Statement of Mr. Kendal Frazier, Chief Executive Officer, National Cattlemen's Beef Association
Submission for the record to the
United States House Committee on Agriculture
"Renegotiating NAFTA: Opportunities for Agriculture"
July 26, 2017

On behalf of the National Cattlemen's Beef Association (NCBA), I submit to you the following comments regarding the North American Free Trade Agreement.

Comments of the National Cattlemen's Beef Association regarding Negotiating Objectives Regarding Modernization of the North American Free Trade Agreement With Canada and Mexico

The National Cattlemen's Beef Association (NCBA) has represented America's cattlemen and women since 1898, preserving the heritage and strength of the industry through education and public policy. As the largest and oldest national association of cattle producers, NCBA represents a very diverse beef industry that strives to meet demand in emerging markets and increase demand for beef. NCBA appreciates the opportunity to provide comments for the Office of the United States Trade Representative (USTR) regarding USTR–2017–0006, "Negotiating Objectives Regarding Modernization of the North American Free Trade Agreement With Canada and Mexico".

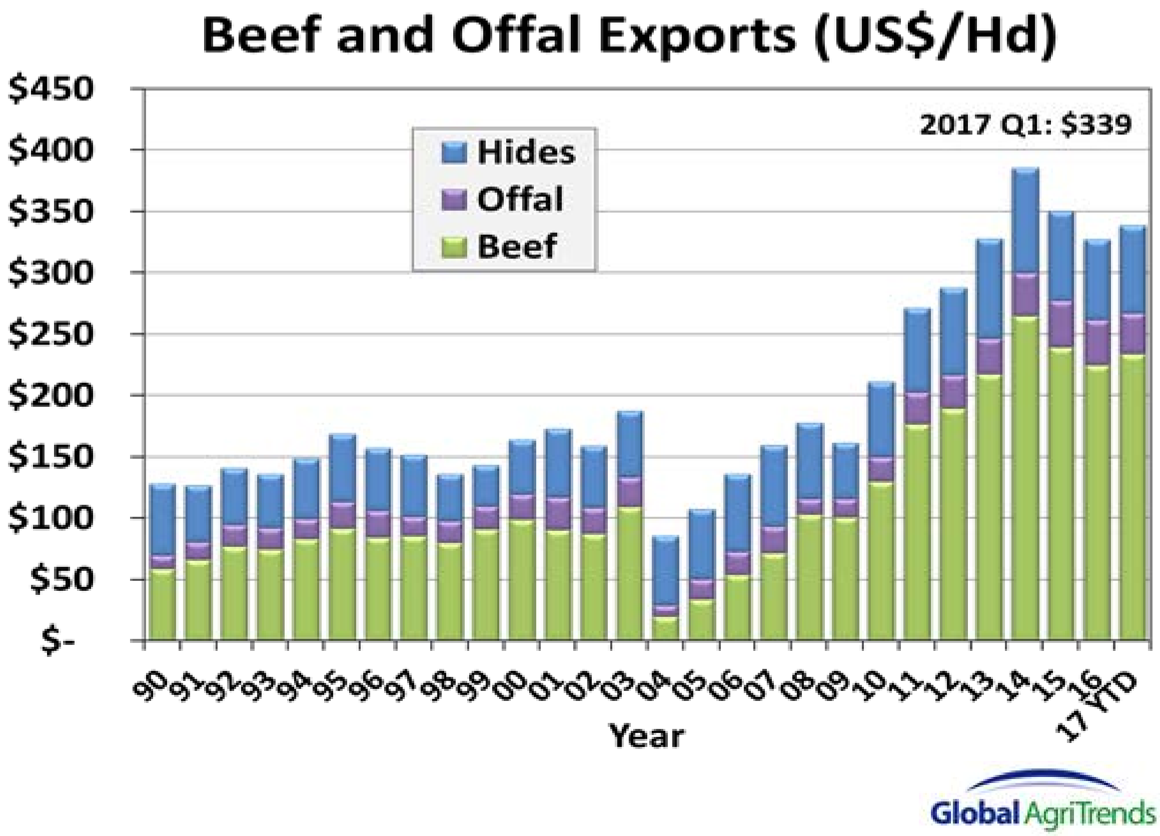
Brief Summary of U.S. Beef Industry's Position on "NAFTA Negotiations"

NCBA strongly supports the North American Free Trade Agreement (NAFTA) because the terms of NAFTA have made it possible for the U.S. beef and cattle industry to develop two very important export markets in Canada and Mexico as well as allowing all sectors of the U.S. beef and cattle industry to compete and operate at optimal levels when trade-restrictive policies were eliminated and repealed. While we understand that there may be calls from other segments of the agriculture industry and other industries to update or renegotiate the terms of NAFTA, NCBA strongly encourages you to focus and contain your efforts on those areas and leave alone the terms of NAFTA that have greatly benefitted the U.S. beef and cattle industry. Quite frankly, it is difficult to improve upon duty-free, unlimited access to Canada and Mexico—two of the top five export markets for U.S. beef. Furthermore, NCBA strongly opposes any attempt to use NAFTA as a vehicle to resurrect failed protectionist policies of the past including mandatory country-of-origin labeling (MCOOL). MCOOL was U.S. law for over six years and failed to deliver on its promises to build consumer confidence and add value to our producers. Instead, MCOOL resulted in a long battle in the World Trade Organization with the United States facing the promise of $1 billion in retaliatory tariffs from Mexico and Canada unless MCOOL was repealed by Congress. We must learn from the mistakes of the past and not repeat them. NCBA hopes that negotiations with Canada and Mexico will be swift and successful and will build upon the success that current NAFTA provisions have given U.S. beef producers.

