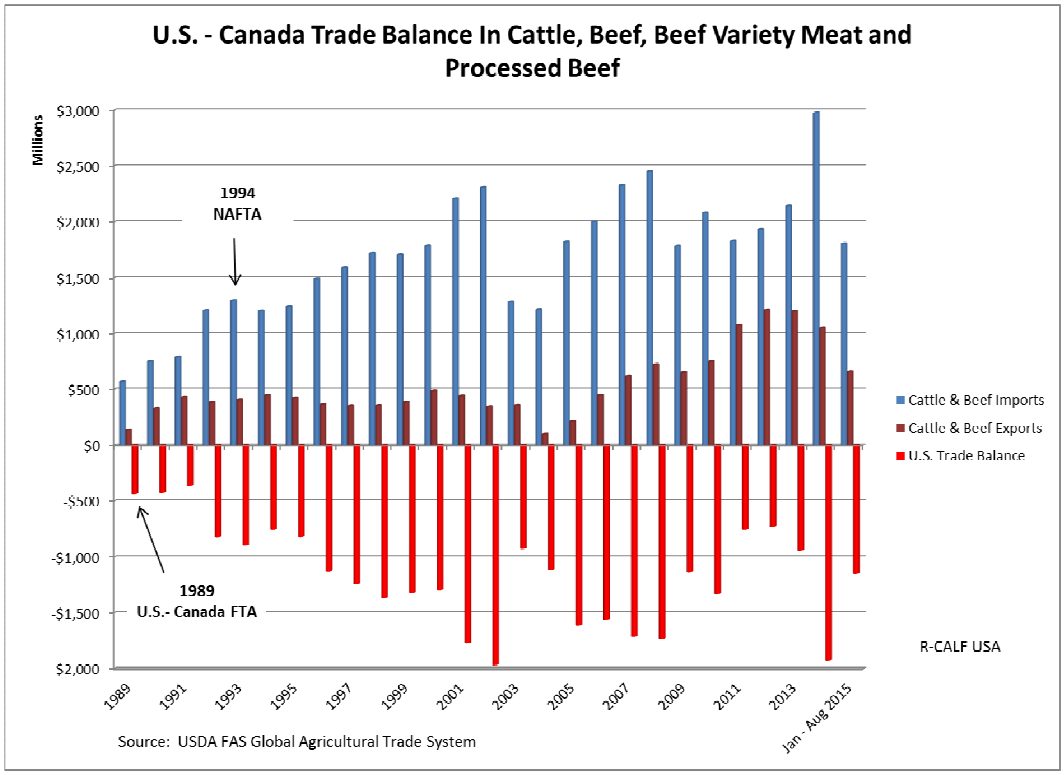
The U.S. cattle industry is being subjected to a mounting value-based trade deficit (*i.e.*, imports exceed exports resulting in negative net exports) in the trade of live cattle and beef and beef products derived from live cattle (which includes beef variety meats such as offal and processed beef) with the 20 countries listed above with which the U.S. has executed formal free trade agreements. As revealed by the data used to create **Chart 1**, the cumulative trade deficit over the 26-year and 8-month period covered by this analysis exceeds $46.1 billion.

The countries contributing most to this mounting trade deficit are Canada, with respect to which the U.S.' cumulative trade deficit is $31.2 billion (**Chart 2**); Australia, with respect to which the U.S.' cumulative trade deficit is $23.3 billion (**Chart 3**); and the six countries comprising the CAFTA-DR FTA, with respect to which the U.S.' cumulative trade deficit is $2.7 billion (**Chart 4**).

