An R-CALF USA Publication

Cattlemen's Newsletter

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R-CALF USA Statement on WTO COOL Ruling

R-CALF USA CEO Bill Bullard issued the following statement following today's release of the World Trade Organization's (WTO's) arbitration decision that claims the United States mandatory Country-of-Origin Labeling (COOL) law caused Canada and Mexico to suffer annual losses of $780 million and $228 million, respectively:

"The WTO decision is utterly absurd. The entire value of Canada's live cattle imports in 2014 was $1.753 billion and this represented an historical high. It is absolutely impossible that Canada could be suffering an annual loss representing 45 percent of Canada's record high imports.

"Mexico's live cattle imports in 2014 were valued at $739 million and it is equally impossible that COOL has caused Mexico to lose 31 percent of the value of its record level of exports.

"Another way to look at the absurdity of this ruling is that Canada exported 1.2 million head of cattle to the United States in 2014. If it would have imported 45 percent more without our COOL law, then Canada would have exported an additional 559,000 head in 2014. This would have seriously depressed domestic cattle prices in 2014.

"Congress should take no action to repeal COOL or weaken it by converting it to a voluntary program. Instead, Congress should direct our U.S. Trade Ambassador to negotiate a diplomatic solution to Canada's and Mexico's complaints by deploying the United States' substantial negotiating skills. After all, this is precisely how the United States resolved country-to-country disputes before the U.S. began ceding its sovereignty to the unelected and un-appointed tribunal at the WTO.

"Congress should also direct the U.S. Agriculture Secretary to immediately begin promulgating new COOL rules to close some of the loopholes identified in the WTO dispute that are effectively limiting the effectiveness of COOL.

"The U.S. cattle industry and U.S. consumers are in dire need of leadership from this Congress and this Administration to preserve our vitally important mandatory COOL law that informs consumers as to the origins of their meat and enables producers to compete against the growing tide of imported beef arriving at our borders.

"Under no circumstances should Congress or the Administration surrender our mandatory COOL law."

R-CALF USA Submits Comments Opposing Importing Beef from Namibia

This week R-CALF USA submitted comments to the U.S. Department of Agriculture (USDA) Food Safety and Inspection Service (FSIS) regarding the agency's proposed rule, Eligibility of Namibia to Export Meat Products to the United States.

The comments explain that it is inappropriate to allow beef exports from Namibia and they request the FSIS to withdraw its proposed rule from any further consideration. The group based its request on four major deficiencies identified in the comments.

First, the comments explain that the proposed rule is actually based on non-binding assurances by the Namibian government.

"R-CALF USA is deeply concerned that the FSIS is recommending approval of this Proposed Rule based largely on statements and assurances by the Namibian government that it: 1) "intends" to limit exports to the U.S. to only boneless (not ground) raw beef products, such as primal cuts, chuck, blade, and beef trimmings; 2) "intends" to certify only one Namibian slaughtering plant to export beef to the United States ; and, 3) does not "inten[d]" to export head and cheek meat to the United States.

"Those three significant intentions proffered by the Namibian government to obtain FSIS approval for its exports are not binding limitations on future exports. This fact was clearly acknowledged by FSIS when it stated that Namibia would not be precluded from exporting other meat products in the future under this Proposed Rule."

Second, the group argues the public is not provided sufficient information to formulate thoughtful comments. Referencing several non-compliance reports mentioned in the FSIS' audit report for a Namibian packing plant, the group states it cannot determine the risks associated with those non-compliance reports because the nature and scope of the reports are not disclosed.

Third, the group asserts the FSIS is ignoring the health and safety risks of exporting meat from the southern region of Africa.

Referencing a 2012 risk analysis conducted by the Namibian Meat Board, the comments state that Rift Valley fever, which is not known to exist in the United States, is endemic in Namibia. Rift Valley fever is a viral disease that can cause fatalities in cattle and humans, and which can be transmitted via meat products.