Overview of Imports and Exports in Beef and Cattle Trade

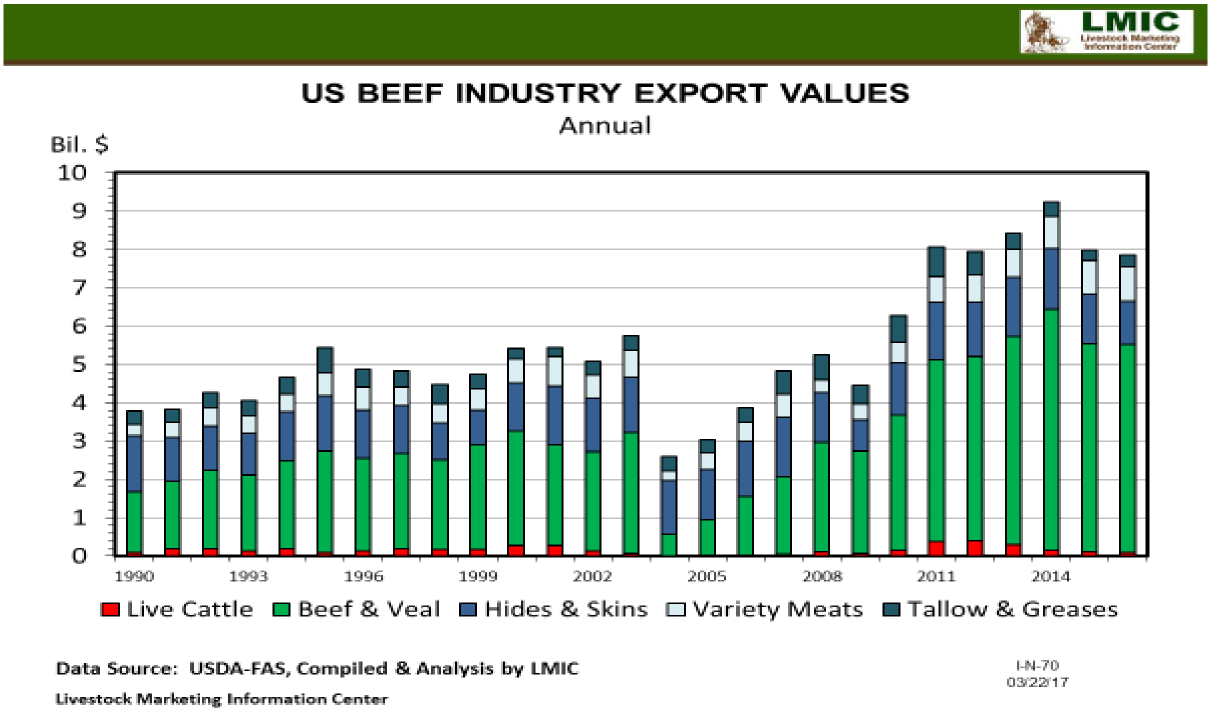
Over the past seven years we have seen a significant growth in U.S. beef exports due to the implementation of free trade agreements and the lifting of non-science based restrictions on U.S. beef specifically in countries in Asia and Latin America. While Canada and Mexico have traditionally battled for first and second place among U.S. beef export markets, they have been surpassed by growing demand in

Japan and Korea who currently top the list as top export markets for U.S. beef. According to the U.S. Census Bureau the total world population is estimated at nearly 7.4 billion people. Of that total the United States accounts for 325 million people, Mexico's population is estimated at 130 million people, and Canada surpassed 35 million people in 2016. While North America represents a small fraction of the global population, it also represents a strong consumer base for beef. Throughout its lifetime, NAFTA has developed all of North America into a premium market for U.S. beef sales. Another benefit of NAFTA has been the development of an efficient and competitive supply chain that allows each sector of the supply chain, from cow-calf producer to feed yard to retail, to capitalize U.S. beef sales to the 96 percent of the global consumers who reside outside our borders, especially those consumers who will pay a premium for U.S. beef products that are undervalued in our domestic market. For U.S. beef producers, the value of exports alone accounted for $339 per head in the first quarter of 2017.

