Statement of Ms. Kelley Sullivan, Santa Rosa Ranch
On behalf of the National Cattlemen's Beef Association
Submission for the record to the
United States House Committee on Ways and Means
"Opportunities to Expand U.S. Trade Relationships in the Asia-Pacific Region"
October 11, 2017

The National Cattlemen's Beef Association (NCBA) submits the following comments regarding "Opportunities to Expand U.S. Trade Relationships in the Asia-Pacific Region". Ms. Kelley Sullivan of Santa Rosa Ranch in Crockett, Texas, is a member of the National Cattlemen's Beef Association and will represent the views of the National Cattlemen's Beef Association pertaining to the economic impact of international trade to the U.S. beef industry. The Santa Rosa Ranch, located in southeastern Texas, is a family-owned and operated seed-stock and cow-calf operation. The Sullivan Family is from Galveston, Texas and has been in the beef cattle industry for over 100 years. Trade has been a fundamental part of the ranch since its beginning when cattle were grazed in salt grass pastures along the Coastal Bend of Texas and then loaded onto cattle boats at the Port of Galveston, bound for Caribbean nations such as Haiti and Cuba. Today the cattle of the Santa Rosa Ranch produce beef that is consumed in markets around the world.

Comments of the National Cattlemen's Beef Association Regarding the Significance of International Trade to the U.S. Beef Industry

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 diverse group of producers who deliver top-quality beef products to consumers in foreign markets and work tirelessly to increase global demand for beef. NCBA appreciates the opportunity to participate in this hearing and provide testimony to educate members of this committee on the importance of international trade to the U.S. beef industry.

Our perspective on international trade stems from a basic premise: If we are going to grow, raise, and produce beef, we need consumers who will eat and pay for it. U.S. consumers traditionally fill this role, and for many years Americans have been the primary focus for U.S. beef producers. Beef sold in the U.S. commands a strong market price and serves as a staple of the American diet. From Fourth of July burgers to the New York Strip, beef is synonymous with America.

Most of our annual beef production continues to be consumed here at home, but the U.S. beef industry is increasingly looking beyond our borders for opportunities to grow. As consumers throughout the Asia-Pacific region join the middle class, they are more willing to pay for high-quality beef. International trade allows our industry to increase our export sales and meet consumer demand in fast-growing markets. Exports are critical to U.S. beef producers – and the rural economies that depend on them – because they allow us to maximize the value of each carcass.

Americans prefer ribeyes, tenderloins, and hamburgers and are willing to pay a higher price for these cuts. Other beef cuts, such as short ribs, skirt steak, tongues, and livers, are viewed as less desirable and fetch a lower price in the domestic market. However, many of the lower-priced cuts in America are preferred by foreign consumers, who are willing to pay much higher prices for the same cuts of beef that Americans find less desirable. Trade allows U.S. producers to capitalize on the differences in consumer preferences. Through exports, we capture additional value on each head of cattle – value that would not exist if we sold to the domestic market alone.

Today, the success or failure of the U.S. beef industry depends on our level of access to global consumers. Our top export markets include Japan, Korea, Mexico, Canada, Hong Kong, and Taiwan. In 2016, we sold $6.3 billion of U.S. beef overseas, with 84 percent of our sales coming from those six markets. According to the U.S. Meat Export Federation, export value per head of fed slaughter averaged $290.05 in August 2017, up 13 percent from 2016. For U.S. beef producers, we have seen a correlation between increased cattle prices and increased export value. Exports are becoming more essential to our profit margin as foreign demand increases.

Given the importance of trade to our industry, we have consistently encouraged the U.S. government to aggressively pursue opportunities to remove tariff and non-tariff barriers to U.S. beef exports around the world. While the United States has some of the lowest import tariffs in the world, our beef exports face high tariffs and other protectionist trade barriers that hinder our access to consumers in some markets. As we have learned from the North American Free Trade Agreement (NAFTA), the Korea-U.S. Free Trade Agreement (KORUS), and other similar pacts, trade agreements help to level the playing field for U.S. beef by tearing down tariff barriers and establishing science-based standards that replace politically-motivated restrictions on U.S. beef exports.

Finally, it is critical to accurately understand the role of beef imports to the U.S. industry. Even though the United States is one of the top beef exporters in the world, we are also one of the largest beef importers in the world. U.S. beef is primarily from cattle finished on grain in feedlots, giving our beef a marbled finish that consumers enjoy. Beef imported to the United States is primarily from Australia, New Zealand, and other countries who finish their cows on grass instead of grain. These lean beef trimmings are imported primarily for use in the production of commercial ground beef. Contrary to the claims of protectionist groups, beef imports do not displace U.S. beef sales and are not dangerous for consumption. Every country that is approved to export beef to the United States must have standards equivalent to the rigorous American safety standards.