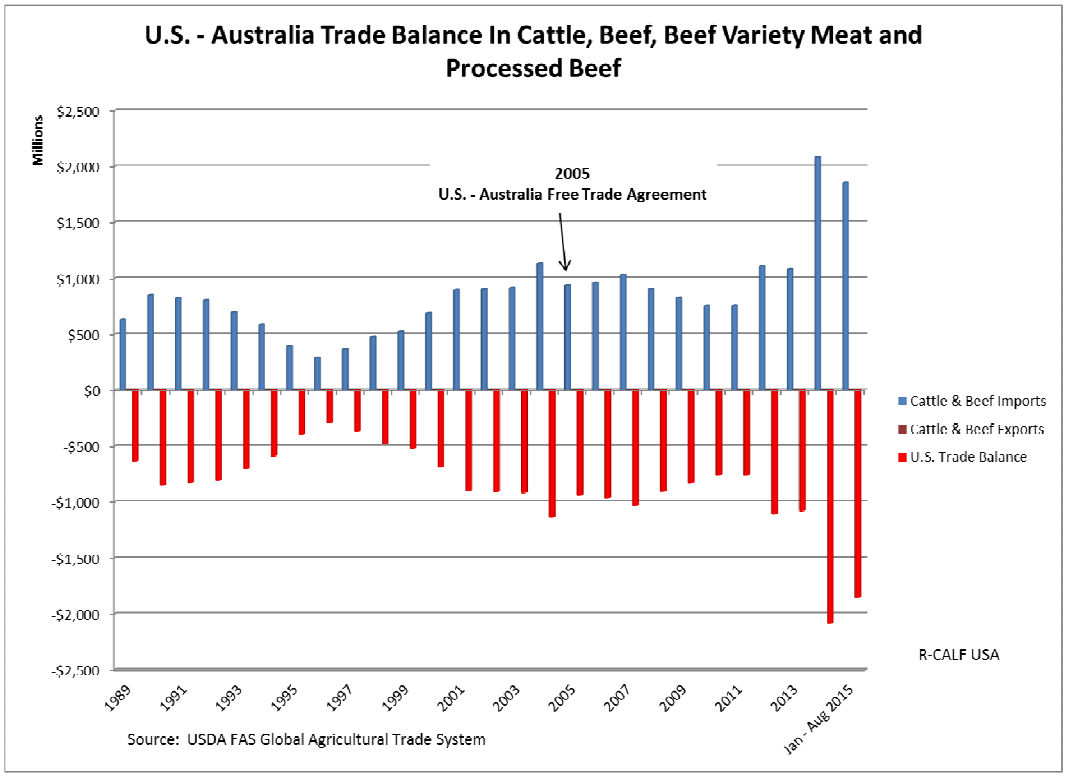
## Chart 1



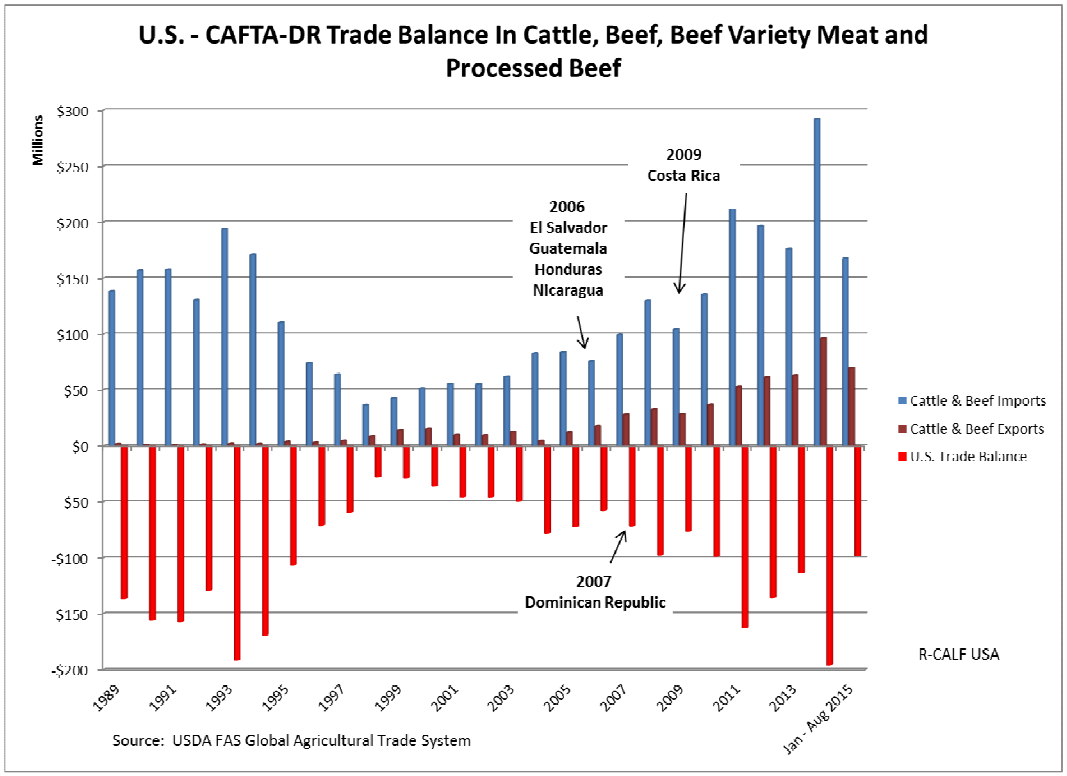

## Chart 2



## Chart 3

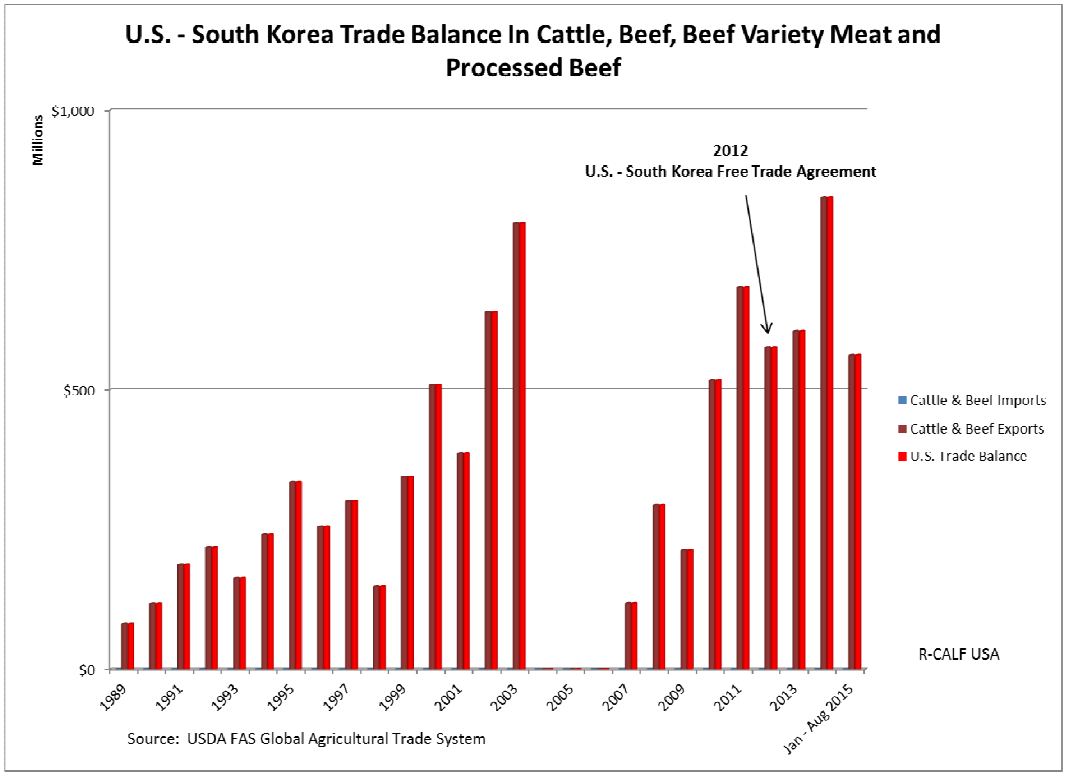



## Chart 4



The remaining FTA countries, those with which the U.S. has generated a trade surplus over time, do not purchase enough cattle, beef or beef products to offset the deficit generated by Canada, Australia and the CAFTA-DR countries.[5] South Korea, previously the third-largest export market for the U.S. prior to South Korea's import ban that followed the U.S. discovery of an imported Canadian cow with bovine spongiform encephalopathy (BSE),[6] represents the most favorable trade pattern because it generated a $9.7 billion cumulative trade surplus for the United States. However, and as revealed by **Chart 5**, 72% of that surplus was generated prior to the 2012 implementation of the U.S.-South Korea FTA, and the value of U.S. exports to South Korea post-FTA remain comparable to the value of U.S. exports to that country pre-BSE.

**Chart 5**

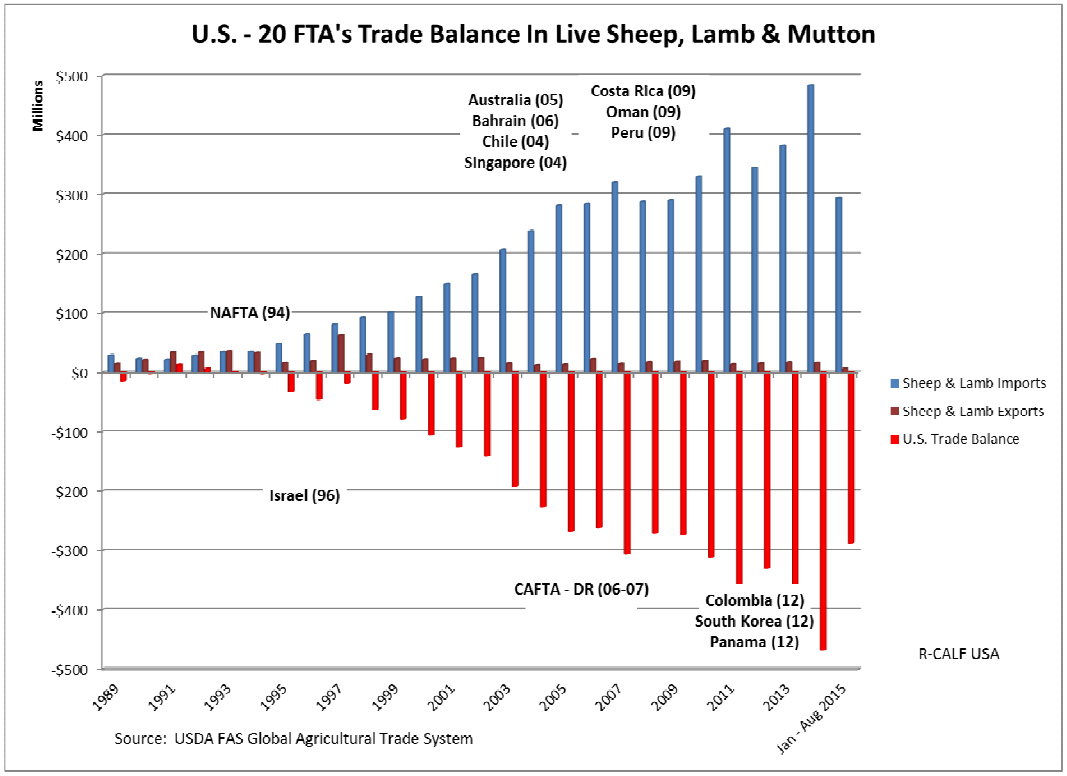



[5] Charts depicting trade flows under several of the other FTAs are provided in the Appendix.
[6] *See* Beef and veal: Annual and cumulative year-to-date U.S. trade (carcass weight, 1,000 pounds) USDA-Economic Research Service, Oct. 7, 2015 (showing that South Korea was the third largest export destination in 2002), available at http://www.ers.usda.gov/data-products/livestock-meat-international-trade-data.aspx.

## B. The U.S. Sheep Industry Is Experiencing Mounting Trade Deficits

The U.S. sheep industry is much smaller than the U.S. cattle industry.[7] While the U.S. cattle industry is experiencing economic harm as a result of the FTAs already implemented with 20 countries, and while that harm likely will soon worsen, the U.S. commercial sheep industry has already suffered irreparable harm from those same FTA countries. As revealed by the GATS data used to create **Chart 7**, the cumulative trade deficit suffered by the U.S. sheep industry over the 26-year and 8-month period covered by this analysis exceeds $4.6 billion.[8]

**Chart 7**

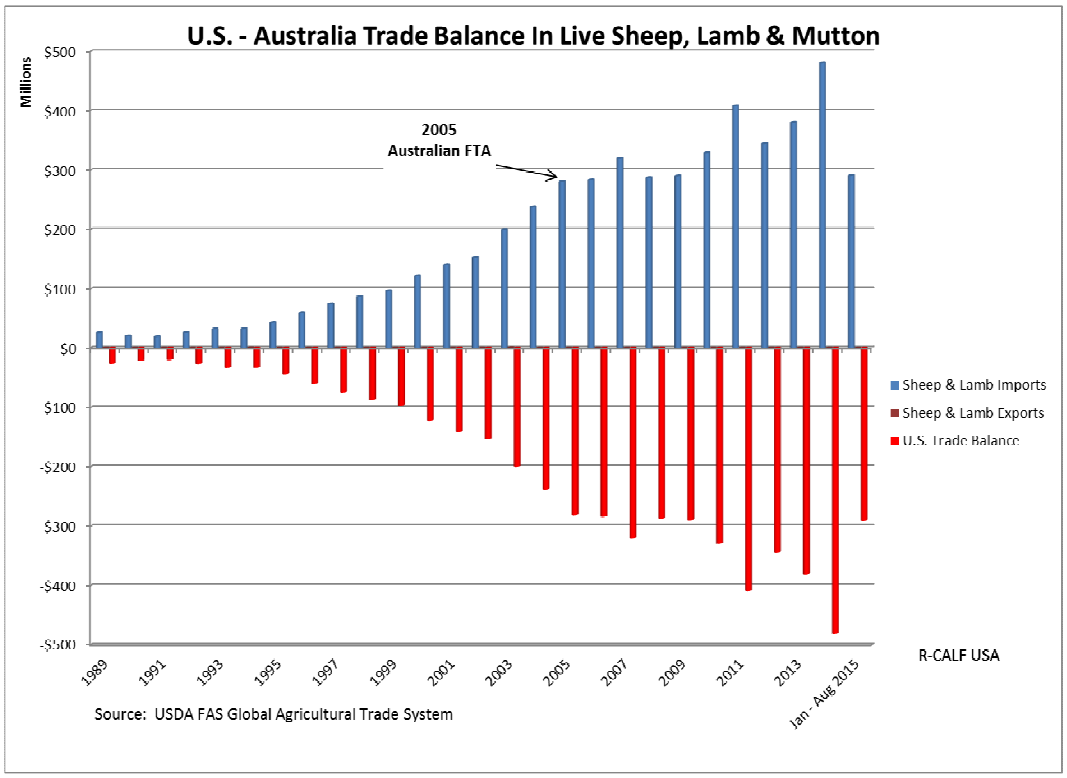



[7] *See* charts later in this brief that show the U.S. cow herd is over 29 million head while the entire U.S. sheep industry is fewer than 6 million head.

