BEFORE
THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE

***In re:* Hearing on "Renegotiating NAFTA: Opportunities for Agriculture."**
(July 26, 2017)

Testimony of Kevin J. Brosch on behalf of National Chicken Council, National Turkey Federeation and USA Poultry & Egg Export Council

Mr. Chairman and Members of the Committee:

Thank you for your invitation to appear here today and provide testimony on behalf of USA Poultry & Egg Export Council (USAPEEC), the National Turkey Federation (NTF), and National Chicken Council (NCC), in anticipation of the proposed renegotiations of the North American Free Trade Agreement (NAFTA). My name is Kevin J. Brosch. I have been practicing international trade law, with almost exclusive emphasis on trade in agricultural products, for the past 35 years here in Washington. I have done so both in private practice and in government service. I began my practice in 1981 at the Washington D.C. law firm of Steptoe & Johnson. From 1989 to 1997, I served as Deputy Assistant General Counsel for International Trade at the U.S. Department of Agriculture (USDA), and was USDA's legal advisor during the GATT Uruguay Round negotiations that concluded in the formation of the World Trade Organization. I also supervised USDA's legal work for, and participated in, the NAFTA negotiations in the early 1990's. In 1997-98, I served as special trade counsel to the Senate Committee on Agriculture, Nutrition and Forestry and its Chairman, Senator Dick Lugar of Indiana. For 12 years, I was a partner in DTB Associates, a specialty law and consulting firm concentrating on agricultural trade. I currently am the principal in my own law and consulting business, BroschTrade, LLC and advise a number of agricultural and horticultural clients on matters of international trade and agricultural law.

NCC is the national association based in Washington D.C. that represents the broiler chicken production industry of the United States. NCC member companies include chicken producer/processors, poultry distributors, and allied industry firms that account for approximately 95 percent of the chickens produced in the United States.

NTF, also headquartered in Washington, D.C. represents nearly 100 percent of all turkey processors, growers, breeders, hatchery owners and allied companies. It is the only national trade association representing the turkey industry exclusively

USAPEEC is the national association based in Stone Mountain, Georgia that represents the export interests of the U.S. chicken, turkey, eggs and duck industries. USAPEEC has more than 200 members companies – poultry producers, processors, export trading companies, cold storage operators, freight forwarders and other associated businesses – who account for approximately 95% of our country's very significant poultry and egg export trade. The United States exports poultry products to more than 100 foreign countries.

When the term "poultry" is used in these comments, it refers to all of these products.

The U.S. poultry industry has perennially been among America's most important and successful production and export sectors. In 2015, the U.S. industry produced almost nine billion broiler chickens, weighing 53 billion pounds, live-weight; and more than 40 billion pounds of chicken product were marketed. In addition, U.S. poultry production includes nearly 5.76 billion pounds of turkey, approximately 100 billion eggs, and nearly 220 Million pounds of duck. <u>The poultry industry employs more than 300,000 U.S. workers directly, and more than 1.4 million jobs in the U.S. economy are related to poultry.</u>

Poultry is vital to our farm economy. Annually, U.S. poultry consumes more than 49 million MT of the U.S. corn crop, and more than 26 million MT of U.S. soybean production. In 2014, U.S. broiler chicken production, wholesale value, was an estimated $90 billion; table eggs, $10.4 billion; turkey $6.7 billion; and duck, $158 million. The United States has one of the most efficient poultry industries in the world. The U.S. is the largest producer of poultry meat with about 20% of the world's production (China is second with approximately 17%).

The United States is also one of the two leading poultry exporting nations. The United States and Brazil each account for about one-third of the world's broiler exports. Poultry exports are among the most important of all U.S. agricultural exports. In the most recent year for which full data is available, the U.S. exported approximately 3.7 million metric tons of chicken products, with a value of nearly $4.6 billion, to more than 100 counties; and exports of turkey valued at almost $500 million. While the situation in different markets varies from year to year, over the past decade two of our five most important poultry export markets have been Mexico and Canada.

