

Testimony of Mike Smith of Harris Ranch

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House Committee on Agriculture

Subcommittee on Livestock, Rural Development, and Credit

Rep. Rick Crawford – Chairman

Rep. Jim Costa – Ranking Member

Mr. Chairman, Ranking Member Costa, thank you for the opportunity to be here today to discuss the state of the beef industry.

I am here this morning representing the National Cattlemen's Beef Association, the North American Meat Association, and the company I work for ...Harris Ranch.

For those unfamiliar with Harris Ranch, the company is one of the largest, family-owned agribusinesses in the western United States. There are five primary business entities operated under the Harris Ranch banner. Our hospitality division, located midway between San Francisco and Los Angeles, operates a 150-room inn and a restaurant complex which serves an average of 1,500 meals each day. Our cattle feeding division operates one of the largest feedlots in the U.S., with a one-time capacity of 120,000 head of cattle. In total, we will feed roughly 250,000 head of cattle each year. These cattle are then slaughtered, fabricated and further processed in our state-of-the-art beef processing facility. In addition, we operate one of the largest Thoroughbred horse ranches in the western United States, and will breed roughly 300 brood mares at our facility each year. Finally, our farming operation encompasses over 17,000 acres growing over 35 different crops on the west-side of the fertile San Joaquin valley. In addition to the permanent crops of almonds, pistachios, grapes and citrus; in a normal year we will grow crops like tomatoes, onions, garlic, broccoli, lettuce, asparagus and melons. But the key word here is "normal", and we have not had a "normal" year in quite some time.

This is a very difficult time for the beef industry. The United States currently has the lowest cow herd in 60 years. There are a number of issues negatively impacting the cattle industry. I would like to highlight five that are having a direct and immediate impact: drought, federal regulations, taxes, trade and country-of-origin labeling.

Top of mind of course is water, or more precisely, the lack thereof. Most of the country west of the Mississippi finds itself in years four, five, or six of drought. In my home state of California, we are currently suffering the worst drought in recorded history. The drought is made worse by the actions taken by the Federal and state government to restrict the rightful allocation of water to farmers and cattle producers throughout California, but especially in the Central Valley. These actions threaten the viability of agriculture in California – a state that provides over half of the fruits and vegetables to the United States, as well as highly quality beef. We must have immediate relief from federal laws that are severely restricting our access to water such as the Endangered Species Act. Congress must reopen the ESA and provide relief – and a little common sense – to reign in a law that has caused untold hardship for many hardworking people

It's not just the ongoing drought that is hurting our industry. The onslaught of Federal rules and regulations continue to put pressure on the growth of America's cattle herd. In California, we are already subject to more rules and regulations than any other cattle producing state. These state rules are compounded by rules coming from agencies such as the Environmental Protection Agency (EPA). The EPA's recently published a proposed rule to redefine the Waters of the

United States under the Clean Water Act. We have been anticipating this rule for quite some time, and we have made it clear that we have serious concerns about expanding the jurisdiction of EPA and the U.S. Army Corps of Engineers. While the proposed rule does include some exemptions for agricultural practices, it does not cover every body of water that will be encountered on cattle farms and ranches across the country. Under this proposal, it is likely that some cattle producers will have to file for a permit to conduct activities on their private property. Effectively, this amounts to a huge land grab by EPA and directly threatens long established private property rights. To that end, it cannot be allowed to move forward. We need Congress to step in and either shut down this effort by EPA permanently, or restrict their funding to move such a proposal forward.

Transportation is another area where we could use some relief from obsolete or ridiculous rules. The U.S. Department of Transportation is currently enforcing their "30 minute" rule which requires drivers to stop for a mandatory 30 minute rest during each eight hour shift. Stopping for fuel or meals does not satisfy this requirement. While we support rules to ensure that drivers operate in a safe manner, we must also look out for the welfare of our cattle. Shipping cattle is a stressful time in their lives. One way to keep the animals comfortable is to have air constantly moving through the trailer while the truck and trailer are moving down the road. If the vehicle is required to stop, airflow stops. The safety and welfare of our cattle is our utmost priority and we must be allowed the option to continue to travel without this DOT restriction. This is especially true during the summer months. I urge the committee to engage with DOT to ensure that livestock haulers are exempt from this rule.

We also need to allow more weight to be shipped on these trailers. As I mentioned, shipping is stressful on cattle, and as a result, they lose weight or "shrink" in value. We know that with an additional axle, we can load these trailers to over 80,000 pounds and have less wear and tear on roads and bridges than we do now with only two axles. As Congress looks at the transportation reauthorization, we need to look at how we maximize our cattle shipping capabilities.

Taxes are another issue which has a huge impact on the viability of cattle operations in the United States. It is extremely important that Congress take urgent action to make permanent the tax extenders package made up of the tax provisions which expired at the end of 2013. In particular, we would like to see the Section 179 expensing be made permanent at a level of \$500,000, like it was prior to expiration. Section 179 expensing has been very beneficial to producers who purchase new equipment by allowing them to depreciate the value quicker and at a larger amount. We can't talk about taxes without mentioning the Death Tax. Even though Congress made improvements to the Death Tax provisions at the end of 2012, we still need full repeal. If even one producer has to sell off a part of their operation to pay the Death Tax, it is one too many. In order to make sure that a future Congress does not revert back to the \$1 million exemption, it is imperative that we finally repeal the Death Tax once and for all.