The U.S. beef industry has reaped the benefits of effective trade policies, such as the implementation of NAFTA and KORUS. At the same time, we have been the victim of misguided trade policies, such as non-science based trade restrictions and mandatory country-of-origin labeling. Our future success hinges on our ability to avoid the mistakes of the past and take an aggressive nature in support of trade liberalization.

<u>Restoring U.S. Beef Access to China</u>

In December 2003, the U.S. beef industry suffered a massive economic blow from an event commonly referred to as "The Cow that Stole Christmas". That was the United States first and only classical case of Bovine spongiform encephalopathy (BSE), known as mad cow disease, that was discovered in a Canadian-born dairy cow in Washington state. Overnight the United States lost access to our international markets including Japan, Korea, and China. The U.S. beef industry has worked closely with the U.S. government to take the necessary steps to ensure this event never happens again, and as a result the United States has some of the safest BSE safety standards in the world. Over time, many of the countries who closed their borders to U.S. beef reopened their markets albeit with arbitrary, non-science based age restrictions on the cattle. Even with those restrictions in place, U.S. beef exports have soared in Japan and Korea. More recently, after 13 years, China lifted its ban on U.S. beef and restored market access for U.S. producers.

Restoring access to China has been a priority for the U.S. beef industry for over a decade. While previous administrations worked diligently to address China's concerns and negotiate terms of access, it was the Trump Administration that closed the deal and restored U.S. beef access to China this summer.

U.S. negotiators worked hard to secure market access terms that are superior to terms of our competitors in China. For example, China has agreed not to close its market to U.S. beef if we have another BSE case, unless the World Organization for Animal Health changes our safety designation status—and that is not something the industry will allow. China also recognizes the equivalence of our food safety systems, so that it will be United States Department of Agriculture (USDA) that determines which packing plants are eligible to export to China instead of China approving individual plants. Chinese approval of packing plants is required of our competitors like Canada, Brazil, and Australia. China also agreed to allow a broad range of U.S. beef cuts (both fresh and frozen, bone-in and boneless) along with numerous offal cuts (liver, hearts, tongue, etc.).

Unfortunately, China does place some significant restrictions on U.S. beef that will make it difficult for us to capitalize on this market for a few years. Specifically, China has two laws that ban the use of certain technologies that are deemed safe in the United States (and most of the world) and are commonly used in beef production. The first banned technology is ractopamine, a beta agonist used to promote leanness in meat. Ractopamine is fed to cattle (steers and market heifers) in feedlots during the last 28 to 42 days of the finishing period to safely increase carcass gain, feed efficiency and carcass leanness while maintaining beef's natural taste, tenderness and juiciness. The Codex Commission, the international food safety standards-setting body as recognized in the WTO-SPS Agreement, has established a set of Maximum Residue Levels (MRLs) for veterinary drugs widely accepted in international trade. In 2012 Codex adopted standards for maximum residue levels for ractopamine – standards that have been recognized in many countries. Regardless, China has a law that bans the use of this technology for both domestic production and for imported products. If any U.S. beef shipments to China test positive for ractopamine the shipment will be returned.

China also bans the use of hormones in domestically-produced beef and in beef imports. While beta agonists are used at the feedlot level, hormones are more commonly used at the cow-calf and stocker levels to help add weight. The U.S. industry has used this safe technology for decades, and non-science based restrictions on the use of hormones have been ruled illegal by the World Trade Organization (WTO) (see WTO Case DS26 - European Communities — Measures Concerning Meat and Meat Products (Hormones). Nonetheless, as part of the protocol with China, any shipments that test positive for synthetic hormones and naturally-based hormones will be returned.

These combined restrictions mean that only a small number of cattle in the U.S. beef herd will be eligible for the Chinese market in the first few years. In fact, it may take roughly two to three years to convert a cattle operation to comply with these restrictions. But we anticipate that more producers will start to produce for the Chinese market once demand for U.S. beef is firmly established.

China represents a population of nearly 1.4 billion people and is quickly becoming the largest beef importer in the world. For example, in 2011 China imported 27,000 metric tons of beef, and that volume increased to 600,000 metric tons in 2016. Today, most of the beef imported to China is from grass-finished cattle from Australia, New Zealand, Brazil, and Uruguay, with only 5 percent of beef imports from grain-finished beef from Australia and Canada. The U.S. Meat Export Federation estimates that our sales will reach $300 million annually in the first five years. We look forward to growing this market and becoming a leading source of beef for China.