In a recent letter to the current Administration, the North American Agriculture and Trade Coalition referred to the North American Free Trade Agreement ("NAFTA") as a "bonanza for American Agriculture." NCC, NTF and USAPEEC agree with that assessment. NAFTA has been particularly important for U.S. poultry exports. NAFTA, of course, began as an initiative during the Administration of President Ronald Reagan when talks with Canada were first launched in 1984. The U.S.-Canada Free Trade Agreement was signed at the end of President Reagan's second term in 1988. Talks with Mexico to expand that agreement to the entire North American continent began during the term of his successor, President George H.W. Bush, and were successfully concluded by the end of his term in 1992. The policy of pursuing free trade began under President Reagan has been continually pursued during the ensuing four Administrations.

Initially, we must emphasize that with respect to poultry trade, there is no trade deficit. The United States is the most efficient producer of poultry products in the world. Our comparative advantage in producing and marketing these products derives from both our access to America's abundant production of high quality feed grain and soybean products which are used to feed our chicken and turkey flocks; and from America's technological leadership in poultry genetics and breeding, feed compounding, and animal health practices. Because of our significant comparative advantage in this product, the United States exports poultry to more than 100 countries, and imports very little poultry products.

Secondly, free trade agreements have been the mechanisms that have helped to sustain U.S. world leadership in poultry exports. Of the 120 countries to which we export our products, 20 are nations who are free trade partners with the United States. Those 20 countries now represent more than half of all the sales value of U.S. exports of poultry products. As recently as 2007, we had export sales to these 20 countries of approximately $1 billion – about 28% of our total exports sales, which was then nearly $3.6 billion. By 2016, sales to the 20 free trade partner countries has increased to nearly $2 billion, even though our total exports sales had increased more modestly.

When NAFTA first came into force, the United States had only limited exports to Mexico despite that country's immediate proximity on our southern border. Although there were initial concerns on the part of the Mexican industry regarding free trade with the U.S., we were able to bridge that gap by beginning to open trade through an initial 78,000 MT tariff-rate quota for chicken products; and to gain duty-free access to the Mexican market for turkey. Exports to Mexico have grown ever since, and it is today by far our largest market for U.S. poultry products. [See Figures 1 and 2.] For the most recent year for which data is available, U.S. chicken exports to Mexico were 637,888 MT at a value of $515 million; egg exports $27 million; and turkey exports were 152,404 MT at a value of $348 million. Also, Mexico is currently the largest export market for U.S. fowl meat, with exports in the most recent year of 50,101 MT at a value of $57 million.

So, as one can see, Mexico is the U.S. poultry industry's most important market with an export value of approximately $1 billion annually. Our success in the Mexican market is a key component of the profitability of our industry, and means many thousands of U.S. jobs. The majority of turkey exports go into Mexico for further processing, creating jobs on both sides of the border.

The United States has never obtained totally free access to the Canadian market for poultry. Initially when the United States and Canada negotiated the U.S Canada-Free

Trade Agreement in the mid-1980's, Canada reserved its rights, as it had under the General Agreement on Tariffs and Trade (GATT), to limit imports of certain types of poultry products, including chicken leg quarters, to protect its domestic supply control program for those products. When NAFTA came into force, the U.S. industry believed that those limits would eventually be eliminated, but discovered subsequently that Canada would continue to impose its supply-control limitations. The U.S. industry has been disappointed that, while virtually all other product sectors enjoy totally free trade under NAFTA, poultry remains the exception. Nonetheless, NAFTA has also been valuable for the U.S. industry and has helped to grow exports to Canada. While certain poultry product lines, including turkey, broilers, eggs and egg products are restricted to set import quotas (Canada currently limits certain tariff lines of our exports to 7.5% of their domestic market plus whatever can be done via their re-export program), other types of poultry products – *e.g.*, fowl meat and breeding stock -- can access the Canadian market duty free. Canada is currently the U.S.'s second largest market for poultry exports. In the most recent year, U.S. chicken exports to Canada were 162,777 MT at a value of $436 million; egg exports were $46 million; and turkey exports were 5,439 MT at a value of $22 million. Canada is currently the second largest export market for U.S. fowl meat with exports in the most recent year of were 12,954 MT at a value of $42 million.

