Written Testimony Of
National Pork Producers Council

On

Advancing the U.S. Trade Agenda: Benefits of Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports

House Committee on Ways and Means
Trade Subcommittee

June 14, 2016

Introduction

The National Pork Producers Council (NPPC) is an association of 43 state pork producer organizations that serves as the global voice for the nation's pork producers. The U.S. pork industry represents a significant value-added activity in the agricultural economy and the overall U.S. economy. Nationwide, more than 68,000 pork producers marketed more than 115 million hogs in 2015, and those animals provided total gross income of nearly $24 billion. Overall, an estimated $23 billion of personal income and $39 billion of gross national product are supported by the U.S. pork industry.

Economists Daniel Otto, Lee Schulz and Mark Imerman at Iowa State University estimate that the U.S. pork industry is directly responsible for the creation of more than 37,000 full-time equivalent pork producing jobs and generates about 128,000 jobs in the rest of agriculture. It is responsible for approximately 102,000 jobs in the manufacturing sector, mostly in the packing industry, and 65,000 jobs in professional services such as veterinarians, real estate agents and bankers. All told, the U.S. pork industry is responsible for nearly 550,000 mostly rural jobs in the United States. U.S. pork producers today provide 24 billion pounds of safe, wholesome and nutritious meat protein to consumers worldwide.

Exports of pork continue to grow. New technologies have been adopted and productivity has been increased to maintain the U.S. pork industry's international competitiveness. As a result, pork exports have hit new records for 21 of the past 24 years. In 2015, the United States exported nearly $5.6 billion of pork, which added more than $48 to the price that producers received for each hog marketed. Exports also supported approximately 110,000 jobs in the U.S. pork and allied industries. Net exports last year represented almost 25 percent of pork production.

U.S. Agriculture Benefits from Trade

The economic well-being of American agriculture depends on maintaining strong export markets and creating new market access opportunities. Export markets are in large part the result of trade agreements negotiated over the past two decades. Since 1989, when the United States began using bilateral and regional trade agreements to open foreign markets, U.S. agricultural exports have nearly quadrupled in value and are now at $133 billion. Exports of high-value products such as pork have recently overtaken bulk products and now represent nearly two-thirds of the total; 25 years ago it was the reverse.

Farm and food exports have a positive multiplier effect throughout the U.S. economy. According to USDA's Economic Research Service, every $1 in U.S. farm exports stimulates an additional $1.27 in business activity. Off-farm activities and services include purchases by farmers of fuel, fertilizer, seed and other inputs and post-production processing, packaging, storing, transporting and marketing the products shipped overseas. Exports of $133 billion in fiscal 2015, therefore, generated another $168 billion in economic activity in the United States, bringing a total benefit to the economy of $301 billion. This economic activity creates jobs. Every $1 billion of U.S. agricultural exports requires the full-time work of approximately 7,550 Americans throughout the economy, according to the U.S. Department of Agriculture. Exports in 2015, therefore, supported more than 1 million full-time jobs, and more than half of those jobs were created in the past 10 years. In the meat sector, though, USDA puts the job-creating number higher. So the $2.7 billion increase in U.S. pork exports over the past 10 years has created well over 20,000 new U.S. jobs related to those exports.

Agricultural exports also help offset part of the U.S. nonagricultural trade deficit. Agriculture has been a positive contributor to the nation's trade balance for more than 50 years. For 2015, the agricultural surplus was $16 billion, according to USDA's Economic Research Service and Foreign Agricultural Service.

Importance of Trade to the U.S. Pork Industry

With more than 95 percent of the world's population living outside the United States, the U.S. pork industry continues to focus on increasing its exports. NPPC works to open new and to keep open and expand existing markets for U.S. pork products.

Exports of U.S. pork add significantly to the U.S. agricultural economy and to the overall U.S. economy. For each additional 1 percent of U.S. pork production that is exported, live hog prices increase by approximately $3 per hog. Higher prices eventually stimulate additional pork production, and the industry expands to meet the new opportunity, thus creating more jobs. In fact, pork exports, which help all producers regardless of size, support more than 110,000 pork-related U.S. jobs.

Bilateral and regional trade agreements have created enormous benefits for the U.S. pork industry, with every agreement to date resulting in complete tariff elimination. Free trade deals such as those with Mexico, Canada, Central America, Australia and South Korea as well as the bilateral WTO accession agreement with China have generated a ten-fold increase in U.S. pork exports since the early 1990s, propelling the United States to the No. 1 exporter of pork in the world.