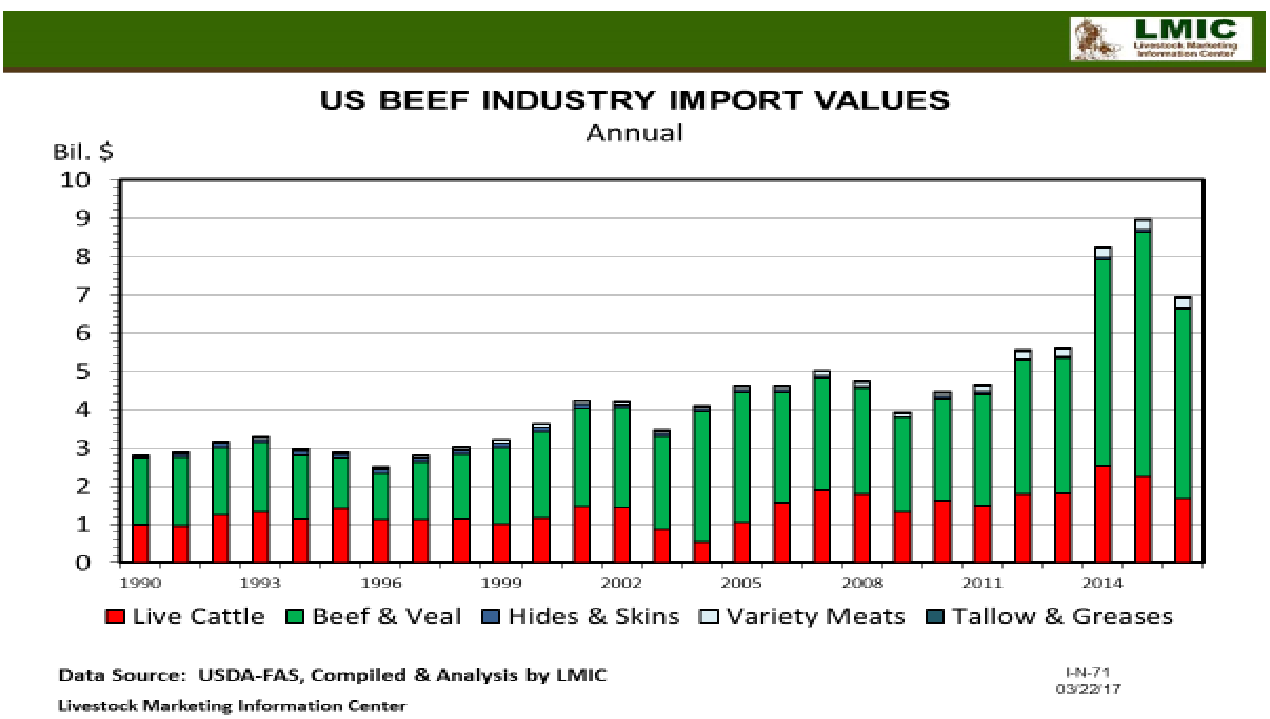


According to the U.S. Meat Export Federation (USMEF), the top five export markets for U.S. beef in 2016:

	Country	Sales	Volume (metric tons)
1)	Japan	$1.5 billion	258,653 MT
2)	Korea	$1.06 billion	179,280 MT
3)	Mexico	$975 million	242,373 MT
4)	Canada	$758 million	116,266 MT
5)	Hong Kong	$684 million	112,770 MT



The United States is also one of the top beef importers in the world. The common misconception is that we import the same "beef" that we export, but the truth is we export higher-value cuts like tongues and other offals while we import grass-finished beef trimmings to mix with our fattier trimmings to meet U.S. ground beef demand in commercial markets. Without beef imports we could not meet domestic demand for commercial ground beef and would likely lose those consumers to other lesser-value proteins.



Summary of Beef Trade with Canada and Mexico

Without question, the North American Free Trade Agreement (NAFTA) has given U.S. beef a strong advantage over other countries in competition for North American consumers. Today, Mexico and Canada are two of the leading export markets for U.S. beef. Duty-free access, close proximity, and our vast transportation infrastructure system are a few of the main reasons why Canada and Mexico are such strong markets for U.S. beef. According to the U.S. Department of Agriculture's Foreign Agriculture Service, the 1993 pre-NAFTA level of U.S. beef exports to Mexico was 39,000 tons valued at $116 million. As a result of NAFTA, Mexico eliminated its 15 percent tariff on live slaughter cattle, its 20-percent tariff on chilled beef and its 25 percent tariff on frozen beef. According to USMEF, Mexican consumers purchased 242,373 metric tons of U.S. beef at a total of $975 million in 2016. Likewise, Canadian consumers purchased 116,266 metric tons of U.S. beef at a value of $758 million.