[8] The HS six-digit codes used to analyze the sheep industry include: 010410, 020410, 020421, 020422, 020423, 020430, 020441, 020442, and 020443.

Alarmingly, a single country's exports have overrun and overwhelmed the domestic sheep industry. The cumulative trade deficit generated from Australian exports alone is over $5 billion. **Chart 8** reveals Australia's unmistakable trade dominance over the U.S. sheep industry.

**Chart 8**




There is nothing fair or just about the trade in lamb and mutton between the U.S. and Australia. As discussed below, Australia persistently undercut domestic lamb prices, relegating the domestic sheep industry as the first U.S. livestock industry to be effectively offshored – U.S. consumers depend more on imported lamb than domestic lamb to satisfy their appetites because domestic sheep production has been devastated, its volume falling below import volumes.

## II. DISTINGUISHING ECONOMIC IMPACTS OF THE ACTUAL FREE TRADE AGREEMENTS APPLICABLE TO PARTICULAR COUNTRIES FROM THE ECONOMIC IMPACTS OF TRADING WITH THOSE PARTICULAR COUNTRIES

While the GATS trade data allow a direct quantification of the economic impact of trading with the 20 countries with which the U.S. has executed FTAs – which, again, is a negative $46.1 billion accumulated over the period of this analysis – these data cannot be used on their own to quantify the portion of the economic impact attributable directly to the formal free trade agreements themselves. In other words, these data do not expressly identify the value of imports or exports to or from a particular country that are above or below what they would otherwise have been if no FTA was implemented.

### A. Identifying the Economic Impact Attributable to the Actual Free Trade Agreements on the U.S. Cattle Industry

Although GATS data do not delineate changes to trade flows resulting from the implementation of FTAs, this does not preclude indirect approaches to determining whether the implementation of the 20 FTAs are contributing to the very large, cumulative trade deficit. One such approach is to divide the period of analysis into two parts (for purposes of this discussion the 2015 partial year is omitted, thus creating two equal 13-year parts). A logical presumption is that changes to import and export patterns resulting from the FTAs themselves will become increasingly obvious as the FTAs mature. Therefore, trade patterns observed during the earlier part of the period under study, in this case the 13-year period 1989-2001, would presumably be least impacted by the implementation of FTAs. This presumption is further reinforced by the fact that only three of the 20 FTAs under investigation were implemented during this earlier period, including the U.S.-Canada FTA in 1989, the NAFTA (Canada and Mexico) in 1994, and the U.S.-Israel FTA in 1996. The presumption that the FTAs will have a greater economic impact

during the latter period under study, the 13-year period from 2002-2014, is credible because at the beginning of this latter period, the U.S. already had FTAs implemented with Canada for the previous 13 years, and recall that Canada contributes far more to the U.S. trade deficit than any other FTA country.[9] Further, the remaining 17 FTAs were all implemented during this latter period.

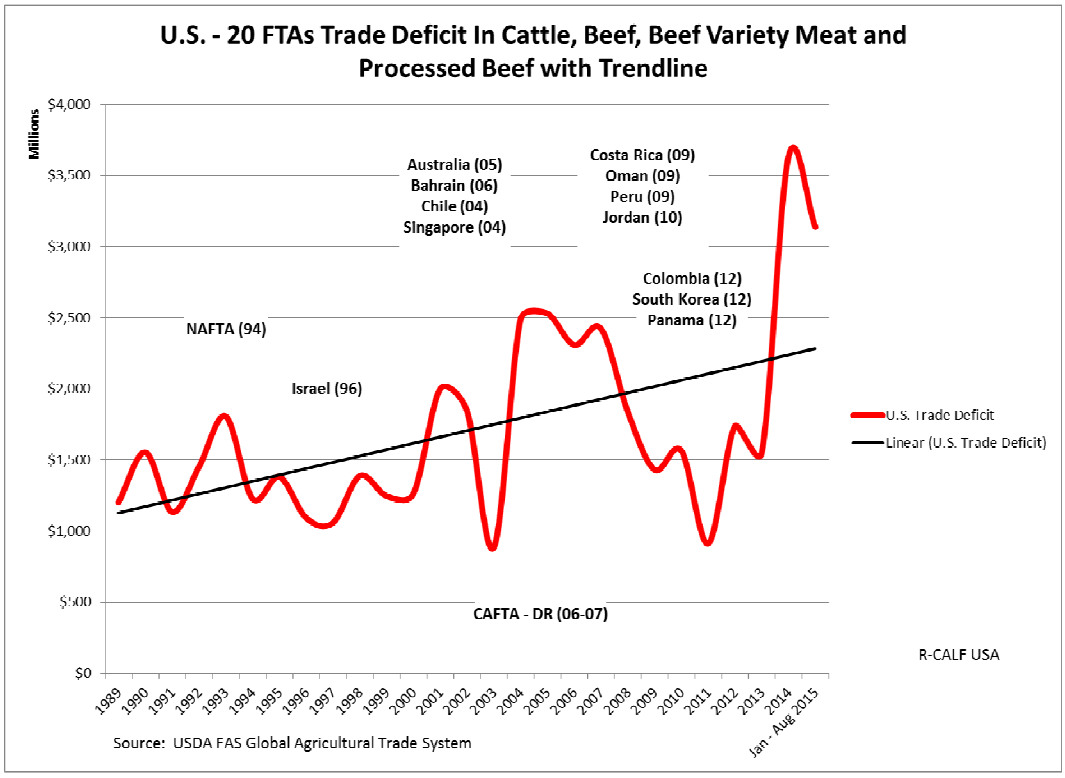
Using this indirect approach, it is found that Canada's contribution to the very large cumulative trade deficit in cattle and beef during the latter 13-year period increased 38% from its contribution during the earlier 13-year period. The contribution by Australia, the second-largest contributor to the U.S. cattle and beef trade deficit, increased 67% during the latter period when compared to the earlier period. The contributions by the six CAFTA-DR FTA countries, the third-largest contributors to the U.S. cattle and beef trade deficit, actually decreased by 5% during the latter period when compared to the earlier period. On the surface this decrease would appear to suggest that the CAFTA-DR FTA likely had a positive impact on the trade patterns between the U.S. and the six participating countries, albeit a very small positive impact. Importantly, however, and as discussed in greater detail below, several CAFTA-DR countries are ineligible to export either raw or processed beef to the United States, which may well account for the anomalous, though small, decrease from the early period to the latter period. With all 20 FTA countries considered, the cumulative cattle and beef trade deficit realized by the U.S. during the earlier 13-year period under study increased 41% during the latter period under study.

The results of the foregoing analysis are substantiated by **Chart 6** that depicts a linear trendline associated with the annualized U.S. trade deficit resulting from trade in live cattle, beef and beef products with the 20 FTA countries. The trendline clearly indicates that the U.S. trade deficit has progressively worsened as: i) earlier-implemented FTAs matured and ii) more FTAs

[9] *See Supra*, Chart 2.

were introduced and implemented. Further, the trendline prophesizes that the worst is yet to come – that the economic viability of the U.S. cattle industry will be continually harmed by larger and larger trade deficits that continually weaken the industry's economic standing, just as trade deficits weaken a nation's economic standing by reducing the nation's gross domestic product.

**Chart 6**




Another worrisome reality evidenced by the GATS trade data and suggestive that the economic viability of the U.S. cattle industry is becoming more vulnerable than ever before to unlimited imports because none of the preexisting FTAs contain any automatic or otherwise meaningful relief mechanisms to timely and automatically mitigate the price-depressing effects of rapidly rising import volumes. Referencing again **Chart 1**, the value of imports jumped an unprecedented 54% between 2013 and 2014, while the value of exports increased only 12% during the same period. This resulted in the unprecedented trade deficit of over $3.6 billion in

2014. The attendant market volatility associated with this unprecedented import spike is yet another manifestation of a weaker economic condition for the U.S. cattle industry resulting from the numerous FTA's already in place, all of which are lacking needed safeguards for the supply-sensitive cattle industry.