The benefits of NAFTA to the U.S. poultry industry stand in stark contrast to our experiences in other countries where comparable agreements were never achieved. U.S. exports to those other markets have often been much less successful in the longer run. For example, in the 1990's and early 2000's Russia was by far the U.S.'s largest export market for U.S. poultry. However, over the past decade, the Russian market has virtually disappeared. At the highest point in 2001, the U.S. exported 1,119,182 MT to Russia, which represented 36% of total exports. In recent years, however, the market has disappeared as the current Russian Administration began to subsidize its domestic industry, providing government money for a limited number of insiders who could profit, and by cutting off imports that might present any competition. By 2014, U.S. exports of chicken to Russia were about $1/10^{th}$ of what they had been in 2001. Since 2015, U.S. exports have dropped to zero.

While our Russian export market was beginning to decline in the 2000's, our market in China was increasing. Our poultry exports to China had been just 2,575 MT in 1990; by 2008 we were shipping China 797,161 MT, at a value of $679 million. Then, in response to U.S. safeguard duties on certain tires made in China to afford protection for the U.S. tire industry, China imposed high antidumping duties on U.S. poultry exports, and the U.S. industry immediately lost its most important market, which at that time was approaching $700 million annually.

The U.S. has also been unsuccessful in gaining access to other large and potentially valuable markets where there are no free trade arrangements. For example, we have no real access to either the Indonesian or Indian markets. Indonesia currently has a population of 260 million, and has the world's fourth largest middle class with 17.3 million households as of 2014. Middle class purchasing power in Indonesia is rising strongly and is projected to reach US$11,300 per household by the end of the decade, up from US$6,300 per household in 2014. India currently has a population of 1.2 billion, and is on track to pass China and become the globe's most populous country. India currently has nearly 80 million middle class households and both middle class numbers and purchasing power are on the increase. These are markets with overwhelming potential for a quality, low –cost sources of protein like U.S. chicken, eggs and turkey. But there are no free trade agreements, and virtually no access.

The success of U.S. exports of poultry in the markets to which we have fair access has been based on the fundamental principle of comparative advantage. But it has become clear that U.S. poultry cannot succeed even with its significant comparative economic advantages in many markets because we do not have the free trade agreements. NAFTA has allowed us to be highly successful in Mexico; and has provided predictable, even if more limited, market access to the Canadian market. Free trade agreements, while not always perfect, are highly preferable because they result more often in cooperative and predictable trade relations

Modernization of the NAFTA

As mentioned above, after the United States and Canada entered the NAFTA partnership in 1994, it became apparent that one area of misunderstanding was the degree to which trade in dairy and poultry products would be liberalized. While the United States government, and the U.S. dairy and poultry industries, believed that there would be free trade under NAFTA in virtually all products, Canada considered that NAFTA allowed Canada to restrict imports in these products to accommodate its domestic supply control regimes. As a result, the U.S. poultry industry has enjoyed much more limited access to the Canadian market over the past two decades than most all other sectors. Nonetheless, also as outlined above, U.S. exports to Canada have been significant in some poultry products, and the U.S. poultry industry sees the NAFTA modernization effort as a potential avenue for further improvement.

In our view, the recent preliminary negotiations between the United States and Canada in the context of the proposed Trans-Pacific Partnership (TPP) agreement has provided indications where those improvements could occur. Despite the decision of the current Administration to withdraw from the TPP negotiations, the poultry industry considers the progress on poultry trade that had been envisioned in those preliminary TPP negotiations as potentially important components in modernizing the NAFTA in several ways.

First, Canada and the United States had reached preliminary agreement on increasing the quotas for U.S. chicken into Canada. This would represent modest improvements in trade liberalization, but would not represent threats to current domestic policies or create market disruptions. The U.S. poultry industry sees these increases as helpful and politically possible on both sides of the border. The U.S. industry also believes that there should be similar increases in the market access for U.S. turkey and turkey products. Access to the Canadian market for U.S. turkey products is currently very small and increased market liberalization is warranted.

