

TESTIMONY  
OF  
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SENATE FINANCE COMMITTEE  
SUBCOMMITTEE ON INTERNATIONAL TRADE

“NAFTA AT YEAR TWELVE”

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Mr. Chairman, members of the Subcommittee. I am Jim Magagna, Executive Vice President of the Wyoming Stock Growers Association (WSGA), the 134 year old voice of the Wyoming cattle industry. I am also a life-long sheep producer and former president of the American Sheep Industry Association. I appreciate the opportunity to appear before you today to share our perspectives on “NAFTA at Year Twelve”.

My remarks this afternoon will focus on two areas that affect the livestock industry. The first of these is the evolving dichotomy with which the three nations have come to redefine the beef industry under NAFTA. Then I will focus on weaknesses in NAFTA in assuring that sanitary and phytosanitary measures are not employed as trade barriers. Beef and cattle trade between the U.S. and its NAFTA partners has been highly distorted by the outbreak of BSE in Canadian cattle and the subsequent detection of BSE in a Canadian born animal in Washington State. Unless indicated otherwise, my remarks will focus on the impacts of NAFTA prior to this distortion.

By way of background, I want to emphasize that NAFTA has provided both challenges and opportunities to livestock producers. In some northern tier states, cow/calf producers have seen increased competition for feeder cattle coming from Canadian feedlots. Southern state cattle feeders have benefited from the availability of Mexican feeder cattle to keep their lots operating nearer capacity. Wyoming has not seen any identifiable benefit from either of these opportunities.

Trade data confirms that there has been a significant increase in U.S. export of beef, in particular high value cuts, to Mexico, as a result of the reduction and removal of tariffs under NAFTA. At the same time, the supply of USDA graded beef available for both export and domestic consumption has been significantly increased by the ease with which Mexican feeder cattle and Canadian fed cattle can be imported into our market. While several segments of the beef industry have benefited from this combination of NAFTA – enhanced market adjustments, we find no evidence that the U.S. cow/calf producer has been one of those beneficiaries.

A comparison of beef and live cattle imports/exports between the U. S and its NAFTA partners for the first ten years of NAFTA compared to the previous ten year period reveals that the combined country effects of NAFTA trade were a reduction in U.S. fed cattle prices of \$.82 cwt for fed cattle or \$330 million dollars of fed cattle revenue. U.S net beef imports (imports less exports) from Canada increased by 128% while net imports from Mexico, a much smaller market, decreased by 192%. Most directly affecting northern tier states cow/calf producers has been the impact of increased Canadian trade in fed and feeder cattle--\$1.35cwt and \$.77 respectively. This has cost the U.S industry \$980 million. It is important to recognize that this increase occurred even though U.S./Canadian cattle trade was already liberalized under terms of the Canadian Free Trade Agreement prior to NAFTA. (Source: “Post NAFTA and the U. S. Beef Market”, John Marsh, Professor, Department of Agricultural Economics and Economics, Montana State University, Bozeman).

I will address my first point on redefining the beef industry. NAFTA sought to remove agricultural trade barriers and phase out tariffs among the three signatory nations. It did not, at least in the explicit language of the agreement, call for a total integration of the respective industries of each nation that constitute the agricultural sector. U.S. cattle producers view their counterparts in Canada and Mexico as both partners and competitors. We have much to gain through strong communication, shared information and a cooperative approach in addressing disease, food safety and production issues. At the same time we must remain realistic in recognizing that we are marketplace competitors all the way from the seedstock industry to the consumer.

We recognize that certain segments of the beef industry are benefited by promoting the concept of a “North American Beef Industry”. The cow/calf segment is not one of these. For this reason, the Wyoming Stock Growers Association has been vocal in its objection to federal government references to the North American Beef Industry. We are particularly concerned with the apparent prevalence of this view in the USDA under the current administration.

Meanwhile, it has been our observation that Mexico has been vigilant in recognizing and supporting the independence of its significantly smaller and more fragile cattle industry. Canada has adeptly played their cards on integration vs. independence as they have worked their way through the current BSE crisis.

