Fighting for the U.S. Cattle Producer!

R-CALF USA

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United States President Barack Obama
The White House
1600 Pennsylvania Ave., NW
Washington, DC 20500

Re: **Pending Free Trade Agreements Are Fundamentally Flawed and Must be Rejected**

Dear Mr. President:

We write to counter the tremendous pressure numerous agribusiness organizations are exerting on both you and Congress to approve three free trade agreements (FTAs) negotiated by the previous Administration: the United States-Republic of Korea Free Trade Agreement (U.S.-South Korea FTA), the United States-Colombia Trade Promotion Agreement, and the United States-Panama Trade Promotion Agreement.

Each of these FTAs are fundamentally flawed, devoid of provisions essential to the economic wellbeing of U.S. cattle farmers and ranchers (cattle producers) and likely will accelerate the already deplorable contraction of the U.S. cattle industry and hollowing-out of rural communities across America.

Not one of these FTAs contains any recognition for the unique characteristics of the U.S. cattle industry. In that respect, these proposed FTAs are comparable to the 11 FTAs the U.S. already has implemented with 17 individual countries. The U.S. deficit in the trade of cattle and beef with the preexisting 17 FTA countries increased from $1.3 billion in 1989 to over $2.1 billion in 2008, and the cumulative U.S. trade deficit generated over this 20-year period with these 17 FTA countries was $37.6 billion.[1] This untenable trade deficit is a principal factor in the ongoing contraction of the U.S. cattle industry and ongoing loss of economic vigor in rural communities.

Specifically, like the 11 preexisting FTAs, the three proposed FTAs do not contain any recognition for: 1) the highly perishable nature of U.S. fed cattle (making the value of fed cattle highly susceptible to increases in imported supplies); 2) the fact that cattle have the longest biological cycle of any farmed animal (making those in the industry incapable of timely adjustment of their production schedules in response to changes in demand); 3) the fact that non-participating FTA countries can nevertheless export their live cattle to a participating FTA

[1] *See* Global Agricultural Trade System Online, FATUS Data, U.S. Department of Agriculture, Foreign Agricultural Service, accessible at **http://www.fas.usda.gov/gats/default.aspx**.

country, with the resulting beef shipped to the U.S. duty free under the FTA (due to the inappropriate rules of origin that facilitate transshipment of cattle); and, 4) the fact that the U.S. beef industry is sufficiently concentrated to facilitate the beef packers' exercise of abusive market power.

Regarding this last characteristic, the U.S. International Trade Commission (USITC) found that the present, concentrated structure of the U.S. cattle industry enables beef packers to exercise market power to pass lost profits that may be caused by increased imports back to U.S. cattle producers in the form of lower cattle prices:

> U.S. beef packers operate on the margin between wholesale beef prices and slaughter cattle prices. Market structure suggests that processors can eventually pass most, if not all, of any decrease in the price of wholesale beef on to cattle producers in terms of lower slaughter cattle prices.[2]

Because the current structure of the beef packing industry enables it to defy competitive market forces and pass its losses resulting from lower wholesale beef prices directly to the U.S. cattle industry, it is obvious that the beef packing industry possesses equally sufficient market power to determine what it will and will not pass to the U.S. cattle industry. With such competition-defying market power, the beef packing industry likewise is positioned to capture increased profits that result from increased export sales and higher wholesale beef prices, *without passing such increased profits on to U.S. cattle producers in the form of higher cattle prices*.

It is R-CALF USA's firm belief and conviction that the U.S. beef packing industry remains insulated from negative price movements associated with increased import volumes and is capturing for itself positive price movements associated with increased exports. And, empirical evidence substantiates this claim: e.g., during the 9-year period 1994-2002, U.S. beef exports rose at a rapid pace and reached record highs; yet, U.S. live cattle prices remained severely depressed, triggering the unprecedented liquidation of the U.S. cattle herd that began in 1996 and continues today. *It was not until U.S. export volumes fell to a 19-year low (beginning in 2003 and culminating in 2004) that U.S. live cattle prices rebounded – reaching the highest actual prices in history.*

The U.S.-South Korea FTA is touted by agribusiness interests as being particularly beneficial to U.S. cattle producers. However, like all previous FTAs, it incorporates an inappropriate rule of origin that, e.g., would allow cattle imported from neighboring China, which controls the third largest cattle herd in the world, to be slaughtered in South Korea and the resulting beef would then be eligible for duty-free export to the United States because the standard for determining a product's origin remains the country where the product was last substantially transformed. Given the perpetual nature of FTAs, this deficiency presents a compelling threat to the economic well-being of independent U.S. cattle producers.

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[2] U.S.-Australia Free Trade Agreement: Potential Economywide and Selected Sectoral Effects, U.S. International Trade Commission, Investigation No. TA-2104-11, USITC Publication 3697 (May 2004), at 44, fn 25.