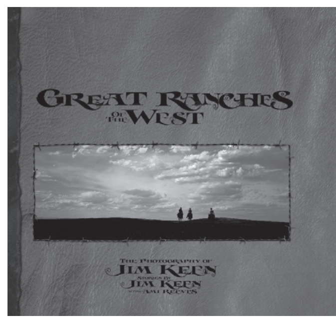
The comments argue that the FSIS does not explain how it will prevent diseases like Rift Valley fever or Namibia's other endemic foreign animal diseases, foot-and-mouth disease (FMD), from entering the United States. The comments point to evidence showing that a section of the veterinary fence that is supposed to restrict FMD outbreaks to Namibia's northern region has been taken down by authorities to provide elephants and buffaloes more access to range. Further, the comments raise concerns about Namibia's own import practices of importing both cattle and beef from countries not free of FMD.

Finally, the comments criticize FSIS' Economic Impact Analysis calling it woefully inadequate.

"Alarmingly, the agency made no attempt to determine the economic impact caused by the importation of an additional 1.9 million pounds of beef during the first year of the Proposed Rule's finalization or by the additional 12.5 million pounds expected to be imported by the fourth-year following finalization. "

Based on FSIS' estimate of the amount of Namibian beef that would be exported to the United States, R-CALF USA estimated the negative impact to the U.S. economy would be $14.9 million the first year and $96 million by the fourth year after the rule's implementation.

"It should be no surprise to FSIS that increasing the supply of beef imports, however small, will have a profound impact on U.S. cattle farmers and ranchers given the farm level elasticity of demand for fed cattle. Researchers have found that a 1 percent increase in fed cattle supplies is expected to reduce fed cattle prices by as much as 2.5 percent. Thus, increased imports of live cattle (and by extension beef) will significantly depress domestic cattle prices and harm U.S. cattle farmers and ranchers."



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R-CALF USA to President, Congress: Capitulating to the WTO on COOL will Severely Compromise the United States' Global Standing

In a letter sent today to President Barack Obama and Senate agriculture committee leaders, R-CALF USA provided a plan forward for the U.S. mandatory country-of-origin labeling (COOL) law. On Monday, December 7, 2015, the World Trade Organization (WTO) is expected to announce the amount of monetary damages the international tribunal will authorize Canada and Mexico to recover through retaliatory tariffs on U.S. exports.

The WTO is expected to authorize some level of retaliatory tariffs because it previously agreed that Canadian and Mexican livestock exports are harmed because the U.S. requires packers and retailers to inform U.S. consumers about the origin of meat produced from imported livestock.

The group disagrees with the notion that the forthcoming WTO announcement will signal the end of the U.S. mandatory COOL law for beef, pork and chicken.

"In no way has the United States exhausted its remedies for preserving mandatory COOL for meat, which a 2014 Consumer Reports survey shows is supported by 90 percent of U.S. consumers."

The letter recommends that the United States now pursue diplomacy to resolve the COOL dispute. It urged the President and Congress to:

1. Take no legislative action whatsoever to repeal mandatory COOL or weaken it by replacing it with an ineffectual voluntary program.
2. Direct the U.S. trade ambassador to initiate trilateral negotiations with Canada and Mexico with the goals of preserving the mandatory COOL law; satisfying other disputes that Canada and Mexico have with the United States; and ensuring that Canada and Mexico agree to not impose retaliatory tariffs on products produced by any export-sensitive U.S.-based industries.
3. Direct the agriculture secretary to immediately initiate a rulemaking process to address some or all of the substantive criticisms the WTO has leveled against the mandatory COOL law.

Referring directly to an editorial written by National Farmers Union President Roger Johnson in support of voluntary COOL, the group's letter cautions Congress and the President to not be misled by political pundits who claim that substituting mandatory COOL with a voluntary COOL program will fix COOL and solve the trade dispute once and for all.

"There is not a scintilla of evidence to support this absurd claim. Instead, there is overwhelming market evidence generated prior to the implementation of our mandatory COOL law that proves the opposite. That evidence irrefutably shows that when given the choice of whether or not to label meat as to its country of origin, U.S. meatpackers choose overwhelmingly to not label meat.

"If the Congress and the President were to capitulate to the WTO's effort to force repeal or weakening of our mandatory COOL law at this early juncture, without first exhausting the diplomatic remedies described above, the United States' global standing will be severely compromised. This is because surrender at this junction will constitute a lack of resolve to defend and protect the laws of the United States of America against foreign interference, particularly since the U.S. has pursued these post-decision remedies in other WTO cases, e.g., the long-running dolphin-safe tuna labeling case," the letter states.