### B. Identifying the Economic Impact Attributable to the Actual Free Trade Agreements on the U.S. Sheep Industry

Unlike for the cattle industry, it is not at all necessary to separate the period of study into two parts or to construct a trendline for the sheep industry to determine if free trade agreements themselves are contributing to the industry's growing trade deficit and in what direction the trade deficit is likely to head. The ongoing growth of the sheep industry's trade deficit as more and more FTAs were implemented, as clearly depicted in **Chart 7**, is strong evidence that the FTAs are major contributors, to both the size and direction of the sheep industry's deficit. In R-CALF USA's opinion, this, too, is a function of the failure of all of the current FTAs to incorporate any automatic safeguards to protect the supply-sensitive U.S. sheep industry from being destroyed by rapidly increasing imports, particularly those arriving pursuant to the 2005 U.S.-Australia FTA.

### C. Factors that Are Temporarily Mitigating the Additional Economic Harms that Are Likely to Arise in the Near Future from the 20 Free Trade Agreements

A critical factor that prophetically indicates the worst is yet to come in terms of escalating – hence larger and more price-depressing, trade deficits in the cattle and sheep industries is the fact that over one-half of the 20 FTA countries are ineligible to export either raw or processes beef, lamb or mutton to the United States.[10] Thirteen of the 20 FTA countries including Bahrain, Colombia, Dominican Republic, El Salvador, Guatemala, Israel, Jordon,

[10] *See* Countries/Products Eligible for Export to the United States, USDA Food Safety Inspection Service, Oct. 30, 2015, available at http://www.fsis.usda.gov/wps/wcm/connect/4872809d-90c6-4fa6-a2a8-baa77f48e9af/Countries_Products_Eligible_for_Export.pdf?MOD=AJPERES.

South Korea, Morocco, Oman, Panama, Peru and Singapore, are not certified by the USDA Food Safety and Inspection Service (FSIS) to export meat to the United States because they have not demonstrated that they have equivalent food safety inspection systems.[11] Additionally, some of those countries are also not considered free of foot-and-mouth disease (FMD), which precludes meat exports to the United States.[12] This factor is significant because those 13 countries may, in the foreseeable future, become eligible to export beef and beef products and lamb and mutton to the United States and doing so will worsen the industries' already very large trade deficits.

### 1. Potential Effects on the Trade of Cattle, Beef and Beef Products

Several of the 13 countries ineligible to export beef to the U.S. have sizable cattle herds, including Colombia with a cattle herd size of 23.1 million head,[13] which rivals Mexico's 23.4 million head herd size[14] (GATS data show that Mexico is the third-largest exporter of cattle, beef and beef products to the United States). Other export-ineligible countries including the Dominican Republic, El Salvador, Guatemala, South Korea, Panama and Peru have a combined cattle herd size of 15.4 million head,[15] which rivals the 16.3 million-head herd size of Canada[16] (GATS data show that Canada is the second largest exporter of cattle, beef and beef products to the United States). Because so many of the FTA countries are *temporarily* prohibited from exporting cattle, beef and beef products to the U.S., and because many of those countries produce cattle in numbers comparable to some of the major cattle, beef and beef product

[11] *See id*. (revealing that the 13 countries listed above are not included on the FSIS list of export-eligible countries).
[12] *See* Countries/Regions Free of Foot – 9CFR 94.1, USDA Animal and Plant Health Inspection Service (APHIS), Oct. 26, 2015 (*e.g*., cattle- and beef-producing countries such as Colombia, South Korea and Peru are not free of FMD), accessible at USDA-APHIS' website: https://www.aphis.usda.gov/wps/portal/aphis/home.
[13] *See* Production, Supply and Distribution Online, USDA Foreign Agricultural Service (FAS), Downloadable Data Sets, Livestock, Oct. 9, 2015, available at http://apps.fas.usda.gov/psdonline/psdDownload.aspx.
[14] *Id*.
[15] *Id.*
[16] *Id*.

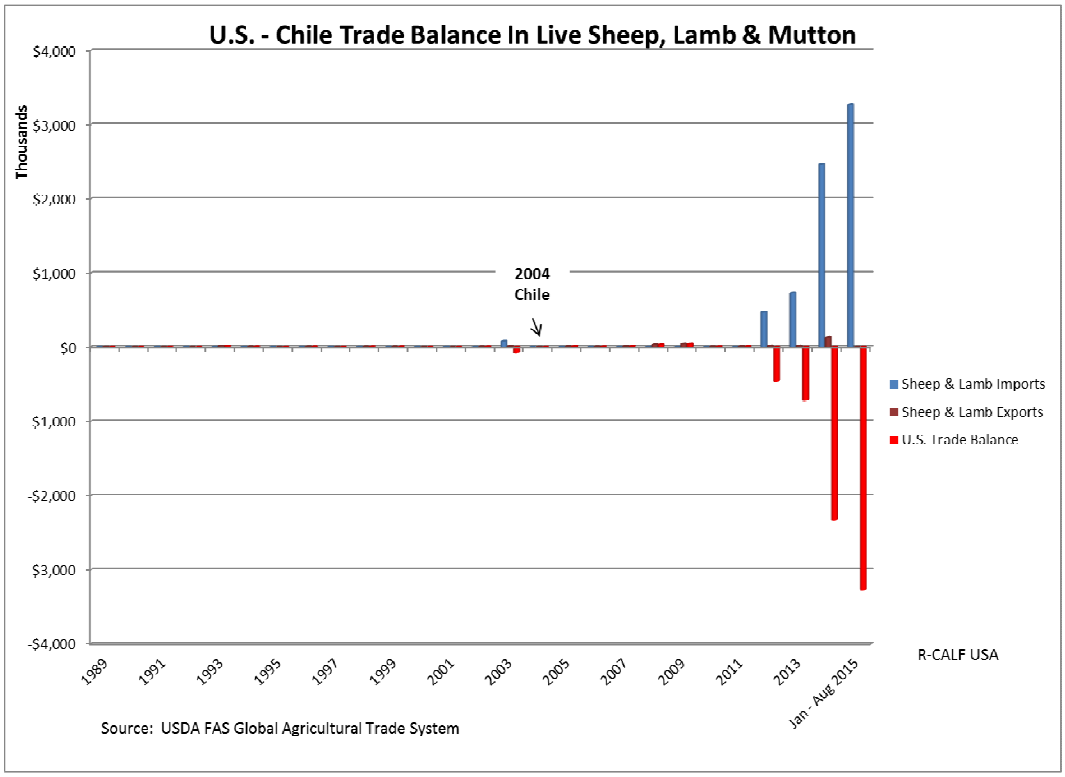
exporters, the current and very large U.S. trade deficit that continues to be a significant drain on the economic strength of the U.S. cattle industry could soon become significantly worse.

### 2. Potential Effects on the Trade of Sheep, Lamb and Mutton

The sheep industry is likewise shielded from even more import pressure because 13 FTA countries are ineligible to export either raw or processed lamb or mutton to the United States.[17] This is indeed fortunate for the domestic sheep industry. A glimpse of what likely will befall the sheep industry when some or all of those 13 presently barred countries finally do achieve eligibility to export lamb and mutton to the U.S. is shown in **Chart 9**, which reveals that developing country Chile ramped-up its export potential about 8 years following the implantation of the U.S.-Chile FTA and began generating a significant trade deficit for the United States. The cumulative trade deficit with Chile during the period covered by this analysis is $6.7 million and is potentially growing.

[17] *See Supra*, fn. 10, at 14.

**Chart 9**




## III. MEASURING THE ECONOMIC HARM OF FREE TRADE AGREEMENTS THAT FACILITATE IMPORTS IN EXCESS OF EXPORTS

### A. <u>Measuring Economic Losses to U.S. Cattle Producers</u>

In 2013 USDA-APHIS used a partial equilibrium model to estimates the impact of its proposed rule to allow additional imports of Brazilian beef into the United States.[18] Although the U.S. does not have an FTA with Brazil, the calculation of financial losses to cattle producers that would be caused by increased import volumes would not change based on the particular reason that import volumes increased. Therefore, USDA-APHIS' economic modeling should be equally

[18] 78 Fed. Reg., Dec. 23, 2013, at 77,375, col. 1 (while the proposed rule states producer losses would be $165 million, the accompanying regulatory impact analysis clarifies that $143 million would be lost by cattle producers and the remaining losses would be borne by other commodity sectors, particularly the hog sector).

applicable to import increases resulting from FTAs as it is to import increases from relaxing import restrictions for Brazil.

Based on the USDA-APHIS' scenario of importing 40,000 MT of additional beef under its proposed rule, the model estimated that cattle producers would experience a loss of $143 million.[19] However, USDA-APHIS incorporated the questionable assumption that about two-thirds of the 40,000 MT of additional beef imported from Brazil would displace beef that would otherwise be imported from other countries.[20] Thus, the $143 million in harm to cattle producers was actually calculated from a net increase of about one-third of the 40,000 MT scenario, or about 13,300 MT, the equivalent of about 29.3 million pounds. Using this formula that a 29.3 million pound net increase in beef imports will cause U.S. cattle producers to lose $143 million, the economic losses to U.S. cattle producers from increased net imports resulting from the trade with FTA countries can be determined.

For example, data from USDA's Economic Research Service (ERS) contained in **Table 2** show that the volume of beef and veal imported from the 20 FTA countries between the years 2013 and 2014 increased by about 634 million pounds.[21] The application of the USDA-based formula mentioned above reveals that U.S. cattle producers suffered a loss of about $3.1 billion dollars due to the 2013 to 2014 import spike created by the 20 countries with which the U.S. has implemented FTAs.