For the cattle industry, trade is one of our top priorities. We have a mature and fully developed market here in the United States. As such, it is essential we look to the international markets to grow the U.S. cattle industry. That is where international trade becomes very important to us. When you look at countries like China, we see that they have an increasing middle class with more disposable income. When you have more income, you want to eat better. When you want to eat better, you want protein. Obviously, we want the protein of choice to be U.S. beef. The trade agreements we have now are worth roughly \$300 per head in the value of fed cattle. That is almost 20% of their overall value.

As we speak, our negotiators are working to conclude the Trans Pacific Partnership (TPP). Of particular interest to us is how this agreement will define beef trade between the United States and Japan. We, and many of you as Members of Congress, made it very clear to Japan that in order for us to support their entrance into TPP, they had to commit to eliminating tariffs on beef. As of now, they have been pushing back on that point and want to reduce, but not eliminate tariffs. In order for this to be a true free trade agreement, and one that is based on what we expect of 21st century trade pacts, they need to eliminate the tariff on U.S. beef. The current 38.5% tariff is unacceptable, and your support for TPP should be based on the elimination of this tariff.

While we believe in trade, we also want to make sure we are basing our trade deals on sound science. USDA's Animal and Plant Health Inspection Service (APHIS) has proposed a rule that would allow certain states and regions within Brazil to ship fresh and frozen beef into the United States. The issue here is Brazil still has a problem with foot-and-mouth disease (FMD). We know that the FMD virus can travel on fresh and frozen product, so that immediately puts our industry at risk. In preparing our comments to APHIS on this issue, we looked at the economic impact of a FMD outbreak in the United States. Economic models show that a case of FMD could cost our industry up to \$50 billion. That includes the loss of foreign markets much like we saw with the case of BSE in 2003. The World Organization for Animal Health (OIE) has guidelines that define how trade can be accomplished with countries that have disease issues. However, we don't believe that Brazil has the resources or commitment to implement and fulfill those protocols.

Even more concerning is that we don't believe that APHIS adequately prepared for this proposed rule. In preparing our comments, we requested the documents that APHIS used in formulating this rulemaking. Of the documents they gave us, 60% were in Portuguese with no translation. We wonder how these documents could have been effectively used by APHIS. We were then forced to FOIA the remaining documents we had requested, and we still have not received those documents even though the comment period closed last Tuesday. Of particular interest is the result of a site visit conducted in 2013. We believe any site visit would have huge implications on how Brazil intended to implement the safeguards and protocols. To date, we have not received this document or even an acknowledgement from APHIS that it exists. These games do

not give us faith that APHIS has done their due diligence. We are asking that you engage with APHIS on this rule and help us shut it down.

Trade leads me to my final point. We are still very upset and discouraged that Congress did not fix mandatory country-of-origin labeling (COOL) in the Farm Bill. COOL has been a particular burden for our business.

COOL has plagued our industry for almost two decades. Proponents of COOL have long said that mandatory labeling would cause the U.S. consumer to pay more for U.S. beef. Five years of implementation has proved just the opposite. Kansas State University conducted a study on COOL which showed that the vast majority of consumers don't even look at the COOL label when buying beef. In fact, most didn't even know there was a COOL label. While the COOL proponents say they have surveys that show Americans want to know where their beef comes from, the K-State study actually measured how Americans vote. Americans vote with their pocketbook by purchasing beef, and the vast majority don't consider COOL in their purchasing decision. Why then would we continue a law that has incurred costs on the U.S. cattle industry when the consumer is not demanding it? That question is especially relevant when you look at the World Trade Organization (WTO) case filed by Canada and Mexico against the COOL program. If they continue to win their case, which we believe they will, they will be allowed to retaliate against our industry. Canada and Mexico have consistently been two of our top five markets for the export of U.S. beef. In 2013, Canada imported over a billion dollars in U.S. beef and Mexico imported just under a billion dollars. That is big money for our industry. If we lose access to those markets, or they are restricted by the enactment of tariffs, that will have a negative impact on all U.S. producers. We remain perplexed why our government wants to hurt our industry for a simple marketing program that has proven to be ineffective? COOL is all about marketing and has absolutely nothing to do with food safety. Those who use that argument know nothing about the food safety protocols in this country.

It is also not a "consumer right to know" issue. If it were, then COOL would apply to all beef sold and not just the beef sold at the retail level. This claim is a red herring used by COOL proponents in a desperate attempt to hold on to their position. Clearly COOL is a farce and its proponents obviously have no idea how modern beef production in the United States actually works. We have to fix COOL now, and I would urge members of this committee to take up this challenge.

Mr. Chairman, thank you for the opportunity to be here today.