Free trade agreements (FTAs) have increased U.S. pork exports by more than 1,300 percent in value and by more than 1,200 percent in volume since 1989 – the year the United States began using bilateral and regional trade agreements to open foreign markets. In 2014, U.S. pork exports reached a record $6.6 billion.

The importance of free trade agreements to U.S. pork producers is underscored by one fact: The U.S. pork industry now exports more pork to the 20 countries with which the United States has FTAs than to the rest of the world combined.

U.S. pork producers last year exported almost $5.6 billion worth of pork and pork products, accounting for 24 percent of the industry's production. Those exports added $48.31 to the price producers received for each hog sold. Much of the exports were of cuts that in the United States are low value but abroad command higher prices.

Japan in 2015 continued to be in the No. 1 market for U.S. pork exports, taking in nearly $1.6 billion of pork. Mexico and Canada were the No. 2 and No. 3 markets, respectively, with China/Hong Kong and South Korea rounding out the top five. Pork exports to South Korea were up 6 percent for the year as the U.S. FTA with that country neared full implementation.

Exports in 2015 were down from 2014 because of several factors, including a stronger U.S. dollar – which makes U.S. exports more expensive in importing countries – and the West Coast ports work slowdown, which cost the U.S. meat sector hundreds of millions of dollars over the nearly four-month-long labor dispute between longshoremen and port facility companies.

Forecasts from pork industry analysts and USDA's Foreign Agriculture Service estimate that U.S. pork exports in 2016 will rebound provided the dollar stays steady, there are no shipping issues and the world economy continues to improve following several years of sluggish growth.

One factor that can nearly guarantee an uptick in U.S. pork exports is expansion of overseas markets through free trade agreements. The United States is on the cusp in the Asia-Pacific of implementing the most significant regional FTA ever negotiated, is in the middle of negotiations with Europe on another potentially huge agreement, recently gained partial access to a growing African market and is looking south in Latin America for another new market.

Trans-Pacific Partnership (TPP)

The 12-nation TPP, which includes the United States, Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam, represents "the most important commercial opportunity ever for U.S. pork producers," according to Iowa State University economist Dermot Hayes, who estimates the TPP will exponentially increase U.S. pork exports and help create more than 10,000 U.S. jobs tied to those exports.

The TPP countries combined have more than 800 million consumers and account for 40 percent of global GDP.

NPPC led a massive U.S. agricultural campaign to secure the best possible deal for U.S. pork and other products in the Asia-Pacific regional trade agreement, which was concluded in October 2015 after nearly six years of negotiations. The multilateral FTA eliminates virtually all tariff and non-tariff barriers on U.S. pork exports to the TPP countries.

Here are the benefits of the TPP for U.S. pork producers from the top export markets:

- **Japan** – The largest market in terms of value and the second largest volume market in the world for U.S. pork exports, Japan in 2015 imported more than 406,000 metric tons of pork, valued at $1.58 billion. The high volume of U.S. pork exports to Japan takes place despite significant import protection that country has erected through a complex system of tariffs commonly referred to as the "Gate Price" system. The impact of the Gate Price on U.S pork will be virtually eliminated through the TPP.

  The Asian nation will eliminate tariffs on all products, including the Gate Price on processed pork, in six to 11 years from entry into force of the agreement. For processed products not subject to the Gate Price such as seasoned ground pork and sausages (the U.S. shipped close to $300 million of these products in 2015), tariffs will be eliminated in year 6.

  Japan will reduce the impact of the Gate Price on chilled and frozen pork upon entry into force of the TPP. The Gate Price will remain at 524 Yen per kilogram indefinitely. However, the specific duty that is assessed when products do not meet the Gate Price will phase down to 50 Yen per kilogram in Year 10. There will be a safeguard on processed product and two safeguards on chilled/frozen pork. Those disappear in Year 11.

- **Vietnam** – Despite being a larger consumer of pork than Mexico (the largest volume destination for U.S. pork), U.S. pork exports to Vietnam represent less than 2 percent of that country's pork consumption. U.S. pork exports have been limited by tariffs and a series of non-tariff barriers. Under the TPP, Vietnam will eliminate tariffs on pork and pork products, currently as high as 30 percent, in five to 10 years. It will eliminate tariffs on frozen cuts and shoulders in eight years and on preserved pork, fresh pork cuts and shoulders in 10 years. In addition, Vietnam's non-tariff barriers, which are being eliminated, are the subject of a side letter.

- **<u>Australia</u>** – Import duties for all pork products were immediately locked at zero when the U.S.-Australia FTA was implemented in 2005. While pork is the top U.S. agricultural export to Australia, it is not eligible to be sold at retail in Australia because of non-science-based sanitary-phytosanitary (SPS) barriers that country has in place. NPPC is working with the U.S. government to facilitate a review of the SPS issues in Australia.