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[19] *Id*., col. 2.
[20] *Id*., col. 1
[21] *See* Beef and veal: Annual and cumulative year-to-date U.S. trade (carcass weight, 1,000 pounds) USDA-Economic Research Service, Oct. 7, 2015 (Table 2 contains data excerpted from the ERS spreadsheet to depict only trade between the U.S. and the 20 FTA countries), available at http://www.ers.usda.gov/data-products/livestock-meat-international-trade-data.aspx.

**Table 2**

| Beef and veal: Annual and cumulative year-to- | | | | |
|---|---|---|---|---|
| Import/export, country code and name 1/ 2/ | | 2013 | 2014 | Increase/Decrease |
| Beef and veal imports | 6021 Australia | 623,889 | 1,082,676 | |
| | 1220 Canada | 538,065 | 602,154 | |
| | 2190 Nicaragua | 91,413 | 138,972 | |
| | 2010 Mexico | 251,563 | 310,155 | |
| | 2230 Costa Rica | 21,310 | 28,859 | |
| | 2150 Honduras | 12,243 | 9,033 | |
| | 2050 Guatemala | 57 | | |
| | 2470 Republic | | | |
| | 3370 Chile | 6 | 594 | |
| | 5081 Israel | | | |
| | 5800 South Korea | 0 | 0 | |
| | 3010 Colombia | | | |
| | 3330 Peru | | | |
| | 5590 Singapore | | | |
| | | **1,538,546** | **2,172,444** | 633,897 |
| Beef and veal exports | 2010 Mexico | 403,288 | 435,345 | |
| | 1220 Canada | 466,810 | 364,117 | |
| | 5800 South Korea | 252,855 | 301,074 | |
| | 2470 Republic | 11,905 | 19,266 | |
| | 3370 Chile | 31,694 | 27,764 | |
| | 2050 Guatemala | 6,425 | 10,713 | |
| | 5590 Singapore | 4,526 | 4,728 | |
| | 3010 Colombia | 3,724 | 4,439 | |
| | 2250 Panama | 3,883 | 6,176 | |
| | 3330 Peru | 4,499 | 4,315 | |
| | 2230 Costa Rica | 1,951 | 2,764 | |
| | 2150 Honduras | 2,960 | 1,795 | |
| | 5250 Bahrain | 1,906 | 1,222 | |
| | 6021 Australia | 1,634 | 774 | |
| | 5110 Jordan | 1,627 | 1,454 | |
| | 2110 El Salvador | 1,351 | 1,437 | |
| | 5081 Israel | 198 | 70 | |
| | 5230 Oman | 238 | 134 | |
| | 2190 Nicaragua | 141 | 257 | |
| | 7140 Morocco | | | |
| | | **1,201,615** | **1,187,844** | -13,771 |
| 1/ Countries are ranked by the sum of their trade for all months show n. | | | | |
| 2/ Blank cells represent a zero value. For | | | | |
| | *Date run: 10/6/2015 12:46:23 PM* | | | |
| Exports minus Imports | | -336,931 | -984,599 | -647,668 |

John VanSickle, Ph.D., Food & Resource Economics Department, University of Florida was critical of USDA's economic modeling when the agency proposed to reopen the U.S. market to Canadian cattle and beef in the mid-2000s following Canada's detection of BSE in its cattle herd. Specifically, Dr. VanSickle stated that USDA's economic analysis ignores impacts on

associated industries and on employment. Dr. VanSickle modeled the impact of USDA's proposal to increase the volume of Canadian beef and cattle imports into the United States using Implan multipliers that suggested "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."[22] The VanSickle study also indicated that "every million dollars in sales of cattle or beef is associated with 43.5 jobs generated in the economy."[23] The USITC could use the Implan multipliers to better determine the overall impact on the U.S. economy that results from the FTA-related losses borne by U.S. cattle producer.

### B. Measuring Economic Losses to Sheep Producers

A 2008 report by the National Academy of Sciences identified several causes for the drastic decline in the U.S. sheep industry. Among those causes was, "Competition from imports along with an appreciation of the U.S. dollar . . ."[24] An ironic finding in the report was that the "[d]ecline in Australian and New Zealand sheep numbers" was included as a "development[]" that would make the sheep industry more profitable for some.[25] In other words, the profitability of the U.S. sheep industry is, at least in part, intrinsically tied to the level of imports from Australia and New Zealand. It is R-CALF USA's opinion that the level of imports from Australia and other countries is a significant, if not controlling factor on the profitability and economic viability of the U.S. sheep industry.

In a 2013 investigative report concerning the U.S. sheep industry, the USDA Packers and Stockyards Administration (PSA) determined that one of the four principle factors causing the

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[22] Economic Analysis of Proposed Rule for Bovine Spongiform Encephalopathy: Minimal Risk Regions and Importation of Commodities (APHIS Docket No. 03-080-1), John J.VanSickle, Florida State University, available at http://r-calfusa.com/wp-content/uploads/2013/04/151103-Expert-Economic-Evaluation-John-VanSickle.pdf.
[23] *Id.*
[24] Changes in the Sheep Industry in the United States, The National Academy of Sciences, 2008, available at http://r-calfusa.com/wp-content/uploads/2013/05/151104SheepFinal.pdf.
[25] *Id.*

decline of the U.S. sheep industry was "low cost imports,"[26] and it found that those low cost imports came from Australia and New Zealand.[27] Indeed, the report found that about one-half the lamb consumed in the United States is imported from Australia and New Zealand, with Australia providing the largest share and New Zealand providing most of the rest.[28]

Australian lamb, which according to the above-mentioned report has displaced the largest share of domestic lamb and mutton production, is imported duty-free into the United States under the U.S.-Australia FTA that took effect in 2005.[29] Currently, and in contrast to duty-free Australian imports, New Zealand lamb and mutton imports are subject to U.S. tariffs ranging from .32 cents per pound to 1.27 cents per pound.[30]

The most obvious reason that Australian lamb and mutton imports have displaced such a large share of domestic lamb and mutton is because Australian imports are delivered into the U.S. market at a significantly lower cost than what domestic lamb sells for in the domestic market. As **Chart 10** shows, regardless of the presence or absence of any extenuating factors (*e.g.*, differences in exchange rates or drought), racks of lamb imported from Australia are consistently priced lower than domestic racks of lamb.

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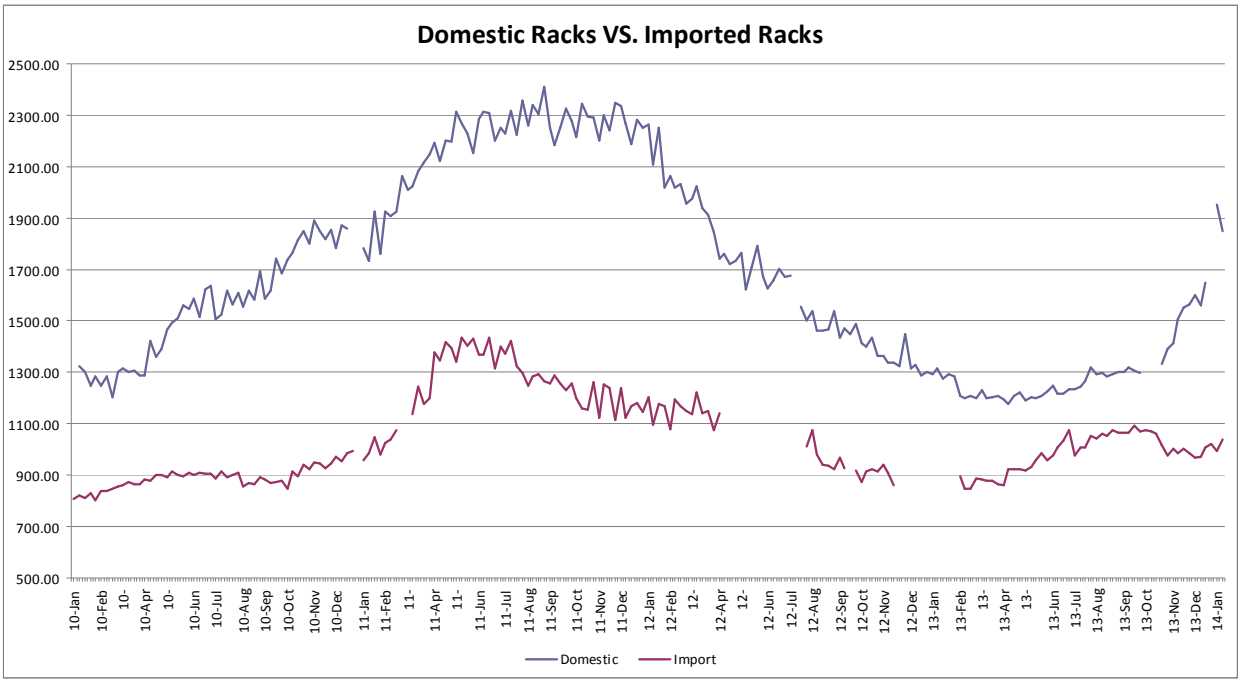
[26] U.S. Lamb Market in 2010, 2011, and 2012, U.S. Department of Agriculture, Grain Inspection, Packers and Stockyards Administration, Packers and Stockyards Program (P&SP), December 2013, at 1, available at http://www.r-calfusa.com/wp-content/uploads/sheep/131217LambInvestigationPublicReport.pdf.
[27] *Id.*, at i.
[28] *Id.*, at 5 (the author estimates that Australian imports represent about two-third of U.S. lamb imports and New Zealand accounts for approximately one-third of all U.S. lamb imports).
[29] Harmonized Tariff Schedule of the United States (2014), Chapter 2, Meat and Edible Meat Offal, Headings 0204.10.00 – 0204.43-40.
[30] *See id.*