"Domestic cattle prices are now collapsing in the wake of rising beef imports from around the world and more and more countries are seeking approval to export their meat to the United States. Consequently, U.S. cattle producers need mandatory COOL now more than ever so they can differentiate and showcase their domestic beef to domestic consumers.

"Please help us maintain a functional, competitive market for beef by preserving our mandatory COOL law," the letter concludes.

Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2016 Report

R-CALF USA appreciates this opportunity to demonstrate the economic impact that numerous trade agreements implemented under trade authorities procedures since 1984 have had on our U.S. cattle and sheep industries and rural communities they support.

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. Our members include cow/calf producers, cattle backgrounders and stockers, feedlot owners and now sheep producers.

The cattle and sheep produced by R-CALF USA members are the raw products sold into the supply chain for the industrial meat complex. After purchase, the industrial meat complex transforms them into edible products. These edible products are then distributed to meat processors, wholesalers, distributers and retailers.

There is a natural antagonism between cattle producers and meatpackers because of the frequent inverse relationship between the profitability of the live cattle industry and the profitability of the meat industry complex.

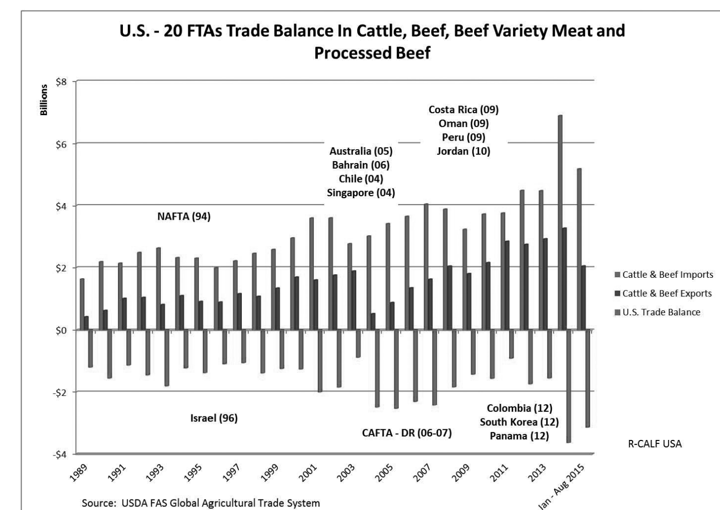
U.S. cattle and sheep producers want the industrial meat complex to source raw products from the domestic supply chain. This would maximize domestic producer profits. Multinational meatpackers, on the other hand, prefer to leverage raw products obtained from foreign supply chains against those of domestic supply chains to lower their input costs. As discussed below, free trade agreements (FTAs) have helped the industrial meat complex do just that; but, it did so at the expense of the economic wellbeing of U.S. farmers and ranchers.

Our review of FTAs should help to dispel three deep-rooted myths propagated by the meat industry complex over the past several decades. These myths have effectively prevented any meaningful analysis of the impacts of trade agreements on the U.S. live cattle and sheep industries. Those myths are:

- Trade deficits don't matter
- Imports don't matter because they complement U.S. production
- Exports are all that matter

Trade deficits matter. This is demonstrated by the expenditure approach to calculating gross domestic product, which is a measure of the size, i.e., the strength, of a country's economy. The expenditure formula is GDP = C + I + GS + X – M, where "X-M" is exports minus imports. This basic economic formula reveals that net exports strengthen economies while net imports weaken them. Our nation's economic strength has been seriously weakened by out-of-control and mounting trade deficits that have been measurably reducing our GDP for decades. In 2014, our nation's goods deficit was $737 billion and, consequently, our GDP was 3 percent less than it would have been if the U.S. had achieved balanced trade that year.