The United States has a significantly larger human population and work force, cattle herd, beef-production industrial complex, and a vastly superior transportation infrastructure system that allows U.S. beef and cattle to move freely and efficiently to meet beef demand all across North America. These are a few reasons why approximately 85 percent of U.S. beef production is destined for the U.S. market. The U.S. customer likes our grain-finished flavor profile and is willing to pay some of the best prices in the world for U.S. beef. American consumers prefer higher value cuts such as tenderloins and ribeyes, and we have found that while Canadian customers have similar preferences, Mexico has become a high-volume high-value market for cuts like rounds, skirts, tongues, intestines, and other cuts that Americans find less desirable.

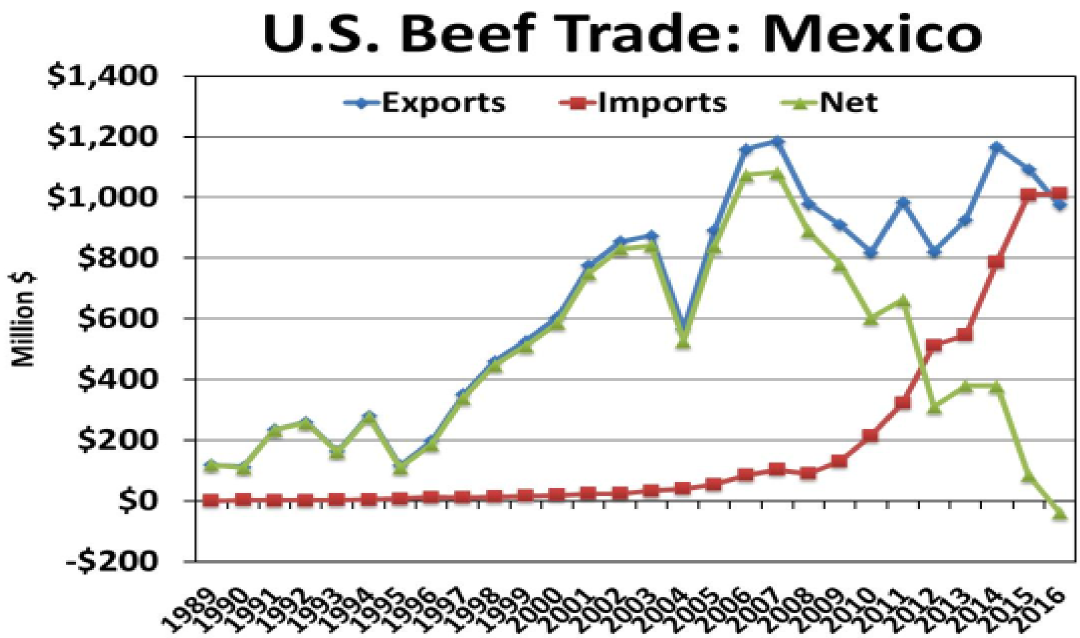
In 2016 the United States became a net importer of beef from Canada and Mexico, one of the rare occasions under NAFTA.

2016 Beef Export Sales to Canada = $758 million
2016 Beef Imports from Canada = $1.23 billion
2016 Beef Export Sales to Mexico = $975 million
2016 Beef Imports from Mexico = $1.05 billion

While opponents of NAFTA will point to the recent decline in sales as another reason to put in place trade barriers to restrict imports it is important to remember that Americans will not absorb the exports we would lose to Canada and Mexico. If Americans wanted to purchase these cuts it would be evident in the market. Who else will absorb that volume and value of beef we export to Canada and Mexico? Furthermore, restricting imports from Mexico and Canada would also result in those markets becoming restricted for U.S. pork and poultry exports which would ultimately come back on the U.S. market and depress protein prices even further. Is it worthwhile to jeopardize our access to Canada and Mexico? Absolutely not.