- **<u>Malaysia</u>** – Nearly all of Malaysia's tariffs on pork and pork products will be eliminated upon entry into force of the TPP agreement. In addition, Malaysia dropped its non-tariff-barriers on U.S. pork in December 2014.

- **<u>Singapore</u>** – Import duties on all pork products were immediately locked at zero when the U.S.-Singapore FTA was implemented in 2004. NPPC is working with the U.S. government to facilitate a review of certain non-tariff measures in Singapore.

- **<u>New Zealand</u>** – Currently, pork from Australia, Canada and China enters New Zealand duty-free, but the United States must pay an import tariff. On entry into force of the TPP Agreement, tariffs on U.S. pork and pork from other TPP nations will be eliminated except for hams and shoulders, which will go to zero in Year 3.

- **<u>Chile</u>** – Import duties on most pork products went to zero immediately when the U.S.-Chile FTA was implemented in 2004. For pork offal, the duty was phased out by 2009.

- **<u>Peru</u>** – Tariffs on U.S. pork either now are zero or will be zero within three years under the U.S.-Peru FTA.

Economically and geopolitically, the United States cannot afford to walk away from the fastest growing region of the world. Doing so not only would result in the United States forgoing expanded access to nearly half a billion consumers, but many, if not all, U.S. economic sectors would lose existing market shares in the region as other trade deals – without the United States – are concluded. The European Union, for example, already is negotiating FTAs with nations in the Asia-Pacific, and the China-led, 16-country Regional Comprehensive Economic Partnership negotiations are well underway.

NPPC is urging the Obama administration to address TPP implementation issues in some countries and asking congressional lawmakers to support the trade agreement when it comes up for a vote.

Transatlantic Trade and Investment Partnership (TTIP)

U.S. pork producers' support for a final TTIP agreement between the United States and the European Union is conditioned on the elimination of all tariff and non-tariff barriers to U.S. pork exports to the EU. This outcome for pork was achieved in every other U.S. FTA, and TTIP should be no different.

The EU, with 508 million mostly affluent consumers, is the second largest pork consuming market in the world. (China is No. 1.) Yet U.S. pork sales to the EU are lower than they are to small countries such as Honduras. Current EU sanitary and phytosanitary (SPS) and tariff barriers have resulted in U.S. pork exports to the European bloc amounting to less than 0.05 percent of EU pork consumption.

In the absence of tariff rate quotas and SPS restrictions, the EU would be one of the largest markets in the world for U.S. pork exports. According to Iowa State University economist Dermot Hayes, the increased U.S. pork exports that would be generated by a TTIP agreement that eliminates all tariff and non-tariff barriers would create nearly 18,000 new jobs in the United States.

The following are EU impediments to increased U.S. pork exports that must be eliminated through the TTIP:

- **Tariff Rate Quotas** – During the WTO Uruguay Round, the EU refused to adopt the agreed on minimum access quantity for its tariff rate quota on pork. Although the agreement called for a minimum quota of 1 percent of domestic consumption – which would have been around 1 million metric tons – the EU approved quotas totaling only 70,000 metric tons. Moreover, taking advantage of that small total quota is made difficult by high in-quota duties and a licensing system that makes it difficult to adjust to market conditions. Shipping pork to the EU outside the quotas is impossible because out-of-quota duties are set at prohibitively high rates.

- **Ractopamine.** – The EU bans the use of ractopamine in pork production and the import of pork produced with ractopamine despite the absence of a science-based risk assessment to justify its actions. The EU ban on ractopamine means that only a small fraction of U.S. pork – pork verified to be free of ractopamine – can be shipped to the EU.

  In July 2012, the U.N.'s Codex Alimentarius Commission established a maximum residue level (MRL) for ractopamine. In recognizing the safety of ractopamine, the Codex joined the U.S. Food and Drug Administration and 25 other countries that have approved the product for use in pork production. Additionally, 75 countries allow for the importation of pork that has been fed ractopamine even though it is not allowed to be fed in their domestic herds.

- **Trichinae Mitigation.** – The EU currently requires that the United States conduct trichinae risk mitigation such as testing or freezing as a condition for market access. The mitigation requirements are costly and unnecessary. USDA has determined that there is negligible risk for trichinae in the U.S. commercial swine herd. U.S. experts estimate the chance of a human getting trichinosis from the consumption of U.S. pork at 1-in-300 million.