Conversely, the U.S.-South Korea FTA also would allow a U.S. beef packer to exclusively import live cattle for immediate slaughter from Canada and Mexico and then export the resulting beef duty free to South Korea as if the beef was of U.S. origin, replete with a USDA grade stamp. Under this scenario, U.S. cattle producers would not realize any benefit from increased export sales as the U.S. cattle industry adds no value to cattle imported for immediate slaughter – the benefits flow exclusively to U.S. beef packers. In 2007, U.S. beef packers produced approximately 600 million pounds of beef from cattle imported for immediate slaughter.[3] During that year, the U.S. exported approximately 78 million pounds of beef to South Korea.[4] Thus, U.S. beef packers could export more than 7 times more beef to South Korea than they did in 2007 without any benefits flowing to the U.S. cattle industry.

The U.S.-South Korea FTA, as currently written, is designed to benefit U.S. beef packers at the exclusion of U.S. cattle producers; and, it gives U.S. beef packers the ability to impose an anticompetitive financial hardship on South Korean cattle producers. This is because the rule of origin makes it possible for beef packers to import cheaper cattle from Canada and Mexico and then export the resulting beef to South Korea at a price lower than the prevailing price for beef produced from U.S. cattle. Moreover, the cattle and other products entering the U.S. are no longer required to meet identical U.S. safety requirements, thus jeopardizing the reputation of the U.S. as a supplier of safe food products. R-CALF USA does not believe it is your intent or Congress' intent to enter into an FTA that would allow beef packers to game the system by depriving U.S. cattle producers of benefits that *should* materialize with increased exports (but historical data show they do not) and by financially harming cattle producers in South Korea, but that is precisely what the U.S.-South Korea FTA would do.

If your Administration is serious about revitalizing the largest single segment of American agriculture – the U.S. live cattle industry, which is an essential prerequisite to the revitalization of Rural America – then the U.S.-South Korea FTA, the U.S.-Colombia FTA, and the U.S.-Panama FTA must each be renegotiated to incorporate provisions that recognize the unique characteristics of the U.S. live cattle industry.

R-CALF USA implores you to reject the U.S.-South Korea FTA, the U.S.-Colombia FTA and the U.S.-Panama FTA and to place a moratorium on any future FTAs until the following conditions are met:

1. Thoroughly assess the impacts that current FTAs have had, and are having, on the profitability and viability of *independent U.S. cattle producers* and take into account the market concentration and cattle procurement practices in the industry, as well as

[3] *See* Livestock and Meat Trade Data, Cattle: Annual and cumulative year-to-date U.S. trade (head), U.S. Department of Agriculture, Economic Research Service (estimate based on multiplying the number of cattle imported for slaughter by the 2007 annual average carcass weight of 776 pounds), available at http://www.ers.usda.gov/data/meattrade/CattleYearly.htm**.**

[4] *See* Livestock and Meat Trade Data, Beef and Veal: Annual and cumulative year-to-date U.S. trade (carcass weight, 1,000 pounds), U.S. Department of Agriculture, Economic Research Service, available at http://www.ers.usda.gov/data/meattrade/BeefVealYearly.htm.

the perishable nature of live cattle and the cyclical nature of the live cattle industry in the assessment.

2. Revise the current standard of “substantial transformation” used to determine a product’s country-of-origin for trade purposes by establishing that the origin for beef and products derived from cattle shall be the country where the animal from which the beef is derived was born, raised and slaughtered, which also shall be the only beef eligible for the U.S. grade stamp.
3. Reverse the United States’ recently weakened disease import standards and food safety standards by prohibiting imports from countries where pernicious diseases are known to exist and by requiring monthly inspections of foreign meat establishments and requiring those establishments to meet food safety standards that are at least equal to those of the United States.
4. As required in the Trade Act of 2002, incorporate special rules that include both volume-based and price-based safeguards in recognition of the perishable and cyclical nature of cattle and beef, that are applicable to both cattle and beef, and that they be automatic in application.
5. Designate cattle and beef as like/kind products and recognize that beef is imported in two distinct forms: pre-slaughtered beef (live cattle) and post-slaughtered beef (beef).

Mr. President, the trade policies and trade practices pursued and implemented by the United States for longer than two decades are destroying the economic integrity of the U.S. live cattle industry. The U.S.-South Korea FTA, U.S.-Columbia FTA and U.S.-Panama FTA each replicate the deficiencies contained in prior agreements and will exacerbate the mounting harm created by those agreements. The benefactors of current trade policies and trade practices are the highly concentrated beef packers that continue today to exploit the hard working men and women who comprise the U.S. cattle industry.

We would be pleased to meet with you to discuss in greater detail the reforms needed to establish a national trade strategy with potential to enhance the economic well-being of independent cattle producers without exploiting our fellow cattle producers around the globe in the process.

Sincerely,

Bill Bullard, CEO

Cc: The Honorable Tom Vilsack
The Honorable Ron Kirk