**CHART 10**




Source: USDA Livestock, Poultry, and Grain Market News

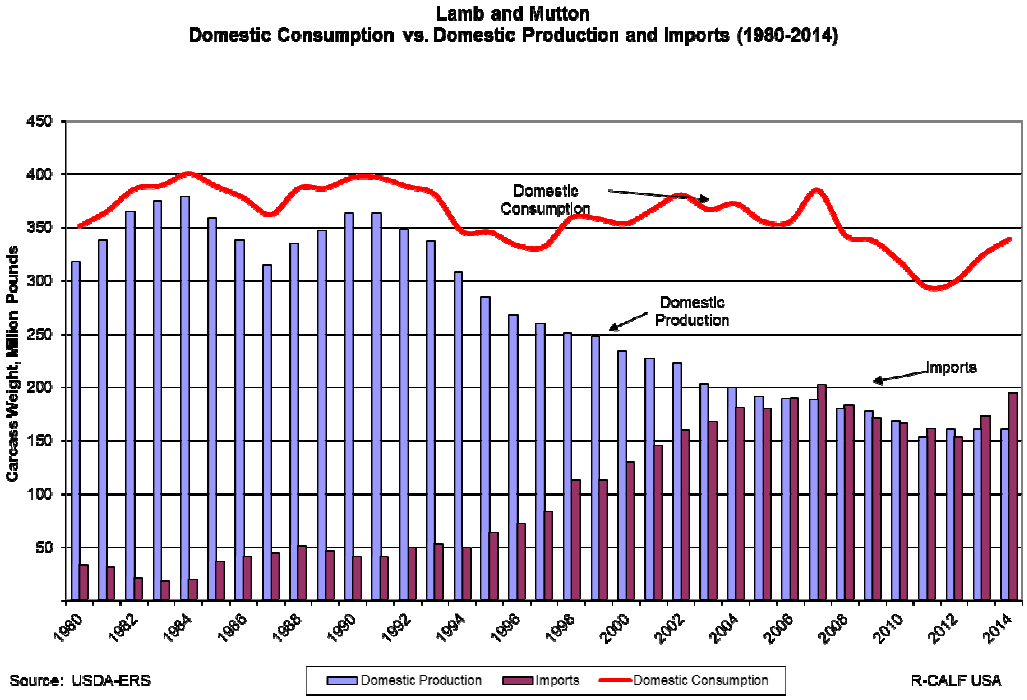
It is no wonder that the U.S. sheep industry is being decimated by imports pursuant to the U.S.-Australia FTA when import prices are consistently pegged below prices needed by domestic sheep producers to remain profitable. In 2012 the USDA stated that imported product "is substantially cheaper than domestic product" and explained that a 65-75 pound domestic lamb carcass at that time was valued at about $255.00, whereas a comparable imported lamb carcass can be delivered to the U.S. for less than $200.00.[31]

While R-CALF USA cannot readily associate a specific dollar amount suffered by the U.S. sheep industry, it can confidently state that the economic losses to the U.S. sheep industry from imports, most of which are duty-free imports originating in FTA countries, have been catastrophic. **Chart 11** deserves close scrutiny because it shows that the U.S. sheep industry has now been effectively outsourced, meaning U.S. consumers must now depend more on imported

[31] Presentation to the Tri-State Wool Growers by Randy Hammerstrom, USDA-AMS, Livestock and Grain Market News, Slide 66, available at http://www.r-calfusa.com/sheep/140404Tri-stateWoolGrowers12.pdf.

lamb and mutton to satisfy their appetites than on domestic lamb and mutton because more than one-half the production output of the beleaguered U.S. sheep industry has recently been displaced by imports.

**Chart 11**




This chart clearly shows that while domestic lamb and mutton production was rapidly decreasing, imports of lamb and mutton were skyrocketing, increasing 273 percent since the early 90s.[32] Today's total sheep numbers are now the lowest in recorded history[33] and there are fewer than 4,350 commercially viable sheep operations remaining in the entire United States.[34] Further alarming is the fact that domestic sheep production was decreasing drastically even while

[32] Lamb and Mutton, Supply and Disappearance, and Per Capita Disappearance, USDA, Economic Research Service (comparing the years 1991 and 2012), available at http://www.ers.usda.gov/data-products/livestock-meat-domestic-data.aspx#26112.

[33] Changes in the Sheep Industry in the United States, The National Academy of Sciences, 2008, available at http://r-calfusa.com/wp-content/uploads/2013/05/151104SheepFinal.pdf.

[34] USDA data show that only 4,350 U.S. sheep operations have a flock size of more than 100 head. A commercial sheep operation is one in which all or most of the operator's income is derived from the sale of sheep. Under this definition, an operator would need to own far more than 100 sheep in order to maintain an economically viable operation. Thus, there can be no more than 4,350 commercially viable sheep operations remaining in the United States.

domestic consumption of lamb and mutton was increasing. This chart demonstrates that U.S. policy makers have put U.S. food security at risk by allowing trade policies, *i.e.*, FTAs, to effectively decimate a key food production industry in the United States.

## IV. IDENTIFYING THE FACTORS THAT CAUSE THE U.S. CATTLE INDUSTRY, AND LIKELY THE SIMILAR SHEEP INDUSTRY, TO BE HIGHLY SUSCEPTIBLE TO INCREASED IMPORTS

### A. Cattle have the Longest Biological Cycle of any Farmed Animal

The Government Accountability Office (GAO) found that cattle have the longest biological cycle of all meat animals.[35] This is the characteristic that created the historical phenomenon known as the cattle cycle. According to USDA, the cattle cycle "arises because biological constraints prevent producers from instantly responding to price."[36] It takes approximately 15 to 18 months to raise cattle to slaughter weight and much longer to increase the size of the U.S. cattle industry's production factory – its mother cow herd. The long biological cycle also makes the cattle industry highly susceptible to exploitation by firms that control the production and output of other competing protein sources, i.e., hogs and poultry, which each have much shorter biological cycles that enable their respective industry's to respond quickly to changes in price by quickly adjusting production and output. In addition, because the meats from these competing protein sources are a market substitute for beef, multiple-protein firms can relatively quickly manipulate the output and price of the competing proteins in order to manipulate the demand and price for cattle, while the cattle industry remains constrained from responding due to cattle's prolonged biological cycle.

[35] 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.
[36] Cattle: Background, Briefing Room, USDA, ERS, updated June 7, 2007, available at http://www.ers.usda.gov/Briefing/Cattle/Background.htm.

### B. Slaughter-Ready Cattle are Highly Perishable, As Are Slaughter-Ready Sheep

Unlike many agricultural commodities that are storable, fed cattle that have reached their optimal slaughter weight must be marketed within a narrow window of time (generally within about a two-week period); otherwise, the animals would degrade in quality and value.[37] This characteristic makes the value of cattle extremely susceptible even to temporary increases in imports that create downward pressure on domestic prices by increasing the supply of either live cattle or beef, or both. This is also true for fed lambs.

### C. The Beef Packing Industry Is Exceedingly Concentrated, As Is the Sheep Packing Industry

Oklahoma State University Economist Clement Ward asserts that concentration levels in the U.S. meatpacking industry are 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. . ."[38] The concentration in the sheep packing industry is similarly concentrated.

### D. The U.S. Cattle Market Is Highly Sensitive to Even Slight Changes in Supply

As confirmed previously by the USITC, the U.S. cattle market is highly sensitive to even slight changes in cattle supplies. The USITC found that the farm level elasticity of demand for slaughter cattle is such that "each 1 percent increase in fed cattle numbers would be expected to decrease fed cattle prices by 2 percent."[39] Researchers at the University of Nebraska – Lincoln found that fed cattle prices were even more susceptible to changes in supplies and stated that a 1 percent increase in fed cattle supplies would be expected to reduce fed cattle prices by up to 2.5

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[37] *See* GIPSA Livestock and Meat Marketing Study, January 2007, Volume 3, at 5-4, available at http://archive.gipsa.usda.gov/psp/issues/livemarketstudy/LMMS_Vol_3.pdf.

