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Tuesday, March 23, 2010

Marilyn R. Abbott  
Secretary  
U.S. International Trade Commission  
500 E Street SW  
Washington, D.C. 20436

***Re: U.S.- Trans-Pacific Partnership Free Trade Agreement: Advice on Probable Economic Effect of Providing Duty-Free Treatment for Imports***

Dear Secretary Abbott:

Thank you for this opportunity to submit these additional comments, in response to the March 2, 2010 hearing of the U.S. International Trade Commission's (ITC) investigation into the ***Proposed Trans-Pacific Partnership Agreement: Advice on Probable Economic Effect of Providing Duty-Free Treatment for Imports***. The United States Cattlemen's Association (USCA) represents cow-calf producers, backgrounders, and feedlot operators from across the country and is pleased to assist the ITC in its investigation.

Jess Peterson, USCA's Executive Vice President, testified at the March 2, 2010 hearing. Following the testimonies of Mr. Peterson and his fellow witnesses, the Commissioners of the ITC posed several additional questions. USCA offers the following responses to these questions. The Commissioners asked the following:

**What is the current beef consumption rate in the U.S? What will it look like in the next three years?**

In 2008 the United States population consumed approximately 27.3 billion total pounds of beef, about sixty pounds on a per capita basis. Prior to the BSE-related events in late December of 2003, the U.S. was also the world's largest exporter of beef. The pound per capita rate has steadily declined over the past 20 years, and a United States Department of Agriculture (USDA) Economic Research Service (ERS) projection expects that number to marginally decline in the immediate future.<sup>1</sup>

USDA data shows that per capita beef consumption rose from around 66lbs. in the early 1960's to a ceiling in the 1970's of 88lbs. Since 1990 per capita beef consumption has ranged from 66lbs. to 67.5 lbs annually, in 2008 consumption was at 62.7lbs per capita and numbers for 2009

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<sup>1</sup> USDA ERS, Agricultural Baseline Projections: U.S. Livestock, 2010 - 2019

are estimated at 61.2 lbs. with 2010 at 59.8lbs. The last 2 years have been a reflection of the significant drop in the U.S. cow herd and available beef supplies. USCA believes we will see a continued decline for the next few years, until the U.S. cow herd starts rebuilding. Properly managed trade policy and cattle sector management could improve US beef supplies starting as early as 2011. However currently U.S. beef disappearance (we don't know if all that beef actually is consumed) is expected to decline 2.3% in 2010 and is now down some 8.6% compared to 2007 levels.

**What is the estimated value of byproducts – i.e. hide, tongue, and offal and does this have an impact on live cattle prices?**

By-product value (also referred to as hide and offal or “drop credit”) is reported in USDA’s daily Market News and has significant influence regarding the price of live cattle. The March 9, 2010, USDA Market News reported such values of a finished steer/heifer to be \$10.16/cwt.

The hide and offal value is reported by the United States Department of Agriculture in the National Car Lot Meat Report (“Blue Sheet”), published by the Livestock & Grain Market News in Des Moines, Iowa. As a result of rising fuel costs, tallow, which can be refined into fuel has significantly increased in value. September of 2008 Texas A&M University reported that currently, total hide and offal value is \$11-12/cwt live. In a June 17, 2009 report USDA ERS noted that about 60 to 70 percent of byproduct value is a result of the value of hides.

Subsequently, overall hide and offal value has increased over the last two years by about \$54/head. The biggest contributor to that increase is the fluctuation in the price of tallow; the prices of livers and meat-and-bone meal also have been highly influential. (USDA-AMS)