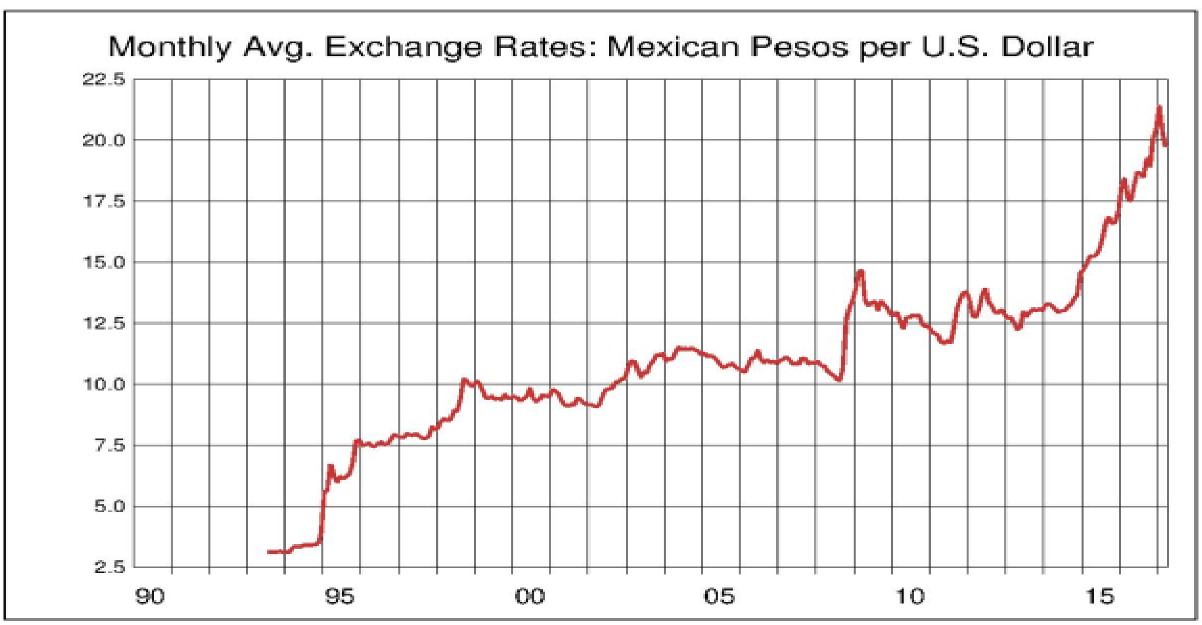
Imposing tariffs or quotas will do nothing to offset the power of the U.S. dollar in cross-border trade with Mexico or Canada. It’s a simple fact that having cheaper currency value makes a country’s exports more competitive. This is the case for Canada and Mexican beef exports to the United States. Restricting trade will only have negative repercussions on the U.S. beef industry because it will either lead to the imposition of restrictive tariffs or quotas on U.S. beef exports and it will encourage Canada and Mexico to trade with other countries who may have cheaper currencies than the United States.

Perhaps we should pay closer attention to the investments that Canada and Mexico are making in their cattle feeding and packing sectors to become more competitive with the United States. In recent years there has been an increased effort in Mexico to transition packing facilities from municipally inspected facilities to federally inspected facilities. Beef that is produced in Mexico and is packaged in a federally inspected facility is eligible for export. The Mexican beef industry has invested heavily in building its packing sector and expanding feedyard operations in Northern Mexico. The goal is to transition from being a low-cost supplier of cattle to the United States and develop the feedyard and packing sectors to capitalize on higher valued beef exports to U.S. consumers. We cannot afford to have protectionist policies that encourage the market consolidation of the U.S. feedyard and packing sectors, or we very well may become the low-cost suppliers of cattle to Canada and Mexico.