Second, significant progress was made in the course of TPP negotiations to improve and update the Sanitary and Phytosanitary (SPS) rules applicable to free trade agreements. This important work should not be lost. The poultry industry joins its fellow agricultural industries in urging the United States, Canada and Mexico to consider adopting improved SPS provision as a replacement to the SPS chapter currently in the NAFTA text.

Respectfully submitted,

Kevin J. Brosch
On behalf of
USA Poultry & Egg
Export Council
National Chicken Council,
And National Turkey Federation

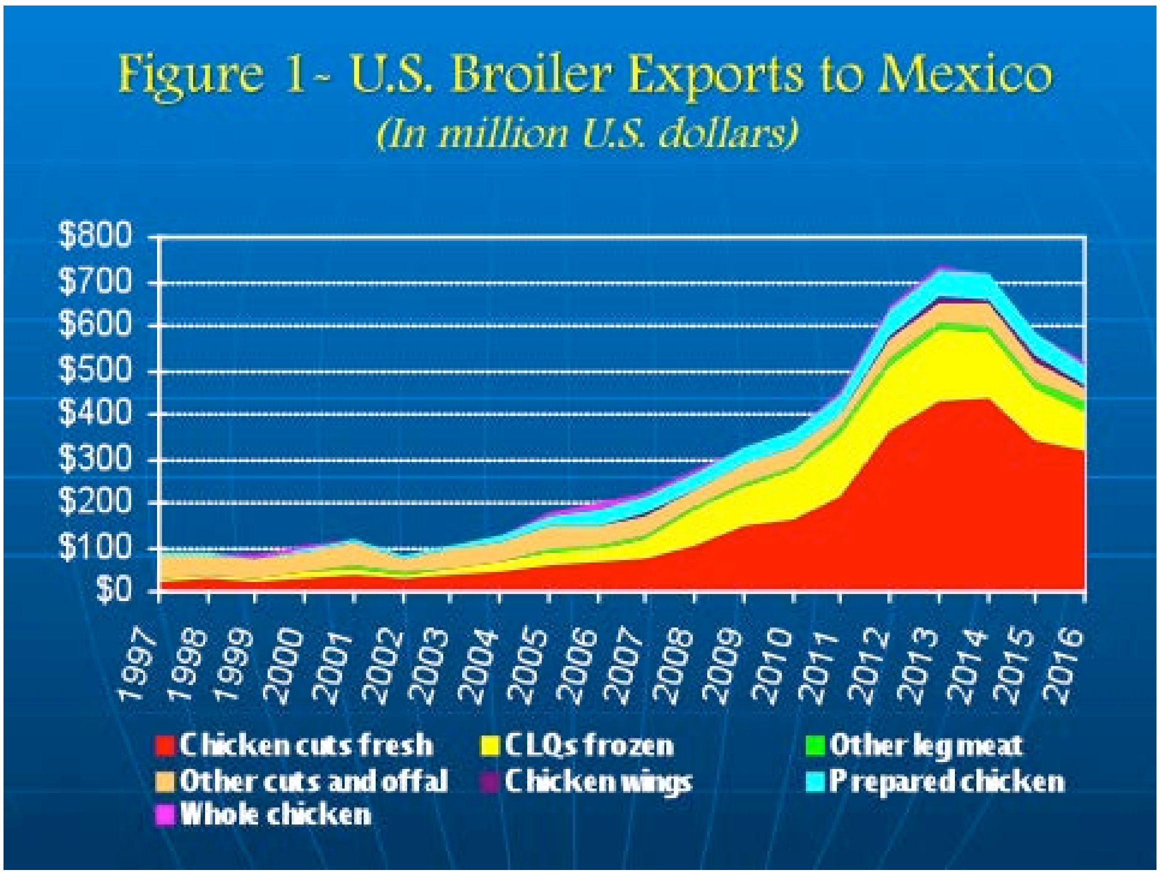

Figure 1- U.S. Broiler Exports to Mexico
(In million U.S. dollars)
$800
$700
$600
$500
$400
$300
$200
$100
$0
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Chicken cuts fresh
CLQs frozen
Other leg meat
Other cuts and offal
Chicken wings
Prepared chicken
Whole chicken