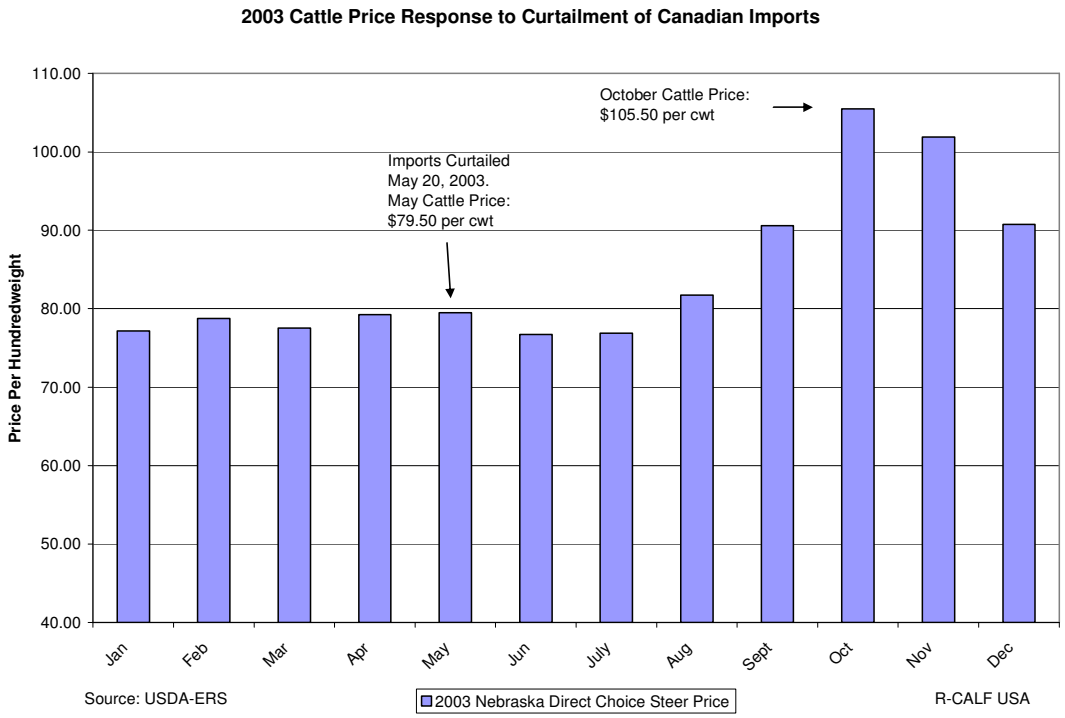
[38] A Review of Causes for and Consequences of Economic Concentration in the U.S. Meatpacking Industry, Clement E. Ward, Current Agriculture Food and Resource Issues, 2001, at 1.

[39] 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.

percent.[40] As a result, the U.S. cattle market is highly sensitive to increased supplies of imported cattle, and by extension, imported beef.

The effect of the cattle industry's sensitivity to changes in import supplies was recently demonstrated when U.S. fed cattle prices jumped to the highest level in the industry's history within just five months after the importation into the U.S. of live cattle from Canada was curtailed due to the discovery of BSE in the Canadian herd. The price for domestic cattle increased a remarkable $26 per cwt between May 2003, the month when Canadian cattle imports were curtailed, and October 2003, just five months later (**Chart 12**). At that time, this price increase represented an unprecedented per head increase of $325 for an average Nebraska Direct Choice steer weighing 1,250 pounds.

**Chart 12**




[40] *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 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).

R-CALF USA respectfully encourages the USITC to investigate the beef packers' practice of strategically using imported cattle and/or beef from FTA countries to purposefully reduce the domestic price of cattle. Approximately 1.5 million cattle are imported annually from Canada,[41] representing approximately 4 percent of the 34 million cattle slaughtered annually in the United States. Despite such a seemingly small percentage of imported cattle in the U.S. market, there appears a significant, negative correlation between the number of head imported and the price of domestic cattle.

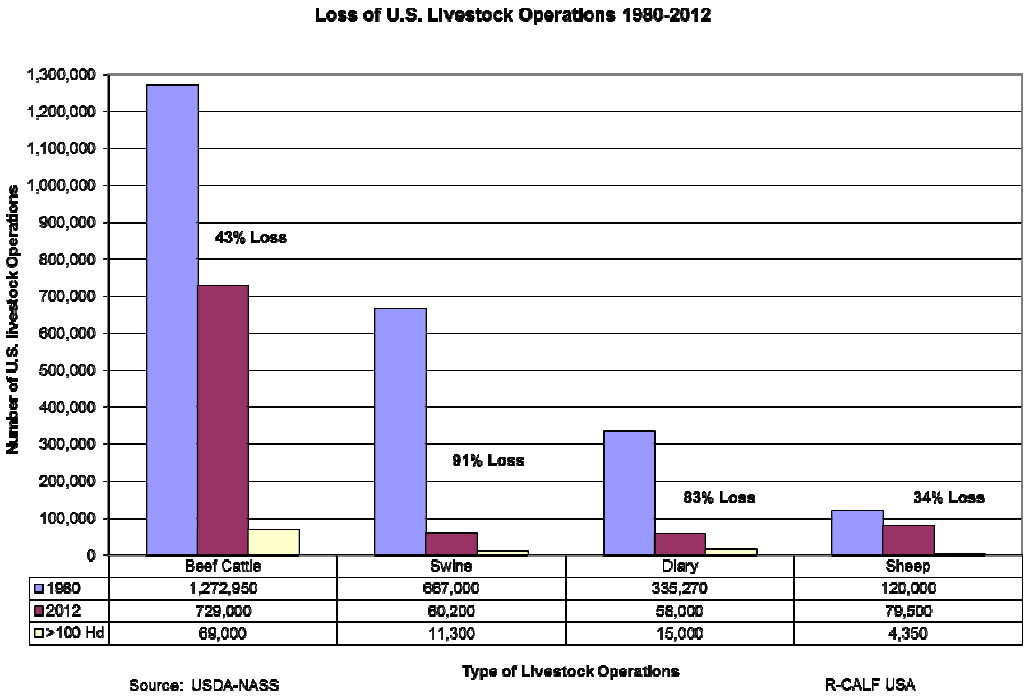
## V. IDENTIFYING OTHER INDICATORS OF ECONOMIC HARM IN THE WAKE OF 20 FREE TRADE AGREEMENTS

If free trade agreements are the pillars of the United States' strategy to maintain viable domestic livestock industries that support the United States' rural economy and ensure food security for the nation, that strategy has been an abject failure. In terms of the number of participants supported by each industry, the production capacity of each industry (as measured by the number of breeding animals in each industry), and the production output of each industry, both the U.S. cattle industry and the U.S. sheep industry have been contracting at alarming rates while free trade agreements proliferate.

As shown in **Chart 12**, more than four out of every ten U.S. cattle operations and more than one-third of all sheep operations in business in 1980 (just four years prior to the 1984 start of this investigation period) had exited their respective industries by 2012. This drastic decline in industry participants during the period when 20 FTAs were put in force is indicative of a failed domestic strategy.

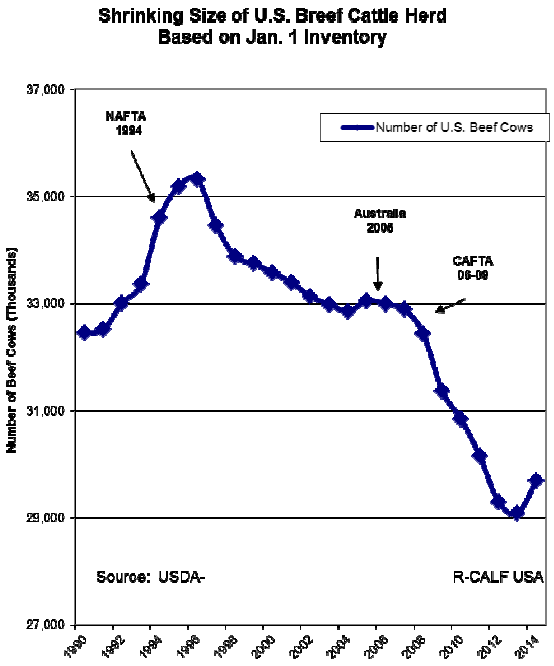
[41] Livestock and Meat Trade Data, Cattle: Annual and Cumulative Year-to-Date U.S. Trade (Head), USDA, ERS (Canadian cattle imports totaled 1.4 and 1.6 million head in 2007 and 2008, respectively), available at http://www.ers.usda.gov/data/meattrade/CattleYearly.htm.