The cattle industry, the largest segment of American agriculture, is engaged in international trade and functions as a microcosm of the U.S. economy. The cattle industry's mounting trade deficit-cumulatively at $46.1 billion – like that of our nation's, is weakening our industry's economic standing. Evidence of this is the exodus of well over half a million U.S. cattle operations since 1980; the severe liquidation of our industry's production capacity (our mother cow herd), which started nearly 20 years ago has now resulted in the lowest inventory of cows in 73 years; and our industry's stagnant production output, which is at its lowest level in over two decades, since just before the 1994 implementation of the North American Free Trade Agreement (NAFTA).

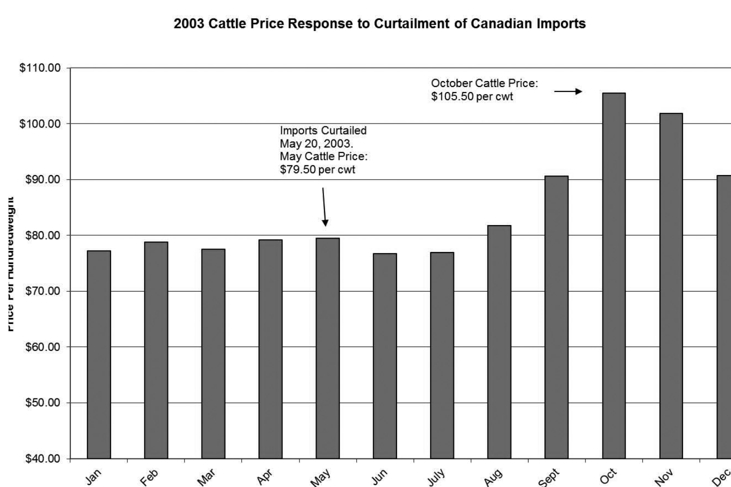


This unprecedented contraction of our U.S. cattle industry coincides with the maturation and proliferation of 20 FTAs and the Uruguay Round Agreements. These agreements have worsened the combined deficits measured with these 20 countries as evidenced, for example, by the fact that the cumulative deficit during the second half of the period under analysis (2002-2014), was 41 percent larger than the deficit accumulated during the first half (when there were fewer and only nascent trade agreements (1989-2001)).

The sizable and growing trade deficit with the 20 FTA countries would likely be much worse than it is but for the fact that 13 of those FTA countries are temporarily ineligible to export beef to the U.S. This is because they are not yet certified by the U.S. Department of Agriculture (USDA) Food Safety and Inspection Service (FSIS) to export meat to the United States.

Imports matter. In 2012 the USDA Economic Research Service conducted a study to determine the amount of U.S. beef and pork production attributable to imports of foreign-born cattle and hogs. The study found that imports of live cattle have steadily increased since NAFTA, except during the period when mad cow disease restrictions were imposed. It found that on average beef produced from foreign-born cattle during the period covered by the study accounted for 8.1 percent of monthly U.S. beef production. Further, it found that the proportion of domestic production attributed to foreign-born animals trended upward, and during the first decade in 2000, imports of beef and beef produced from imported cattle accounted for roughly 18 percent of total U.S. beef supplies.

This is significant because the cattle industry is ultra-sensitive to changes in cattle supplies, which would include increased supplies from increased imports. Researchers have determined that the farm level elasticity of demand for fed cattle is such that a 1 percent increase in fed cattle supplies is expected to reduce fed cattle prices by as much as 2.5 percent. Thus, increased imports of live cattle (and by extension beef) can significantly depress domestic cattle prices.



U.S. cattle producers witnessed first-hand how imports of live cattle were being used by multinational meatpackers to leverage-down domestic cattle prices. In May 2013 Canada detected mad cow disease in its herd and the U.S. temporarily closed its border to imports of Canadian cattle and beef. Within just five months U.S. fed cattle prices jumped an unprecedented $26 per hundredweight, suggesting that competitive forces were unleashed in the U.S. cattle market when U.S.-based multinational meatpackers could no longer access cheaper, raw products from Canada.

It should be self-evident that lower-priced imports also depress domestic prices. A recent news report indicates the value of Brazilian cattle is about half that of U.S. cattle. Clearly, if foreign supplies become available to U.S.-based multinational meatpackers at prices below domestic prices, U.S. farmers and ranchers will suffer falling prices. The sheep industry experienced such falling prices when Australian lamb carcasses recently entered the U.S. at prices that were $55 less than domestic prices.

