

Testimony of Philip Seng

U.S. House Committee on Agriculture Subcommittee on Livestock and Foreign Agriculture

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Good afternoon. My name is Philip Seng, president and CEO at the U.S. Meat Export Federation (USMEF). I am here today to speak on behalf of the interests of the U.S. red meat industry and to explain how we utilize funding from the USDA Market Access Program and the Foreign Market Development Program to develop new markets, displace our formidable, worldwide competition, and defend American meat products' market share from aggressive competitors.

For our industry, the Market Access Program and its predecessors, the Targeted Export Assistance Program and the Market Promotion Program, have been extremely strategic and successful export tools over the last 30 years. During this time, the U.S. has entered a number of free trade agreements and made great advancements in market access. But while market access played a part in our export growth, market access alone does not guarantee exports. How many times have we been elated about newly opened markets, only to be confronted by consumers who are skeptical or simply unaware of our products' safety and quality? We must dignify trade access with sound marketing programs, and Market Access Program funds have allowed us to address these challenges. Together, access and marketing are a proven recipe for success.

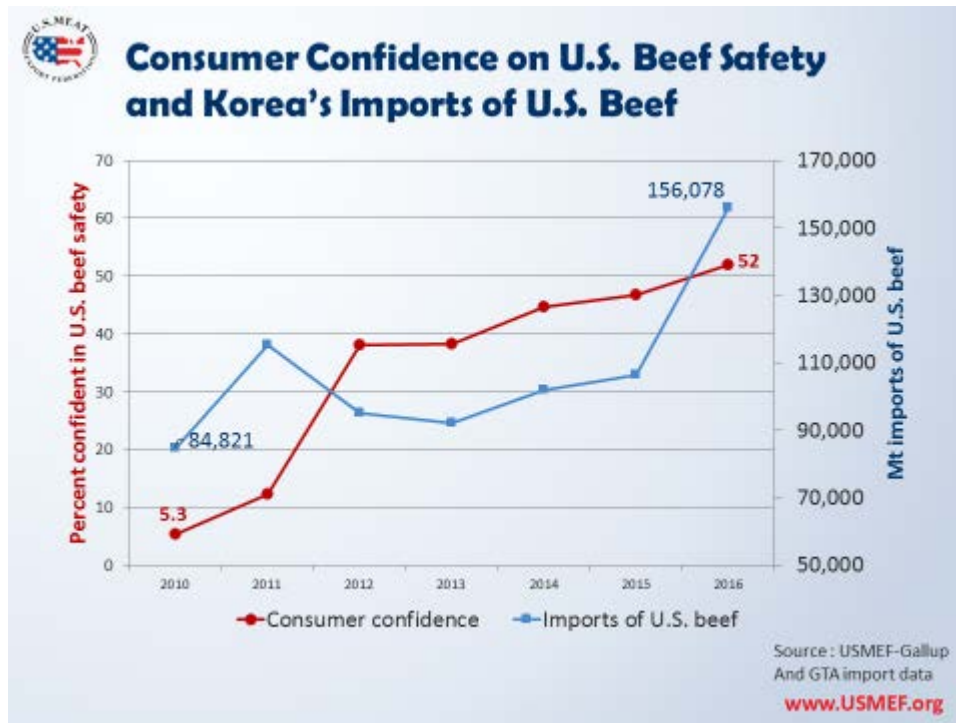
In market after market, starting in Japan in the late 1980s, we have deployed Market Access Program funds to demonstrate the profitability of featuring U.S. beef, pork and lamb on supermarket shelves and restaurant menus, while simultaneously building consumer demand and sales. But we are not alone in these efforts, and the international marketplace is increasingly crowded with competitors. Ironically, many are mimicking our strategies and tactics initiated under the Market Access Program. But the growing trade challenges are raising important new questions about how we maintain our export

momentum and continue to derive the benefits from growing exports that have accrued to farmers, ranchers and the allied industries associated with producing and exporting red meat.

To provide the committee with tangible examples of market development work the U.S. Meat Export Federation has carried out using Market Access Program funds, I would like to quickly review some success stories before discussing my vision for the future. When Market Access Program funding first became available in 1987, the export side of our industry was in start-up mode. Exports were largely an afterthought, and there was little understanding in the industry of the meat consumption habits of any foreign market or of the growth potential of these markets. The U.S. was a net importer of both beef and pork, with pork imports nearly double our export volumes. But just eight years later, the U.S. had successfully transitioned to a net exporter of both pork and beef.

As the U.S. red meat industry's first American representative stationed overseas, I was tasked with initiating commercial links between beef and pork producers and processors in the U.S. and potential Japanese buyers. Utilizing Market Access Program funds, the U.S. industry began to build sales channels. First, these were with importers, distributors, processors and foodservice representatives, then we began working with supermarket chains, such as Aeon, and restaurants, such as Ito Yokado. The tactics, which included meat-cutting seminars, offering meat samples to consumers and conducting cooking classes, were straightforward - not rocket science - but they were collectively successful in generating visibility and sales of American beef and pork. Like the launch of any new brand, resource needs were substantial, and individual companies – especially the smaller ones that were a major part of the early marketing efforts – were justifiably reticent to invest in what was then a risky undertaking. From 1995 through 2000, approximately \$32.5 million in Market Promotion Program and Market Access Program funding was utilized to build demand for U.S. beef and pork in Japan. During this period, U.S. beef and pork exports increased by approximately \$1 billion, a 30-to-1 return.