KORUS: The Success Story for U.S. Beef

The relationship between Korean consumers and U.S. beef has not always been positive. In June 2008, hundreds of thousands of protestors took to the streets of downtown Seoul to hold a candle-light protest against the Korean government's decision to restore U.S. beef access. Korean consumers did not trust the safety of U.S. beef and harbored concerns about BSE. The U.S. beef industry invested heavily in restoring consumer trust in Korea, and in less than ten years Korea has become a $1 billion market for U.S. beef.

According to the U.S. Meat Export Federation, in 2016 we sold nearly $1.1 billion of U.S. beef to Korean consumers and in the first six months of 2017 our sales totaled $528 million, an increase of 21 percent. Korea has been an excellent export market for U.S. beef short ribs, tongues, and other cuts that Americans find less desirable but Koreans are willing to purchase at a premium.

Despite criticism of KORUS from anti-trade groups and even some leaders within our government, the U.S. beef industry has thrived under the terms of the agreement. Korea is now our second largest export market and annual U.S. beef sales have increased 82 percent. This increase – representing nearly $500 million in additional sales – is a direct result of our tariff rate decreases. Starting from 40 percent the year the agreement was signed, the tariff rate decreases about 2.7% each year, eventually reaching zero in 2027.

The United States' aggressive pursuit of KORUS secured preferential access for U.S. beef nearly two years before our leading competitor in the Korean market, Australia, signed their own free trade agreement. As a result, U.S. beef enjoys an eight percent tariff rate advantage over the Australians. This advantage, combined with market demand for U.S. beef, resulted in the United States becoming the leading import source for beef in Korea in 2016. We expect the trend to grow as Korean demand for U.S. beef increases. For example, earlier this year Costco announced that it is replacing all Australian-sourced fresh beef with fresh U.S. beef in its Korea-based stores. This is very exciting news because it will add upwards of 15,000 metric tons of fresh U.S. beef sales.

The rumors of possible withdrawal from KORUS over the Labor Day weekend stirred an immediate and negative reaction from U.S. beef producers across the country. We have absolutely nothing to gain by walking away from KORUS. U.S. beef has a competitive advantage in Korea, a market that now represents over $1 billion in annual sales. If we dissolve KORUS, Korea will undoubtedly reinstate a 40 percent tariff on U.S. beef.

Japan: Top Export Market for U.S. Beef…for Now

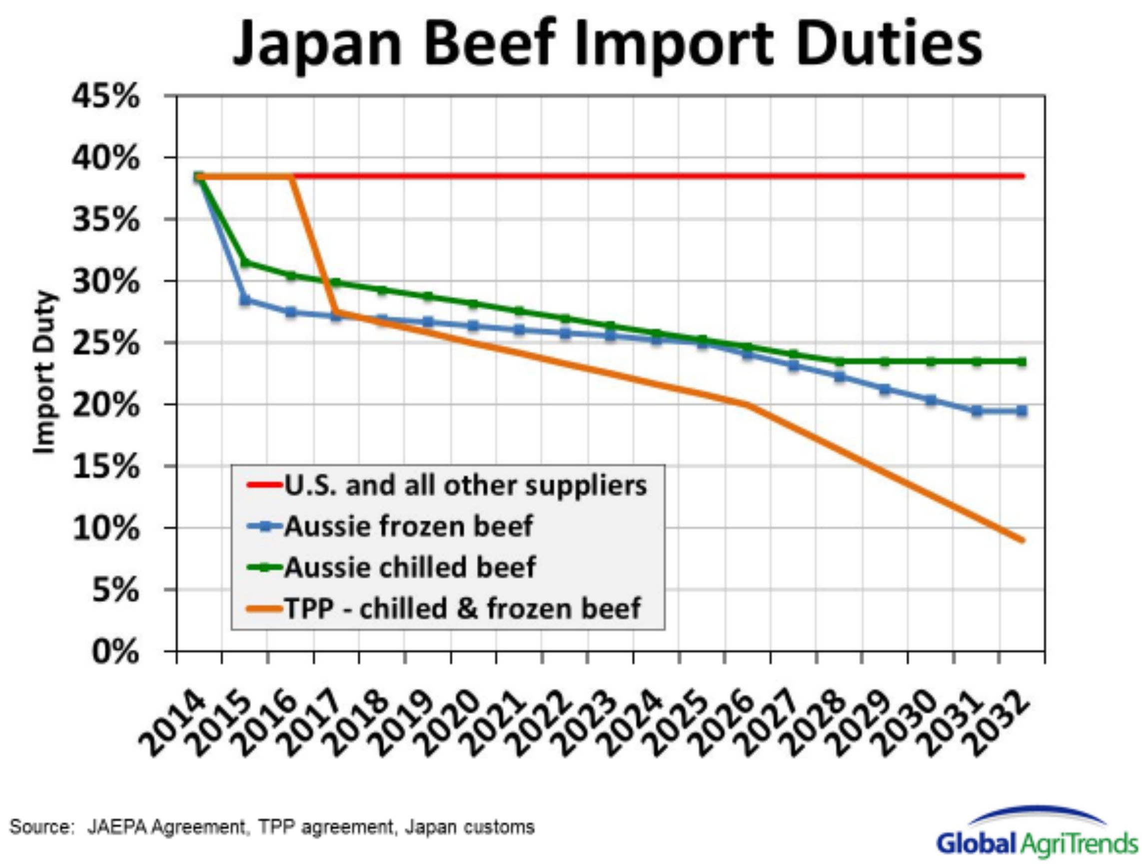
Japan is the top export market for U.S. beef exports. In 2016, Japanese consumers purchased $1.5 billion of U.S. beef products, even with a 38.5 percent tariff in place. Due to the prolonged drought and herd shortage in Australia, U.S. beef sales have skyrocketed in 2017, reaching nearly $1.1 billion in sales just through July. Unfortunately, our resounding success in Japan triggered a "snapback" tariff of 50 percent on frozen beef. Without a free trade agreement in place, U.S. frozen beef will face the 50 percent tariff through March 31, 2018, and we could face this higher tariff again in future years if the situation is repeated.