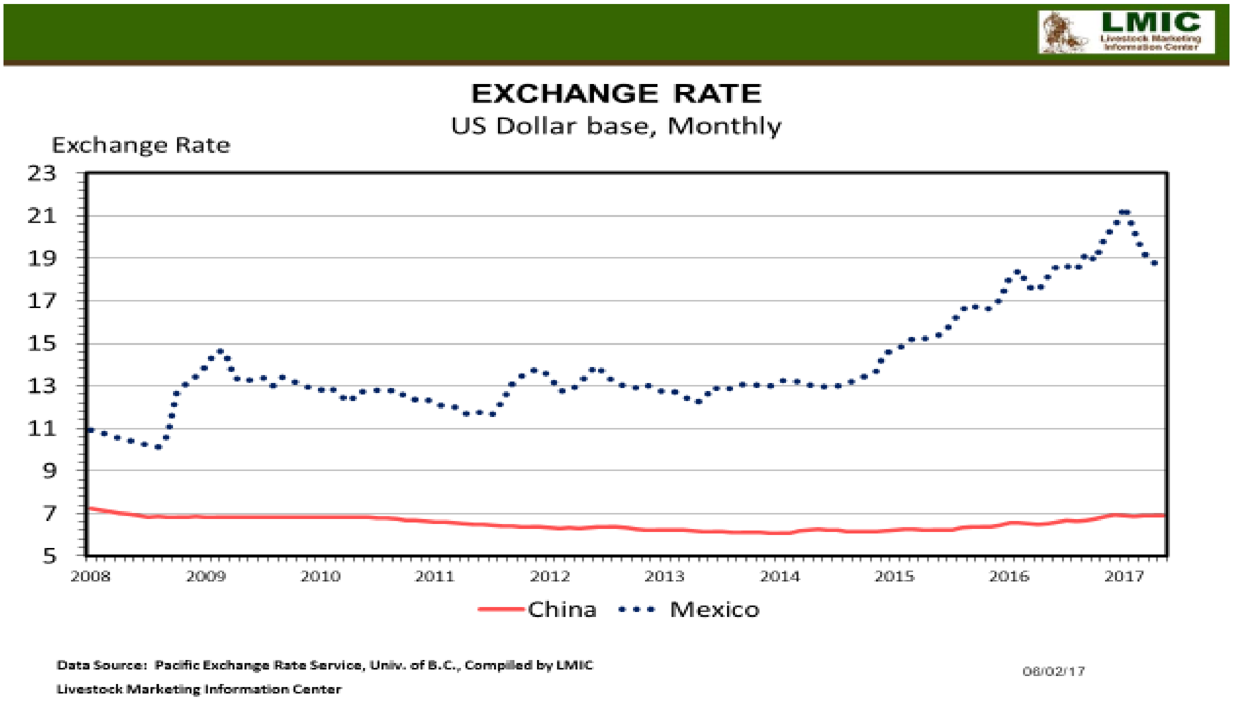
Source: USDA/FAS

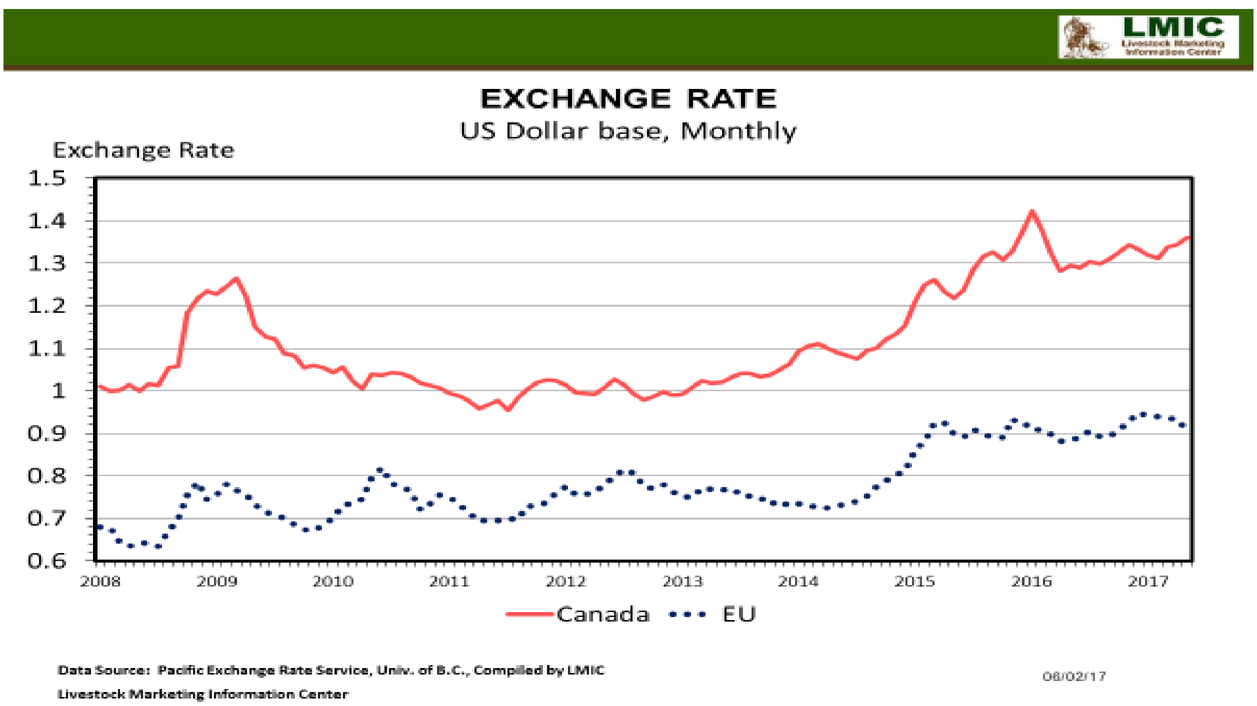
Global AgriTrends



Source: Pacific Exchange Rate Services

Global AgriTrends





Summary of Cattle Trade with Canada and Mexico

The United States has been trading live cattle with Mexico and Canada for hundreds of years. In fact, most of our western traditions are deeply rooted in the traditions of the vaqueros coupled with English and American technology and innovation. According to USDA, in January 2017 the United States cattle herd totaled 93.5 million head while Mexico's cattle herd totaled 16.5 million head and Canada's herd totaled 12.1 million head. On average, we import about 2 million head of cattle from Mexico and Canada. This small number of cattle has been the source of contention within the U.S. beef industry for decades, but before we discuss that, we should consider why we import cattle into the United States.

Simply put, we import cattle from Mexico and Canada to supplement shortages in our herds and to help our feed yards and packing facilities run at optimal levels. We import these cattle, invest American resources in these cattle, and they are slaughtered as American cattle, returning value to the U.S. producers who invested in them. For example, in 2016 there were 943,043 head of cattle imported from Canada at a value of $1,033,960,257. During the same time there were 764,970 head of cattle imported from Mexico at a value of $584,858,261.