The USDA recently modeled the effects that increased beef imports have on U.S. cattle producers when it proposed to allow fresh beef imports from disease-affected Brazil. Here, the county-of-origin of the imported beef is immaterial as increased imports from any of the FTA countries would likely impact the U.S. cattle industry in much the same way as Brazilian imports. The USDA model essentially concluded that a 29.3 million pound increase in beef imports would cause U.S. cattle producers to lose $143 million. Using this general formula, the economic losses to U.S. cattle producers resulting from increased FTA-country imports can be roughly determined.

Applying this general formula to the increase in only beef imports from the 20 FTA countries between 2013 and 2014 (this does not include the increased importation of live cattle), it is revealed that U.S. cattle producers suffered a loss of about $3.1 billion dollars in 2014 alone. Based on the reasonable assumption that imports in excess of exports represent increased imports above a neutral benchmark, i.e., balanced trade, then applying the USDA-derived general formula to the United States' cumulative trade deficit generated by the 20 FTA countries ($46.1 billion) reveals that U.S. cattle producers experienced a cumulative $225 billion loss that would not have been realized if the United States had achieved balance trade with its 20 FTA countries. While losses attributed to increased imports are direct, some or all of the losses attributed to trade deficits could be considered lost opportunity costs.

In 2003 the USDA predicted the economic impacts of resuming imports from Canada after that country detected mad cow disease in its native cattle herd. The USDA modeled the impacts of allowing the importation of 840,800 fed cattle, 504,500 feeder cattle, and beef ranging from 84,000 tons to 382,000 tons into the United States. John VanSickle, Ph.D., Food & Resource Economics Department, University of Florida, critiqued the USDA analysis and found it lacking in several respects. First, he found that USDA errored by assuming the losses to the fed cattle sector and the feeder cattle sector were independent impacts rather than additive. Second, he found the analysis did not include producer losses associated with price declines realized when producers continued marketing their domestic cattle after the additional imports entered the U.S. market. Further, he found the USDA's analysis ignores impacts on associated industries and on employment. Dr. VanSickle modeled the impact of the USDA's proposal 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." The analysis also found that "every million dollars in sales of cattle or beef is associated with 43.5 jobs generated in the economy."

Dr. VanSickle's more robust economic analysis concluded that allowing the importation of an additional 1,345,300 fed and feeder cattle into the U.S. would result in a total (negative) economic output impact on the U.S. economy of $2.423 billion and a loss of 27, 241 jobs. He concluded the negative impact on the economy from an addition 84,000 tons of beef imports would be $1.29 billion and a loss of 11,189 jobs. If 382,000 tons of additional beef was imported, the total negative impact on the economy would be $5.87 billion and a loss of 50,874 jobs.

In 2007 the USDA conducted another analysis to determine the economic impact of allowing the importation of cull cows from Canada. That analysis determined that U.S. cow/calf producers would experience a loss of over $66 million annually if the U.S. began allowing the importation of the same number of Canadian cows that were previously imported prior to the closure of the U.S. border.

R-CALF USA respectfully encourages the USITC to use the modeling methodology suggested by Dr. VanSickle when making its final estimates regarding the economic impacts that the 20 FTAs are having on our U.S. cattle and sheep industries.

Exports matter, but not near as much as the industrial meat complex wants policy makers to believe.