**Chart 13**

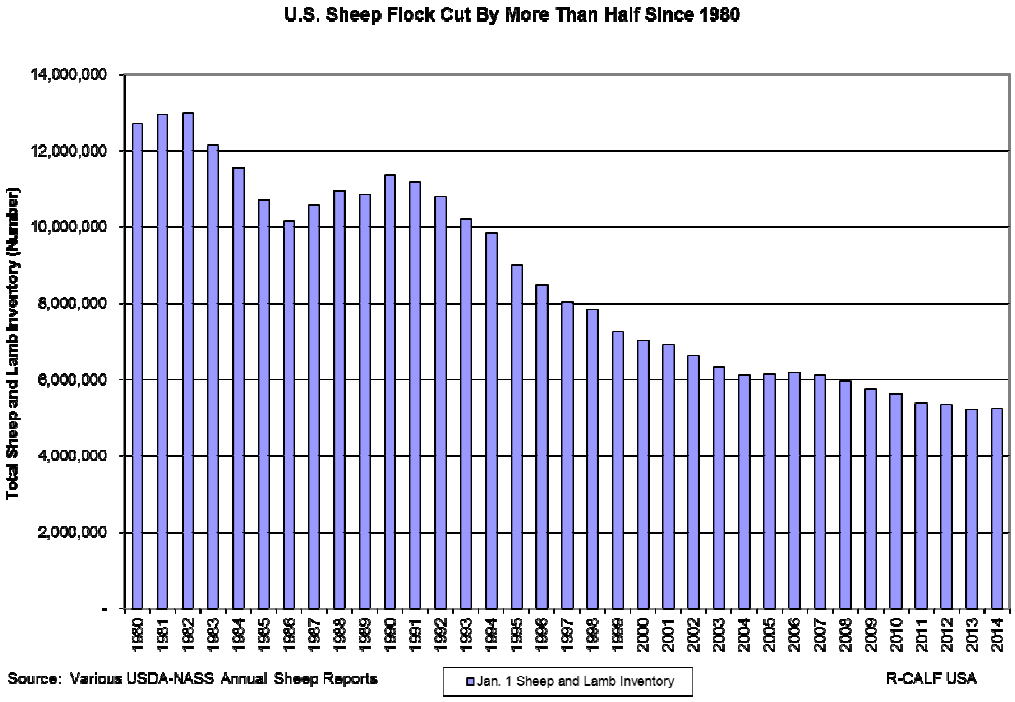



As shown by **Charts 14 and 15**, respectively, the breeding herd for the U.S. cattle industry has declined precipitously since 1996, falling to the lowest level in about 60 decades, and the sheep flock (total sheep inventory) has declined drastically since 1998, falling to the lowest level in recorded history.

## Chart 14

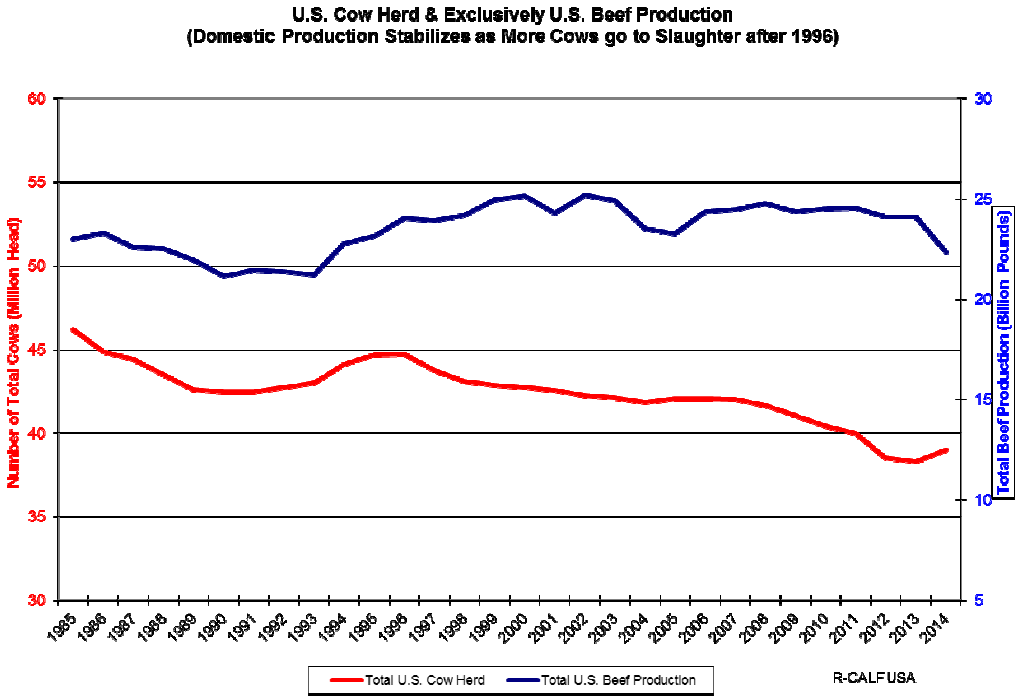



## Chart 15



Production of beef and lamb and mutton has likewise declined during the period under investigation. As shown in **Chart 16,** domestic beef production in 2014 was less than in 1985 and remained relatively stagnant from 1996 to 2014 while the inventory of U.S. cows was declining. Beef production was buoyed during this lengthy period because more breeding animals were being brought to slaughter as cow herds were being liquidated, not because the industry was producing enough calves each year to maintain production levels.

**Chart 16**




R-CALF USA believes the U.S. sheep industry is the U.S. cattle industry's canary in the coal mine. This is because the biological characteristics of cattle and sheep and the marketing structures of the two industries are so similar. The cattle industry is fast following the same destructive path as that of the sheep industry – a path marked by shrinking production, shrinking herds, and shrinking participants. And, the cattle industry is shrinking largely for the same reason

– the FTAs the United States has so far implemented fail to provide any meaningful relief from escalating, lower-priced imports that are causing significant economic losses to the industry.

The foregoing evidence demonstrates that the U.S. sheep industry was a sacrificial lamb in the U.S.-Australia free trade agreement and is likely to cease to exist as a viable, commercial food producing industry in the United States if immediate changes are not made to U.S. trade policy.

## VI. IDENTIFYING THE ECONOMIC IMPACT OF THE URUGUAY ROUND TRADE AGREEMENTS

R-CALF USA contends that changes to U.S. laws that were mandated by the Uruguay Round Agreements have facilitated more price-depressing imports because those changes had significantly lowered U.S. import standards in as least four significant ways.

### A. The U.S. Ceased Requiring Importing Countries to have Meat and Poultry Inspection Systems At Least Equal to Those of the United States.

In 1995, pursuant to the Uruguay Round Agreement, the USDA provided the following rationale for lowering its food inspection standards for importing countries.

> The United States can no longer require foreign countries wishing to export meat and poultry products to have meat and poultry inspections that are 'at least equal' to those of the United States; instead, foreign inspection systems must be [only] 'equivalent to' domestic inspection systems.[42]

### B. The U.S. Ceased Requiring Importing Countries to Eradicate Dangerous Animal Diseases Within Their Borders Prior to Exporting Disease-Susceptible Products to the United States.

In 1997, the USDA relaxed its longstanding disease-prevention policy of prohibiting imports from countries that had not yet made the necessary investment to eradicate dangerous livestock diseases within their borders. The USDA weakened that policy by adopting what it called "regionalization," which allows regions within a country to continue exporting livestock and/or meat to the U.S. even if the exporting country has an ongoing disease problem. The

[42] 60 Fed. Reg. at 38,688.

USDA stated, "We consider this policy [the relaxed regionalization policy] to be consistent with and to meet the requirements of international trade agreements entered into by the United States."[43]

### C. The U.S. Ceased Conducting Monthly Safety Inspections of Foreign Meatpacking Plants.

In 1999, the USDA further relaxed U.S. import restrictions by ceasing its longstanding practice of conducting monthly inspections at foreign meatpacking plants and, instead, began conducting only periodic inspections. USDA justified this action by explaining that under the United States' World Trade Organization (WTO) obligations:

> FSIS, acting as a regulatory agency of the United States, may not impose import requirements on inspection systems or establishments in an exporting country that are more stringent than those applied domestically.[44]

### D. The U.S. Ceased Its Longstanding Policy of Prohibiting Disease-Susceptible Imports from Countries that Are Experiencing Outbreaks of Diseases That Are Transmissible to Humans.

In 2005 the U.S. lifted its longstanding ban on imports from countries experiencing outbreaks of BSE or mad cow disease, which is a disease that can be contracted by humans and is always fatal. The USDA justified its actions of allowing higher-risk Canadian cattle and beef into the U.S., even while Canada was continuing to experience unexplained outbreaks of BSE, on the basis that, "[T]he OIE Code has never recommended banning the trade of cattle or their products even from countries with high BSE risk."[45]

The foregoing four examples of how the Uruguay Round Agreements have caused the U.S. to systematically and materially relax U.S. health and safety standards with respect to

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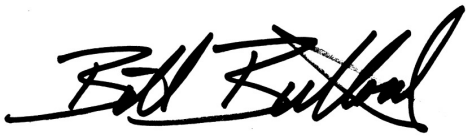
[43] 62 Fed. Reg. at 56,027.
[44] 69 Fed. Reg. at 51,195.
[45] APHIS Fact Sheet, Response to R-CALF, USDA-APHIS, Feb. 2, 2005.

imported meat and livestock have greatly facilitated more imports from countries that were unable to meet the higher and more effective health and safety standards of the United States.

## VII. Conclusion

As discussed above, the economic impacts of the Uruguay Round Agreements and the 20 countries with which the U.S. has implemented free trade agreements have been significant and are negative for both the U.S. cattle industry and the U.S. sheep industry.

Sincerely,



Bill Bullard
CEO