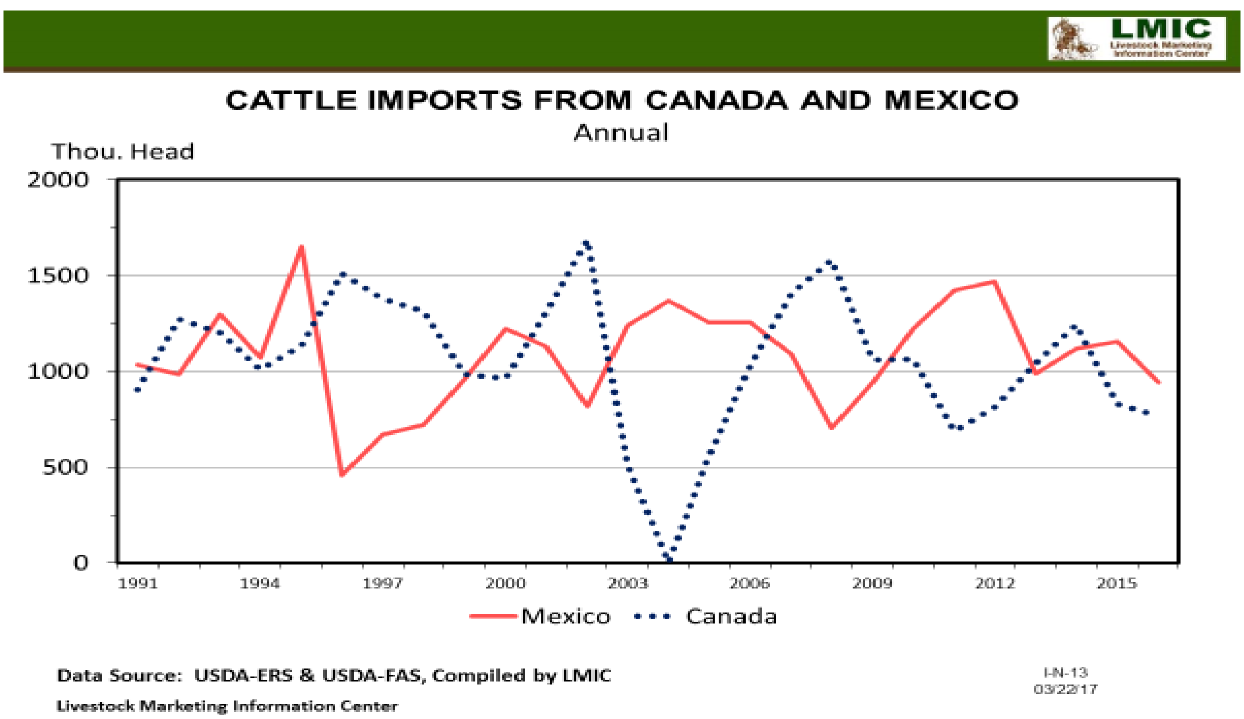
Top 5 Destinations for Canadian Cattle Imports

1) Washington $341 million
2) Pennsylvania $162 million
3) Utah $162 million
4) Minnesota $102 million
5) Nebraska $97 million

Top 5 Destinations for Mexican Cattle Imports

1) Texas $396 million
2) Arizona $138 million
3) New Mexico $35 million
4) Nevada $10 million
5) California $4.2 million

Some of the opponents of NAFTA claim that NAFTA created a massive deficit in North American Cattle trade, but if you look at the annual imports the total numbers have not changed much since before NAFTA was implemented.



One of the oldest internal battles within the U.S. beef industry is rooted in live cattle trade between the United States, Canada, and Mexico. For many years there have been small segments of the U.S. beef industry who have supported trade-restrictive policies on live cattle trade with the argument that restricting cattle imports would somehow yield higher prices for U.S. cattle. These protectionists claimed that cattle born in Canada or Mexico that enter the United States were flooding the market and driving down the cost of live cattle. It was there hope that putting in trade-restrictive policies such as MCOOL would result in the

U.S. beef producer seeing greater prices in the long run. MCOOL was also a ruse that was sold to consumer groups as a food safety crisis to garner their support and deep pockets. These short-sighted efforts did not result in higher values for producers or a safer food supply, in some cases their efforts backfired by forcing feed yards and some packing facilities to close down permanently, leading to further consolidation in the U.S. beef industry and job loss in the beef industry. Feedyards and packing facilities are expensive ventures that cannot be easily restored once they have been moth-balled. When they close it means there are fewer people competing for our cattle and this consolidation makes it less competitive for the cow-calf and stocker sectors. Furthermore, feedyards and packing facilities are major employers in rural communities across America, and when they are forced to close some communities have a difficult time recovering from the negative economic impact.

<u>Learning from Past Mistakes: NAFTA 2.0 Has No Place for MCOOL 2.0</u>

The proponents of MCOOL see the renegotiation of NAFTA as another opportunity to restore a failed law and a failed government marketing program that was a waste of taxpayer dollars and a waste of valuable time of USTR and USDA staff. MCOOL was neither a measure of food safety nor a food safety nor a consumer information program, but rather a failed government marketing program that failed to encourage the purchase of U.S. beef. The United States has a robust food safety system in place to ensure that all beef sold in America, regardless of where the animal originated, is safe. Here are a few reminders why MCOOL has no place in NAFTA.

MCOOL was a mandatory, government-run program which required all beef sold in grocery stores to be labeled to show where the animal (from which the roast below was cut) was born, raised, and slaughtered. Grocery stores had the option of using the word “harvested” in lieu of “slaughtered”.

