NATIONAL CATTLEMEN'S BEEF ASSOCIATION
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Testimony

of the

National Cattlemen's Beef Association

to the

Finance Committee

United States Senate

Unfulfilled Promises: Mexican Barriers to U.S. Agricultural Exports

Presented by

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CEO

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Producer-directed and consumer-focused, the National Cattlemen's Beef Association is the trade association of America's cattle farmers and ranchers, and the marketing organization for the largest segment of the nation's food and fiber industry.

Good morning. My name is Terry Stokes and I am the Chief Executive Officer for the National Cattlemen's Beef Association, headed in Denver, Colorado. The NCBA appreciates the opportunity to present our views on the long-time trading relationship between the U.S. and Mexico in live cattle and beef trade.

Cattle have been traded across the U.S.-Mexico border for more than a century, and a close relationship between the U.S. and Mexican cattle industries continues today, mostly due to the tremendous success of the North American Free Trade Agreement (NAFTA). Mexico's 103 million citizens have experienced a 33 percent increase in per capita income over the last five years, and this increase in disposable income has led directly to increased Mexican beef consumption.

While Mexico's domestic beef production has struggled to expand and meet this demand in recent years, U.S. beef and beef variety meat exports to Mexico have grown to fill the gap. Prior to NAFTA, Mexico was an inconsistent market, with U.S. exports of 100,000 mt and $200 million. In 2002, Mexico was our most significant market in terms of tonnage, at 350,000 mt and $854 million. (Japan remains our largest market with 2002 beef and variety meat exports, totaling $1.028 billion.) When our industry sought NAFTA more than a decade ago, no one imagined that one day Mexico would become one of the U.S. beef industry's best markets.

This is a mutually beneficial trading relationship, as the U.S. imports approximately one million head of Mexican feeder cattle each year at a value of over $300 million. In fact, today's integrated North American cattle market looks very much like what was envisioned more than a decade ago by NAFTA proponents, with consumer-driven economic signals on both sides of the border dictating the future direction of this industry.

A Possible WTO Safeguard

Despite years of cooperation between U.S. and Mexican cattle producers on a wide variety of issues, NCBA received news earlier this year that the Mexican cattle industry had filed a petition with its government asking for a safeguard due to a "surge" in beef imports. Although the details are still not clear regarding exactly which Mexican entity is behind this effort, it is believed that the Mexican livestock producer group *Confederacion Nacional de Organizaciones Ganaderas* (CNG) filed this petition, and that both CNG and the Mexican Cattle Feeders Association (AMEG) strongly support this initiative.

Such a case, if accepted by the Mexican government, would have to meet the "surge" and "injury" criteria of a WTO safeguard. NCBA sees no evidence that these criteria ever existed and the acceptance of such a case, when 2003 U.S. beef and variety meat exports to Mexico are down from 2002 levels, seems inconceivable. Initially this posturing was thought to be politically motivated prior to Mexico's election earlier this year. However, NCBA continues to believe that the Mexican government may yet bring a safeguard petition forward.

We do not mean to suggest that the Mexican cattle industry has not suffered significant turmoil in recent years. Yes, the Mexican cattle industry suffers from an inability to meet the country's growing demand for beef. However, these problems stem from a persistent drought and the typical Mexican cattle ranchers' inability to borrow money due to the absence of banking infrastructure in rural Mexico. They are not issues that have anything to do with the U.S. beef industry or NAFTA.

Yet NCBA has repeatedly heard from the CNG leadership that they want "a deal like you did with (U.S.-Mexican) poultry." These officials make no apologies for their desire to renegotiate NAFTA in favor of some form of "managed trade" due to their misguided belief that U.S. beef is somehow being sold to Mexico for less than its cost of production. NCBA's response has been a consistent reminder that the tariff on beef trade between the two nations has been zero since 1994.

U.S. beef export market promotion efforts in Mexico, funded by the beef checkoff and U.S. taxpayer dollars via the USDA/FAS cooperator program, have paid great dividends for both Mexican and U.S. beef producers. Remarkably, however, it seems that some in the Mexican cattle industry seek the old, failed ways of a protectionist system, rather than taking the necessary steps to resolve the many structural issues their industry faces and to gain a better understanding of the marketplace.

Despite repeated efforts by USDA and USTR to help the Mexican government better understand the U.S.-Mexican beef trading relationship—which included a trip to Mexico City in April and several discussions between NCBA, CNG officials, and SAGARPA Secretary Usabiaga to resolve these tensions—NCBA still believes that Mexico is considering bringing a WTO safeguard case against the U.S. beef industry.

Key technical points:

- If an investigation were initiated upon acceptance of CNG's petition, this Mexican (beef) safeguard case would be the fourth for Mexico ('93 fishmeal Chile; plywood and chicken were the previous three.) The chicken case was the only one that involved a provisional duty.

- The U.S. cannot ask for a WTO panel on a safeguard case until there has been a final determination by the Mexican government, which has 260 business days to impose a FINAL determination. (Note: Mexican law changed regarding the safeguard timeline on 14-March-2003.)

- If imposed, the safeguard (tariff) measure can only be in effect for six months under Mexican law. At the end of this six-month (approximately 180 day) period, rather than the 260 business days, Mexico is obligated to make a final determination regarding the safeguard.