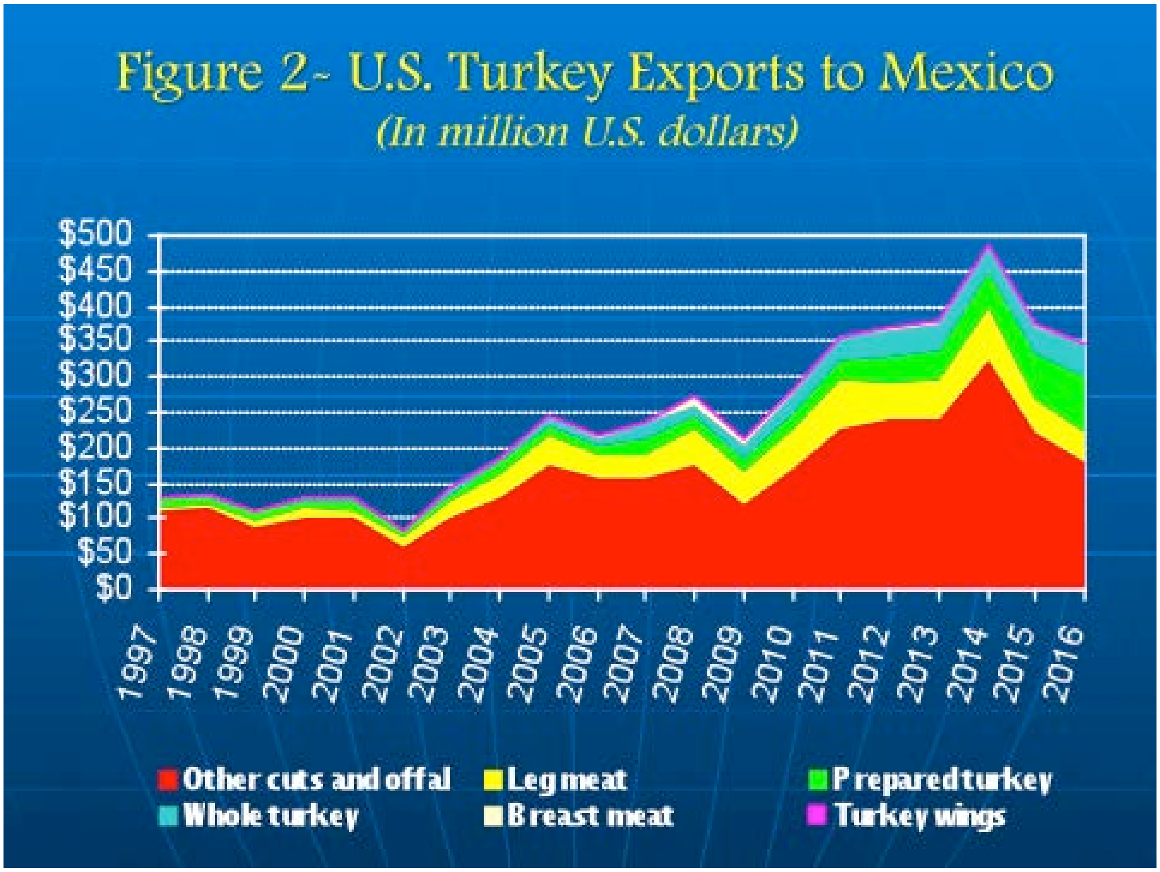
Figure 2- U.S. Turkey Exports to Mexico
(In million U.S. dollars)
$500
$450
$400
$350
$300
$250
$200
$150
$100
$50
$0
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Other cuts and offal
Leg meat
Prepared turkey
Whole turkey
Breast meat
Turkey wings