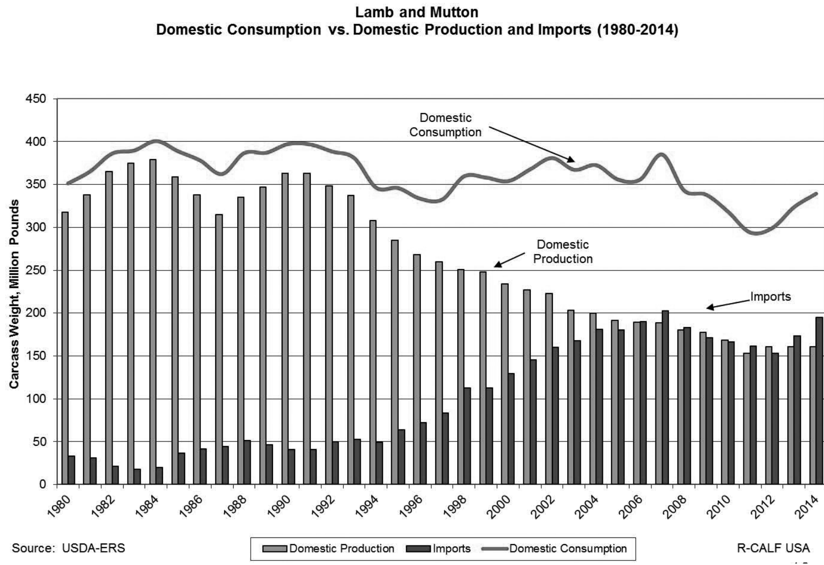
As shown previously in Slide 6, which depicts trade with all 20 FTA countries, U.S. beef and cattle exports have steadily increased since export markets began lifting their mad cow disease restrictions after 2003.

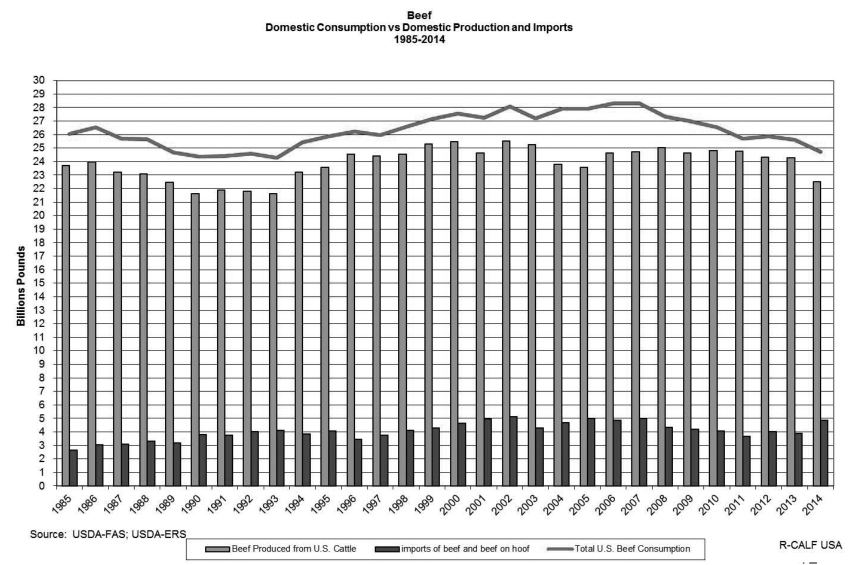
This is certainly not the case with respect to our trade with Australia, nor is it the case with our exports to Canada and Mexico, which have declined since 2012. Nevertheless, it is fortunate that our overall exports have been increasing because they at least mitigate some of the negative impacts of the significantly overwhelming imports.

While analysts for the industrial meat complex continually tout various ranges of per-head financial contributions that U.S. cattle producers purportedly receive from exports, R-CALF USA believes such claims are grossly overstated. As Slide 14 shows, U.S. export volumes were hitting new highs nearly every year from 1985-2003, after which they fell to a 19-year low and then took about six years before recovering to previous levels. While exports were climbing to new highs, however, domestic cattle prices remained seriously depressed for about 13 years. But, when exports fell to their 19-year low, cattle prices began climbing to historically high levels. This is not at all what would be expected in a marketplace that competitively allocated economic returns to supply-chain participants. This suggests, instead, that the impact on domestic cattle prices from exports is far less than the impacts of other factors, such as imports and industry concentration (note that Canadian imports were curtailed when exports took their plunge).

The sheep industry, which is the cattle industry's canary in the coal mine, provides definitive proof that increased imports can destroy the production capacity of U.S. livestock industries. Slide 15 shows how tremendously imbalanced trade has become in the U.S. sheep industry following the maturation and proliferation of FTAs.

Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2016 Report Continued





The graph top left shows the relationship between lamb and mutton production, consumption and imports during the 20-year period from 1980 to 1989. It is clear that during the latter years, imports began increasing and production began decreasing. It also shows the period from 1999 to 2014 – which reveals the U.S. sheep industry has become the first U.S. livestock industry to be offshored. United States consumers must now rely more on imported lamb and mutton because our beleaguered sheep industry can no longer produce as much lamb as what is entering this country under free trade agreements.

The graph on the right depicts the same relationships for the domestic cattle industry, from 1980 to 2014. Similarly, in the latter years imports begin to increase and production begins to decrease.

The negative impacts on the U.S. cattle and sheep industries from the Uruguay Round Agreements and the 20 FTAs result from a combination of three significant concessions and one significant failure the U.S. has made and continues to make in its trade agreements:

- The concession to increase access to our market by prematurely lowering tariffs.
- The concession to increase access to our market by lowering non-tariff barriers (i.e., health and safety standards).
- The concession to be subservient to an international dispute resolution process that jeopardizes our sovereignty and interferes with our competitiveness.
- The failure to incorporate any meaningful, automatic safeguards to prevent surges of live animal or meat imports from either causing or exacerbating below cost-of-production livestock prices in the domestic market.

The U.S. reduced tariffs too soon. The U.S. cattle and sheep industries are in a crisis today because the trade relationships established years ago to purposely 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 and sheep industries were suffering from a severely distorted global marketplace. Lowering tariffs did not create a free market.

The U.S. should not have lowered its food safety and animal health standards. Pursuant to the Uruguay Round Agreements, the U.S. began to systematically lower its food safety and animal health standards for no other purpose than to facilitate more imports from countries that either could not or would not make the investments we have made to control and eradicate diseases and ensure the highest possible level of food safety. Such a lowering of standards was done in the areas of food inspection systems, compliance audits, and in the areas of lifting long-standing and highly effective disease-prevention strategies.

The U.S. has errored by granting international tribunals the authoritative means to coerce the U.S. into changing its constitutionally-passed domestic laws. The ongoing country-of-origin labeling (COOL) dispute epitomizes the danger of granting the World Trade Organization (WTO) the right to authorize other countries to exact retaliatory tariffs on products completely unrelated to any complaint. It does this for the express purpose of forcing countries (in this case the United States) to change their domestic laws to suit the international tribunal's idea of good global governance. Even though the WTO's adverse ruling in the COOL case was made by a conflicted representative of one of the actual parties to the complaint, the Congress and the Administration appear helpless to defend our constitutionally-passed law. Sadly, the COOL law remains the only means by which U.S. cattle producers can distinguish their products from imported products, which is a quintessential element of competition.

None of the current FTAs contain any meaningful safeguards that recognize the supply sensitive natures of the U.S. cattle and sheep industries. Any purported safeguards that have been adopted are not automatic and are not linked to the prices of live cattle and live sheep, thus they are ineffectual at protecting the wellbeing of U.S. farmers and ranchers.

R-CALF USA members have learned five important lessons related to the purported benefits of the Uruguay Round Agreements and our nation's 20 free trade agreements:

- Whatever benefits that may arise from the FTAs are being captured by the industrial meat complex; they are not being allocated to upstream farmers and ranchers.
- Whatever the benefits that may be ascribed to FTAs, reciprocal trade in cattle, beef, lamb and mutton is not among them.
- Regardless of the gains in exports achieved by FTAs, increased imports continue to harm the U.S. cattle and sheep industries.
- Eliminating tariffs and tariff-rate quotas exacerbate boom and bust cycles of the cattle and sheep industries.
- The United States' export-led strategy ignores disparities in purchasing power in many FTA countries that severely limits U.S. export opportunities.

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

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The very finest Christmas gifts are not found beneath the tree; they are never tied with ribbons, nor are they something one can see... Yet among the lights so bright and presents wrapped and gay, they are the finest gifts of all for everyone's Christmas Day. It's the sense of love and peace that shines in people's hearts. It's the good will of the season in which each may have a part. - Virginia Katherine Oliver

May peace be your gift at Christmas and your treasure through all the year.

Merry Christmas and Happy New Year!

Cattlemen's Newsletter

United Stockgrowers of America Nov/Dec 2015

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"Under no circumstances should Congress or the Administration surrender our mandatory COOL law."

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