Another success story is the rebuilding of consumer confidence in U.S. beef in South Korea, which last year became a \$1 billion market for U.S. beef exports for the very first time. At the beginning of this decade, only 5 percent of Korean consumers were confident in the safety of U.S. beef. Although a free trade agreement between the U.S. and Korea was about to be finalized, how could we possibly capitalize without addressing this situation? Market Access Program funding played a critical role in restoring faith in the safety of our product, and exports grew accordingly – as evidenced by this graphic:



The basic market development template that was developed and utilized in Japan has been successfully utilized in other markets, including Korea (as noted above), Mexico, Taiwan, Hong Kong, the European Union and the Middle East. In addition to supporting our marketing work, Market Access Program and Foreign Market Development Program funding has also allowed us to maintain a network of foreign offices staffed by technical and marketing experts who serve as boots-on-the-ground representatives of the U.S. red meat industry. On a daily basis, they assess the opportunities and threats in the marketplace, while building relationships that are vital to our ability to provide accurate and timely

intelligence on developments in the markets. The U.S. Meat Export Federation's presence in the markets also has proven to be an extremely effective means of demonstrating the U.S. red meat industry's long-term commitment as a reliable supplier of beef, pork and lamb.

It is important to also highlight the role the Market Access Program has played in jump-starting the interest and resource participation by our industry in the effort to expand exports. As success stories started to impact the bottom line of our industry – from ranchers to exporters and all the allied industries in between - stakeholders began to invest. We estimate that for every dollar the Market Access Program invested with the U.S. Meat Export Federation, we are now able to generate at least 3 to 4 dollars more from U.S. industry contributions and from in-market partners and customers.

While the benefits of the Market Access Program and the Foreign Market Development Program are viewed in our industry as being well established, the path forward is opaque and some argue, ominous. Challenges have never been so plentiful, ranging from growing protectionism and anti-trade sentiment, to animal disease threats and the rise of new export competitors. On the latter, the U.S. industry, which spent the past few decades developing and displacing our competition, now has to devote more resources to defending our market position. A tremendous amount of effort has been expended by the U.S. government and Market Access Program participants to build international confidence in our ability to be a reliable exporter of U.S. agriculture products, but fresh doubts are arising about our commitment to free and unencumbered trade.

This comes at an inauspicious time, because in many ways, opportunities have never been greater. From a supply perspective, exports have room to grow. For U.S. beef and pork, we export just 15 percent and 26 percent, respectively, of our annual production. On the demand side, new import markets are emerging that hold great potential. A generation ago, China was a major meat exporter, but now it has become the world's largest importer of both beef and pork. However, developing a loyal

customer and consumer base for U.S. red meat in China will still be extremely complex and command substantial resources. Starting at the border, import conditions are strict; for example, U.S. beef is still banned from importation. Distribution infrastructure is still developing, and the sheer size of the potential consumer base is daunting. With major regional differences in eating habits and cuisines, marketing approaches need to be tailored to each particular geographical area. Most importantly, our major competitors in Europe, South America and Oceania are all spending heavily to build their own presence in the market. In some cases, they are being aided by favorable import conditions and low duty rates gained through free trade agreements. If one considers China a frontier marketplace, the U.S. is one of many homesteaders.

Other emerging markets beckon, such as Indonesia, where huge opportunities exist for increased beef consumption. Potential also exists in markets that were traditionally viewed only as competitors. There is unfilled demand in Brazil that can be met by U.S. beef exports now that that market is open, and our comparative advantage in pork production allows us to export to countries like Australia, Guatemala and – possibly in the future – to African markets. And despite claims that markets like Japan are developed, they continue to evolve and hold great growth potential. For example, U.S. pork captures only a 20 percent share of Japan’s total consumption, and purchases by Japanese consumers of U.S. fresh chilled product reached record levels last year.

Holding our own in traditional markets while also exploring new ones requires an increase of resources. But perhaps even more importantly, the Market Access Program and the Foreign Market Development Program funding signal the commitment of the U.S. red meat industry – and U.S. agriculture overall – to being a consistent and reliable global supplier of high-quality, safe and affordable foodstuffs. This committee understands that U.S. agriculture and the U.S. red meat export industry have worked diligently to demonstrate to countries that are not 100 percent self-sufficient in food production that they can still be 100 percent “food secure” with dependable import sources, especially the United

States. We take very seriously our responsibility, not only to the hundreds of thousands of farmers and ranchers who are now producing ever-larger quantities of products for foreign customers, but also to those foreign customers themselves, who benefit and rely on our ability to supply them.

Thank you for the opportunity to provide a red meat industry perspective on exports and to discuss the critical importance of the Market Access Program and the Foreign Market Development Program to our success in international markets.