To provide additional background on the value of byproducts USCA would like to reference the “U.S. Beef By-Product Markets” John M. Marsh and Gary W. Brester –January 17<sup>th</sup>, 2001. John M. Marsh and Gary W. Brester are Professors in the Department of Agricultural Economics and Economics, Montana State University–Bozeman, MT. Their paper outlines the point that packer sales of beef by-products influence business decisions regarding prices bid for fed cattle. Much of the demand activity for U.S. by-products is contingent upon economic conditions in international markets such as income growth, exchange rates, and trade barriers. By-product exports are nearly as important to the U.S. beef industry as beef exports and international markets are an important source of demand for U.S. beef by-products. On average, the U.S. exports about 40 percent of its production of cattle hides, variety meats, and tallow. By comparison, the U.S. exports about 8 percent of total domestic beef supplies. By-product export values averaged about \$1.7 billion over the 1989–1999 period, about 77 percent of average beef export value (\$2.2 billion) for the same period. Cattle hides constitute about 60 percent of average byproduct value. From 1990 to 1999, beef by-product value was relatively volatile, ranging from \$82/head to \$103/head. This resulted in changing fed steer and feeder steer prices (about their average values) by \$3.57/cwt (\$43/head) and \$5.12/cwt (\$31/head), respectively. Their research evidences a 10 percent increase in by-product price increases, fed steer price by 1.4 percent to 2.4 percent and, subsequently, feeder steer price by 1.7 percent to 2.9 percent. Marsh and Brester also reported in March of 2002 that a loss in these export markets would cost U.S. cattle producers a reduction of \$6.30/cwt caused by eliminating by-product exports

Data from the Livestock Marketing Information Center indicate that from 1986 to 1999, the average difference between boxed beef revenues and cattle purchase costs for a 1,000 pound

slaughter steer in the Midwest was about -\$5/head. Value differences varied within a large range of +\$42 to-\$22/head. During this period, average by-product value was about \$88/head, with a range of \$61 to \$103/head. There was a general increase in all byproduct values (unadjusted for inflation) from 1986 to 1999. When by-product values decline, packer cattle margins tend to rise as packers bid less for fed cattle to remain viable.

The Texas Cattle Feeders Association (TCFA) reported in August of 2009 that hide and offal values gained significant ground, helping support fed-cattle values throughout the summer of 2009. TCFA notes that byproduct values hit a low of \$5.63 per hundredweight in March, but have rallied 43 percent, \$2.43 per hundredweight on a live-weight basis, to an average \$8.06. Hide prices, according to TCFA, have increased by 67 percent since spring, and tallow prices have jumped 92 percent

**What is the status of the competition for the U.S. grass fed beef market? Is the U.S. or foreign competitors dominating this market? Please provide numbers on both.**

After a review of market reports and data polling services USCA ascertained that there is not enough actual data to provide an accurate response to these questions. Hopefully that data will begin to be reported in the months and years to come

**How can the US Australian safeguards be better?**

The U.S. – Australia FTA contains two important safeguards on imported beef. These safeguards were negotiated to fulfill the negotiating objectives Congress set out for perishable and cyclical products, including livestock and meat products, in the Trade Act of 2002. The Act directs U.S. trade negotiators to seek trade agreement provisions that “improv[e] import relief mechanisms to recognize the unique characteristics of perishable and cyclical agriculture.”<sup>2</sup> On the Senate floor, Senator Enzi of Wyoming explained why livestock is considered a perishable product under the legislation:

“Cattle ready for slaughter must be processed within two to three weeks of reaching their optimal weight. Once above the optimal weight, cattle gain fat and not muscle. With this quality loss, livestock producers suffer drastic price discounts that can wipe out their profits.<sup>3</sup> Therefore, during a colloquy, Senators agreed that the negotiating objective “would clearly cover livestock and fresh meat products.”<sup>4</sup>

Because of the very limited marketing periods, as explained by Senator Enzi, cattle producers are particularly susceptible to dramatic price effects due to even a small increase in imports. A relatively minor increase in beef import volume or drop in beef import prices during this limited marketing window can force domestic cattle producers to sell at a loss, since they cannot hold their product in inventory as producers of non-perishable products may. Responsive and

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<sup>2</sup> 19 U.S.C. § 3802(b)(10).

<sup>3</sup> Congressional Record, Page S4800 (May 23, 2002) (Sen. Enzi).

<sup>4</sup> *Id.*

effective import relief mechanisms are particularly important to prevent damaging market disruptions in the cattle sector.