The NAFTA Anti-dumping Duty

The imposition of any potential interim safeguard tariff would be unprecedented, as it would go on top of the arbitrary and capricious NAFTA anti-dumping duties that Mexico imposed on April 28, 2000. On that date, Mexico's Secretariat of Commerce and Industrial Development (SECOFI) issued its final decision on the antidumping case against exporters of U.S. beef and beef variety meats by imposing a complex set of specific duties on most beef carcasses and cuts. Typically, an anti-dumping preliminary measure cannot last for more than four months, making this beef anti-dumping measure extraordinary, although it is possible to make a request for an extension. These duties are still in place today, which serve to lock many U.S. export interests out of the Mexican market.

As we recently indicated in a September 9 letter to Ambassador Zoellick (Attachment 1), repeated delays in the NAFTA panel's decision regarding this anti-dumping tariff are yet another example of where significant effort is needed to preserve the legitimacy of our existing trade agreements. As we stated in our letter, "the behavior of this panel undermines the credibility of our trade agreements and casts a dark shadow over the dispute settlement process. At a time when we are negotiating both free trade agreements and another WTO round in an unprecedented fashion, this type of behavior is simply unacceptable."

SUMMARY

Several factors have or continue to irritate the U.S.-Mexican cattle and beef trading relationship including:

- Mexico's highly charged post-election political environment
- Outbreaks of tuberculosis (TB) in California dairy herds, which prompted a Texas proposal for more stringent regulations at the Texas-Mexico border
- The Mexican drought and an overall decline in profitability in the Mexican cow-calf industry
- Reduced U.S. imports of Mexican feeder cattle in 2002 primarily due to an increase in US imports of Canadian feeder cattle due to last year's severe drought in Canada
- The Mexican cattle industry's limited access capital (interest rates are 16-20 percent if a producer is able to obtain a loan) may be the industry's greatest challenge for the future
- Aggressive efforts to penetrate the Mexican retail food sector by Wal-Mart and Costco
- A desire by some in Mexico to develop their domestic feedlot and meat packing industry without the threat of staunch U.S. competition
- CNG's concerns over the U.S. Country-of-Origin labeling law
- There appears to be a lack of understanding in Mexico concerning how beef is marketed and sold in the United States. NCBA will continue to meet with CNG and to help them understand how the U.S. cattle industry works and the costs associated with the U.S. beef marketing chain

The Mexican government has turned down beef safeguards in the past but the aftermath of this year's hotly contested election may be making this a very difficult thing for the government to do this time around despite the fact that there is absolutely no "surge" in U.S. beef exports to Mexico. It should also be noted that beef is not the only agricultural commodity currently being disputed between the two countries.

Mexican beef imports rose in close correlation with a stronger Mexican economy. This is a RESULT of Mexico's inability to expand its domestic production, not the cause. Weakness in the Mexican economy combined with higher U.S. beef prices also correlate very closely with the slide in Mexican imports of U.S. beef during 2003.

A recent analysis of future trends by the Food and Ag Policy Research Institute (FAPRI) shows U.S. beef production growing 14 percent by 2012 and a subsequent 28 percent (or roughly $900 million) increase in U.S. beef exports. Clearly, our industry's future growth is dependent upon our ability to export. NCBA's trade expansion goals mean that we simply cannot let existing trading relationships slip, or take them for granted. There must be a firm commitment to existing agreements by industry stakeholders and the U.S. government. This includes a constant fostering of relationships with our trading partners and constant vigilance with respect to maintaining compliance. With the Mexican election now over, it is time get these trade irritant "genies" back in their respective bottles.

Thank you for the opportunity to present this information before the committee.

Attachment 1

September 9, 2003

The Honorable Robert Zoellick
United States Trade Representative
600 17th Street, NW
Washington, DC 20508

Dear Ambassador Zoellick:

The National Cattlemen's Beef Association would like to bring to your attention our concerns on a long-overdue matter, a decision in the NAFTA Chapter 19 panel regarding: <u>Bovine Carcasses and Half Carcasses, Fresh or Chilled Originating in the United States of America</u> (MEX-USA-00-1904-02).

On April 28, 2000, Mexico's Secretariat of Commerce and Industrial Development (SECOFI) issued a final decision on the antidumping case against exporters of U.S. beef and beef variety meats by imposing a complex set of specific duties on most beef carcasses and cuts. In July of 2000 a NAFTA panel was first formed to rule on this issue but delays in selecting panelists meant that this panel didn't begin its work until March 30, 2001.

Earlier this year, we were encouraged by the fact that, after more than two years, this panel was finally going to issue its long-overdue ruling on June 10, 2003. Several days after this deadline passed, we learned that the decision would be postponed until August 29, 2003, with no explanation given. Just days before this deadline, however, we learned of yet another delay, this time until October 31, 2003 and again, no reasoning for the delay was provided.

We strongly object to this panel's actions, or rather the lack thereof, and the lack of transparency in how it has conducted business. Historically, it has been assumed that panelists involved with the NAFTA dispute settlement process under Chapter 19 warranted the highest degree of trust, professionalism and respect. However, the inability of this panel to conduct its business in a timely and transparent way is indicative of its mismanagement.

The behavior of this panel undermines the credibility of our trade agreements and casts a dark shadow over the dispute settlement process. At a time when we are negotiating both free trade agreements and another WTO round in an unprecedented fashion, this type of behavior is simply unacceptable.

U.S. cattlemen wish to bring this issue to your attention and ask for your intervention toward a resolution of this case. This case has cost US beef producers million of dollars in lost beef exports to Mexico and has also hit small and medium sized US packers and processors significantly.

Thank you for your prompt attention to this very important matter.

Sincerely,

Eric Davis

Eric Davis
President

Cc: The Honorable Ann Veneman, Secretary of Agriculture
The Honorable Caratine Alston, United States Secretary, NAFTA Secretariat