MCOOL is shown in very small type below the description of the cut of beef.

Proponents of MCOOL claimed that adding this label to cuts of beef would drive consumers to only buy beef from the United States and, in turn, provide a premium price for our product that would be passed back to the producer. After six years of implementation, that was not the case and Congress repealed MCOOL in December 2015. In hindsight, MCOOL was a failed government marketing program.

We believe in the power of the marketplace, therefore we remain opposed to mandatory, government-run MCOOL. In fact, the beef industry currently has many voluntary, consumer-driven and industry-led marketing programs. These programs focus on the fundamentals of marketing by creating the specifications for the type of beef they want to sell (breed-specific, natural, organic, guaranteed tender, born and raised in the USA, etc). Then, they build a label specific to that program which "brands" the meat and provides an eye-catching symbol recognizable by the consumer, thus building loyalty and demand for that brand. Ultimately, the success of that brand results in financial premiums paid back to producers who supply the animals.

This is an example of a private industry, voluntary label.

The proponents of a mandatory, government-run MCOOL program claim that consumers want to know where their beef comes from. We don't dispute that. We agree that a random poll asking people if they want to know where their meat comes from would show that the majority of them would like to know. Polls, however, can show many things depending on how the question is asked. Therefore, you can't look at polls alone to falsely assume that all Americans want a mandatory, government-run MCOOL program. Kansas State University took the study of MCOOL beyond just a simple poll. They used several different approaches to determine what the consumer actually considers when they go to the grocery store to purchase meat. The results were clear, consumers placed quality, appearance, and value at greater priority than country-of-origin. And another unfortunate blow to the proponents of MCOOL, the Kansas State University study ultimately found that demand for meat products had not increased since the implementation of MCOOL, and typical Americans are unaware of MCOOL and don't look for meat origin information when they make their purchase.

Ultimately, this means that our industry has spent millions of dollars complying with a MCOOL law that, after six years, the consumer doesn't even look for. Cost without benefit is not a smart business plan, but it is exactly what you expect from a mandatory, government-run program.

The argument that consumers have a right to know where their food comes from is an argument that proponents of MCOOL are using to try to save MCOOL, but it is a red herring once you consider the exemptions to MCOOL. MCOOL only applies to beef sold in grocery stores. It does not apply to beef sold in food service, restaurants, or beef that has been processed. How can you say it is a consumer's right to know only in the grocery store and not when they go out to eat? That argument doesn't hold up. In fact, most of the beef imported into the U.S. is sold in food service and not in grocery stores. If consumers want to know more about their food we have private marketing labels that already address their concerns.

Finally, MCOOL violated international trade laws and led to a WTO dispute that nearly resulted in a trade war with Mexico and Canada. After implementation of MCOOL, both Canada and Mexico claimed MCOOL violated our trade agreements and filed a case against the United States with the World Trade Organization (WTO). The WTO found in favor of Canada and Mexico. The WTO found in their favor again after the United States appealed the first decision. Because of the ruling and appeal, the United States was instructed by the WTO to change MCOOL in order to come into compliance. The United States failed at multiple appeals efforts and ultimately Canada and Mexico were given the approval to assess $1 billion in retaliatory tariffs against the United States if Congress did not repeal the MCOOL law. The risk of starting a trade war with Canada and Mexico compelled Congress to finally repeal MCOOL and allowed us to narrowly avoid retaliation. Canada and Mexico still have the authority to retaliate against the United States if MCOOL is brought back into effect.

Conclusion

Opponents of NAFTA try to paint a very dark picture of disproportionate beef trade as the cause of many wrongdoings faced by U.S. beef producers over the past 25 years. Unfortunately many of these anti-trade advocates use the same misguided logic and over-simplified arguments to push these unsupported claims on an audience that is looking for simple answers to complex economic realities. They want you to think that we should export more cattle and more beef to Mexico and Canada year after year in order for NAFTA to be viewed as a success. But to view NAFTA as a zero-sum game does the U.S. beef and cattle industry a great disservice because it discounts all the vast benefits our producers receive from both exports and imports from Canada and Mexico and the role they play in helping us meet global beef demand.

The opponents of NAFTA fail to realize that walking away from or compromising the beef and cattle terms of NAFTA will place U.S. beef producers at significant disadvantage to competitors who are currently trying to take U.S. market share in the beef markets of Canada and Mexico. Canada and Mexico are negotiating trade agreements with our competitors in South America and Europe, not to mention the Australian and New Zealand producers who are trying to move multi-lateral trade agreements without the United States.

For these reasons, NCBA encourages the U.S. Government to keep the renegotiation of NAFTA to a narrow scope of issues that will not jeopardize the beneficial parts of NAFTA, especially the beef and cattle terms of trade.

Should you have any questions or desire any further information please contact Kent Bacus, NCBA's Director of International Trade and Market Access at (202) 347-0228.

Sincerely,

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