While an important step in the right direction, the safeguards in the U.S. – Australia FTA should be improved upon in any future agreement. The safeguards possess several valuable features: they operate on the basis of volume and price triggers, they continue after tariffs and quotas phase out, and the triggers and resulting relief are transparent and predictable.<sup>5</sup> However, the safeguards also contain several weaknesses that should be eliminated in future agreements. First, the safeguards are both discretionary.<sup>6</sup> This is a major concern, as it introduces uncertainty for producers as to whether or not the safeguards will apply when market disruption is threatened. Even if the discretion is exercised in favor of applying the safeguard, the time it takes to make the decision could deprive the safeguard of much of its value in the market, given the perishable nature of cattle. Thus, any future safeguard should be made fully automatic, and relief should be immediate whenever the criteria are met.

A second weakness in the Australia beef safeguards is the failure to provide a snapback of tariffs to full most favored nation tariff (MFN) rate levels when the safeguard is triggered. U.S. imports of beef that exceed a country's quota level are generally subject to MFN tariff rates of 26.4 percent.<sup>7</sup> Starting in year nine of the Australia FTA, these out-of-quota tariff rates begin to decline by 6.7 percent a year and the declines increase to 13.3 percent annual cuts starting in year fourteen of the agreement.<sup>8</sup> If Australia exceeds its FTA quota by more than ten percent in any given year, the tariff reduction for out-of-quota imports will be mitigated, but not eliminated, for the rest of that calendar year.<sup>9</sup> The price-based safeguard suffers from a similar failure to provide full snapback. Once tariffs and quotas are eliminated on imports from Australia in year nineteen of the agreement, the price-based safeguard may apply. If U.S. monthly prices fall significantly below the two-year average for two months in a row, tariffs may be partially – but not fully – restored on imports from Australia that exceed the highest quota volume permitted in year eighteen of the agreement.<sup>10</sup> The tariff increase will apply for the quarter succeeding the months of domestic price decline. Because the safeguards fail to restore tariffs to the full MFN

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<sup>5</sup> U.S. – Australia FTA, Annex 3-A, Agricultural Safeguard Measures, Schedule of the United States, Sections B and C.

<sup>7</sup> See Harmonized Tariff Schedule of the United States (2010), Column 1 Rate of Duty for HTS 0201.10.50, 0201.20.80, 0201.30.80, 0202.10.50, 0202.20.80, 0202.30.80.

<sup>8</sup> U.S. – Australia FTA, Annex 2-B, Schedule of the United States, General Notes, Annex I, paragraph 3(b).

<sup>9</sup> U.S. – Australia FTA, Annex 3-A, Agricultural Safeguard Measures, Schedule of the United States, Section B, paragraph 2 (additional tariff will equal 75 percent of the difference between the MFN rate and the reduced FTA rate).

<sup>10</sup> *Id.* at Section C, paragraph 2 (the additional tariff equals 65 percent of the MFN tariff, or 17.16 percent).

rate, they fail to temporarily reinstate the market conditions that predate the FTA and therefore fail to fully protect producers from the harmful effects of FTA-related market disruptions.

A third flaw in the safeguards is a failure to recognize the inherent link between cattle prices and beef import volume and prices. After tariffs and quotas are eliminated, the price-based safeguard is the only one that applies, since there are no more quota levels that can serve as a volume trigger. However, the price-based safeguard is only triggered by a decline in beef prices whereas a more comprehensive safeguard would also contain a trigger based on a decline in cattle prices, since cattle prices are highly sensitive to beef imports. This additional trigger would help shield producers from higher volumes of imported beef even after a volume-based trigger is eliminated. Higher beef import volumes will depress prices in the cattle market perhaps even more markedly than they will impact prices in the beef market. Because cattle themselves are an inherently perishable commodity, should Congress seek to shield from market disruptions through more effective import relief mechanisms, cattle prices should be taken directly into account in any effective beef import safeguard.

Thank you again for the opportunity to submit these additional comments and responses to your questions at the March 2, 2010 hearing. We look forward to providing any additional information that may be helpful to you, and stand ready to provide further assistance.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jim Webster".

President  
U.S. Cattlemen's Association