- **Pathogen Reduction Treatments**. – The EU currently prohibits the use of anti-microbial or pathogen reduction treatments (PRTs) for pork despite the facts that scientific studies have demonstrated that PRTs produce a safer product for the consumer and that the EU has approved such a treatment for beef. The ban extends to imports, which has the effect of making safe U.S. pork prohibitively costly to process for the EU market.

PRTs were approved for use in pork production in the United States after a rigorous risk assessment by FDA. The assessment found that their use, in accordance with recommended manufacturing practices, was a safe and effective way of eliminating bacterial contamination on pork products and of improving product safety for consumers. The Codex Commission also has recognized the safety of PRTs in meat production when used in accordance with good manufacturing practices.

Numerous studies have found greater pathogen reduction by lactic acid than by water alone. Additionally, studies on bacterial numbers over time indicate that pathogenic bacteria counts on lactic-acid-treated samples usually remain significantly lower for at least two to three weeks than either untreated or water-washed samples. Until recently, water was the only treatment approved by the EU.

In February 2013, the EU approved the use of lactic acid as a PRT for beef. That approval followed an endorsement by the European Food Safety Authority, which found that the use of lactic acid for beef posed “no significant concerns for consumers.” EU meat processors welcomed the decision as providing a new and effective tool to reduce food contamination. The EU decision was promoted at the time as a sign of good faith at the start of the TTIP negotiations. However, approval of lactic acid, the most widely used PRT in the U.S. pork industry, and other PRTs used for pork was withheld.

- **Plant Approvals** – Although the EU did simplify the process for plant approval for export to the EU, there are still significant costly requirements that deter most U.S. packers from seeking plant approval. As NPPC has pointed out for years, the United States accepts a systems-based approach for inspection of countries that export to the United States. There is no reason the EU cannot accept the USDA plant inspection and approval system for pork plants, something the majority of U.S. trading partners already have done. While NPPC currently supports the TTIP negotiations and recognizes the enormous potential for increased trade of a final agreement, U.S. pork producers have serious doubts about whether the EU is willing to fully open its market to U.S. pork. The EU's track record on market access for pork is dismal, and it previously has publicly stated its unwillingness to eliminate tariffs on beef, pork and poultry.

NPPC is urging U.S. trade negotiators to demand that the EU eliminate all tariff and non-tariff barriers, including its non-science-based SPS requirements.

South Africa

Until early this year, South Africa blocked U.S. pork exports based on what the South African government said were concerns about porcine reproductive and respiratory syndrome (PRRS), pseudorabies (PRV) and trichinae, in addition to several other issues. The ban on U.S. pork was in place despite the U.S. government and the U.S. pork industry providing the South African government information demonstrating that U.S. pork is safe and poses a negligible risk of transmission of PRRS, PRV and trichinae.

In January, after the Obama administration threatened to suspend its trade benefits under the African Growth and Opportunity Act (AGOA) – duty-free access for products exported to the United States – South Africa agreed to partially lift its ban on U.S. pork, allowing a variety of raw, frozen pork, including hams and shoulders, for unrestricted sale and other pork for further processing. NPPC agreed to accept partial market access for U.S. pork even though there is no scientific justification for restricting any U.S. pork.

While the agreement struck with South Africa is not perfect, there is good news for U.S. pork producers: U.S. pork now is flowing to South Africa.

NPPC is appreciative of the work of U.S. trade officials and members of Congress to create this opportunity for pork producers. NPPC is closely monitoring the implementation of the market access agreement. If South Africa does not live up to the agreement to allow even partial market access to U.S. pork, NPPC will be back to this committee for help enforcing the deal.

Argentina

While the United States has FTAs with several South American countries, among the ones with which it does not and which represents a potentially good market for U.S. pork is Argentina, the second largest economy in South America, with almost 43.5 million people.

Currently, though, U.S. fresh and frozen pork are ineligible to be shipped to Argentina because of unscientific trichinae mitigation requirements and other sanitary issues.

Recent political changes in the country, specifically the election last November of pro-business and pro-trade Mauricio Macri as president, have brightened the prospects of bilateral trade with the Latin American nation. In fact, NPPC has been working with USDA in negotiating an export certificate with Argentina that would open its market to more U.S. pork.

Economist Dermot Hayes of Iowa State University sees significant opportunity for U.S. pork exports to Argentina, noting that fresh pork consumption has increased from 1 kilogram in 2005 to 10 to 12 kilograms today. The Argentine pork industry estimates that by 2020, consumption will increase to 16 to 20 kilograms.

Conclusion

The U.S. pork industry is the No. 1 exporter of pork in the world, and America's pork producers are the "poster children" for free trade agreements. Maintaining those positions and ensuring the viability of the U.S. pork industry depends on growing exports through opening new markets and expanding existing ones.