WSGA believes that critical factors that independently affect the beef industry in each nation make the concept of a single industry unrealistic, impractical and harmful. These include differences among the three nations in regulatory burdens (environmental controls, animal welfare requirements, labor laws, etc.), economic policy and political philosophy.

Our expressed concern with the perspective of North American Beef Industry does not call for specific revisions to the NAFTA agreement. However, it does beg for specific direction to those who represent the U.S in discussion of possible changes to NAFTA as well as to those responsible for U.S. agricultural policy. We urge this subcommittee to play a leading role in providing that direction.

I will now turn my attention to the issue of the application of sanitary and phytosanitary provisions contained in NAFTA. Article 712 (1) provides that ,” *Each Party may, in accordance with this Section, adopt, maintain or apply any sanitary or phytosanitary measure necessary for the protection of human, animal or plant life or health in its territory, including a measure more stringent than an international standard, guideline or recommendation.*” Article 715 requires that such measures be based on scientific principles and appropriate risk assessment.

Perhaps recognizing the temptations that would exist, a subsequent provision in Article 15 entitled “Disguised Provisions” warns, *No Party may adopt, maintain or apply any sanitary or phytosanitary measure with a view to, or with the effect of, creating a disguised restriction on trade between the Parties.* WSGA believes that in fact sanitary

and phytosanitary measures have been used by our NAFTA partners in a manner that constitutes trade restrictions.

We have repeatedly seen the government of Mexico close its borders for a period of time to the importation of sheep and to import of specific variety meats from the U.S. Animal health and food safety concerns have been presented as justification for such actions. While we do not challenge the sovereign authority of a NAFTA nation to take any such actions, we do not believe that these actions have been fully supported by sound science or acceptable risk analysis.

NAFTA should move member nations toward a harmonization of sanitary and phytosanitary standards. Over the first eleven years of NAFTA we did not achieve this goal in our relationship with Canada. Repeated efforts by the U.S. cattle industry to achieve removal of scientifically unjustified restrictions on the import of U.S. cattle based on bluetongue and anaplasmosis restrictions were unsuccessful. These restrictions could not be defended based on sound science or a defensible risk analysis. They have finally been relaxed this year. It is apparent to us that this relaxation was undertaken to encourage a more favorable U.S. industry response toward further opening of the border to imports of Canadian live cattle, not in an effort to comply with NAFTA's provisions.

We acknowledge that, since the discovery of BSE in Canadian cattle, some within the U.S. cattle industry have sought to utilize animal health and food safety concerns as an economic tool to achieve trade restrictions on the import of Canadian beef and/or live cattle into the U.S. While their motives may be subject to challenge, there should be little doubt that the restrictions that have been imposed are compliant with the terms of NAFTA cited above. Given the ongoing discovery of BSE infected animals in Canada, WSGA believes that the U.S has been lenient in the exercise of its rights under Chapter Seven of NAFTA.

In response to the above concerns, WSGA urges that the USTR seek amendments to Chapter 7 of NAFTA that will identify more precisely the criteria that would authorize a member country to impose sanitary or phytosanitary standards that are more restrictive than those established by recognize international standards organizations. The role of the Committee on Sanitary and Phytosanitary Measures should be strengthened in overseeing and responding to the activities of the parties in this area.

I would also call to the Committee's attention the extent to which other nations have utilized animal health and food safety issues as trade barriers. The continued response of numerous nations, most notably Japan and south Korea, to the discovery of a Canadian-born BSE infected cow in the U.S. and the subsequent discovery of a single U.S.-born infected animal have been based on neither international guidelines nor defensible science and risk analysis. WSGA urges the USTR to ensure that future trade agreements contain strict enforceable criteria for the determination of justifiable sanitary and phytosanitary import restrictions. Most importantly, these agreements should require the harmonization of such standards.

Mr. Chairman, the U.S. cattle industry has a bright future based on our ability to remain the supplier of choice to domestic beef consumers and strong continued growth in our exports. To achieve these goals we are committed to producing a quality product in an environmentally sustainable manner. We ask your assistance in assuring that U.S. trade negotiators provide us with increased access to export markets on terms that are no more restrictive than those that we grant to other nations.

Again, thank you for the opportunity to testify today. I will be pleased to address any questions the committee members may have.