Like in Korea, Australia is our leading competitor in Japan. Together our two countries account for 90 percent of all imports of frozen beef, which is mostly used by beef bowl, hamburger and other fast food outlets. However, in Japan, our relative market access positions are reversed. Since Australia already has a trade agreement in place with Japan, Australian beef imports are not subject to the 50 percent snapback tariff. Instead, Australia enjoys a stable 27 percent tariff rate. Some analysts predict that the continued high price of Australian beef will help U.S. beef remain competitive in the short term, but we are concerned about the long-term implications once our luck runs out and the Australian herd recovers.

Many U.S. beef producers are eagerly looking for a solution. NCBA strongly supported the Trans-Pacific Partnership (TPP) because it would have lowered our standard tariff from 38.5 percent to 9 percent in 16 years. Analysis by the United States International Trade Commission concluded that beef exports to TPP countries would grow by $876 million per year by the end of the transition period, and that most of that growth would be in trade to Japan. TPP would have also lowered the snapback tariff and increased the volume amount necessary to trigger the safeguard.

Unfortunately, President Trump made the decision to remove the United States from the TPP and pursue bilateral agreements instead. According to Reuters, on August 2, Japan's Finance Minister Taro Aso was asked about the safeguard frozen beef tariff and said: "This measure would be abolished if the TPP were implemented, but it remains because the U.S. withdrew from TPP." We hope that Vice President Pence may be able to help us find a short-term solution at the upcoming round of the Japan – U.S. Economic Dialogue. Either way, we need a long-term solution in the form of a bilateral trade agreement that meets or exceeds the terms of TPP.

Japan is moving forward with negotiations with our competitors. Recently, Japan and the European Union announced they are close to finalizing terms of a trade agreement. The Japanese have stated they are willing to give the European Union beef producers similar terms to those negotiated in TPP. Canada and New Zealand are also pursuing trade agreements with Japan. How will U.S. beef remain competitive in the long run if our competitors have preferential tariff treatment?



Conclusion

While we are extremely grateful to the Trump Administration and our supporters on Capitol Hill who worked hard to restore U.S. beef access to China, we are extremely concerned that prolonged NAFTA negotiations and withdrawal/modifications to KORUS will pose unnecessary setbacks for the U.S. beef industry. In these cases, we stand to lose more than we stand to gain. Our ardent desire is for U.S. negotiators to focus on securing new market access for U.S. beef exports, starting with making up the ground we lost by walking away from TPP. We need President Trump to deliver on the promise of a better deal with Japan, Vietnam, Malaysia, and the other TPP countries that are vital to the long-term success of the U.S. beef industry. There is no question that the political rhetoric of the previous election poisoned the well for TPP, with negative consequences for U.S. beef producers and rural economies. It is time for the U.S. government to make it right and expend all necessary resources to secure Asia-Pacific markets for future generations of U.S. beef producers.