

MR. McDONNELL: Well, thank you for allowing me to be here today.

Along with my wife, Sam, we own and operate Midland Bull Test, which is the largest performance bull test genetic center in the United States and also has the second largest performance bull sale in the United States, so we deal with a lot of different ranchers.

We also ranch in Montana and North Dakota. I am also the President of R-CALF.

A little bit about R-CALF: It was established in 1998 and was founded on the principles of fairness and equity in the domestic and global markets.

In 1999, we went to a membership organization and have become the fastest growing cattle producer organization in America, with nearly 9,000 members to date.

In recent trade cases that R-CALF filed, we attracted the support of 124 cattle producers and farmer organizations from across the United States, along with the support of 25,000 individual producers.

The reason I say this is just to show you the deep concern that as cattle ranchers we have for the industry and the direction we're going.

When it comes to thinking about the trade deficit, many people may think that the U.S. agriculture is prospering because we have an overall surplus. That would be wrong, however, at least as far as farmers and ranchers are concerned, particularly ranchers.

First, the surplus in agriculture is declining. In 1999, as you well know, it was less than half of the surpluses in '95 and '96. If the current trend continues, U.S. agriculture will be in a deficit within three years.

Second, the surpluses we have had are far smaller than they ought to be because of the wide array of foreign trade barriers.

My written testimony, beginning on page 10, provides numerous examples of high tariffs and the various types of nontariff barriers that our exports of cattle and beef face overseas. Other sectors of U.S. agriculture face similar barriers.

Third -- and this is particularly true for cattle producers, and it is probably the point we often miss in trade -- we are a highly supply sensitive industry.

As numerous industry participants from the National Cattlemen's Beef Association to the Farm Bureau to Farmers Union and government agencies such as the U.S. ITC have observed, even small changes in the supply of cattle and beef can have a significant effect on prices for cattle.

In fact, according to the Food and Agricultural Policy Research Institute, a 1 percent change in supply has a 1.6 percent impact on price.

The volume we import, whether it is cattle, beef, or veal, is important, because throughout much of the '90s, prices for live cattle were significantly depressed.

Cattle producers were told repeatedly that the problem was oversupply. However, the domestic cattle inventory has been in the liquidation phase for five years.

The increased imports of beef and live cattle have offset the industry's efforts to restore prices through inventory liquidation.

It's also important to note that the particular quality of imported beef is not especially important, since even the highest quality fed steer is going to produce significantly more hamburger than filet mignon.

Therefore, increased volumes of imported beef, whether higher quality steaks or lower quality hamburger, all put tremendous downward pressure on our products.

From a rancher's perspective, it is vitally important to examine our balance of trade not only in terms of value but, more importantly, in terms of volume, because prices for live cattle are greatly affected by the supply of live cattle and beef and veal.

And when you look at the volume, as well as the value, of imports and exports of cattle and beef, there is no question about it, we are running a trade deficit. It has been getting worse for many years.

As seen in Tables 1 and 2 of my written testimony, U.S. imports of cattle and beef have continuously exceeded export for many years, whether examined by value or volume.

It's only when you include cattle by-products such as tallow and hides that you can construct a surplus by value. But the benefits of those exports are enjoyed primarily by the packers, which would be our customers.

Another important fact not reflected in aggregate annualized trade data is that there are periodic surges in imports of cattle that have significant impacts on cattle prices, particularly in the regions they are processed.

There is an analysis that came out the Colorado Agricultural Statistics Service in January of 1999 that shows the direct correlation between import surges and downward prices in fed cattle prices in Colorado. That's a primary market that impacts all our markets. Import surges actually have a two-fold impact on U.S. cattle producers because live cattle are a perishable commodity. That means producers cannot afford to hold out of one market while waiting for

prices to recover. Thus, not only do domestic producers lose market share to imports, but also the prices they receive in other sales are depressed by the surge of imports.

It's also important to understand that the benefits of increased exports of beef and veal to the producers of cattle are substantially diluted as the price spread between cattle and beef has grown.

The producer's share of the beef retail dollar has fallen from 70 percent in the '70s to below 50 percent in 1996, as seen on the graph on page 7 of the written statement.

If a rancher in 1997 received the same percentage of the retail dollar for beef as was received in 1970, he would be receiving nearly 25 to \$30 more per hundredweight on a fed steer. That's nearly \$300 on our calf. That's half the equity of a calf today. You can realize the impact. This phenomenon has cost the cattle industry \$10 billion a year.

Who gets most of the benefits in the increase in exports of beef and veal? That's a value-added service. As I mentioned a moment ago, it is the

packers and processors if only because most of what we export that comes from cattle are processed products, whether they be steaks or hides.

The price that a rancher gets paid for his cattle is the same whether the steaks are being sold in Tokyo or New York City.

What are some of the causes behind this deficit? I think one reason might be the lack of country of origin.

Consumers often assume erroneously that a USDA grade stamp on a cut of beef means that that beef comes from cattle born or fed in the United States. That's not true.

Lack of country of origin labeling and use of the USDA grade stamp on imported cattle and beef makes it very difficult for U.S. producers to differentiate their product. And that's basic to any competitive environment. You have to be able to differentiate your product. The lack of country of origin labeling and failure to restrict the USDA grade stamp enable the packing and retail sectors to freely use variable cost supplies of beef and cattle, while significantly impairing the ability of cattle producers

to realize the full economic value of the product they produce as well as their comparative advantage.

A second and related reason is the extraordinary degree of concentration in the packing industry. Four companies account for some 80 percent of the fed slaughter cattle.

The availability of variable cost sources of imported beef and cattle contributes heavily to the already substantial market power that's enjoyed by the packers and downstream segments of the beef industry while further reducing the bargaining power of cattle producers.

The lack of country of origin labeling, which contributes to the deficit in cattle and beef, thus compounds what already is a highly uneven economic relationship between packers and ranchers.

And of course, foreign trade barriers also contribute substantially to this nation's trade deficit.

American farmers and ranchers essentially confront a de facto zero quota in many foreign markets because of high tariffs and artificial constraints such as dubious sanitary and phyto-sanitary restrictions and

other practices that do not exist in trade in other industrial goods.

At the same time, the United States has greatly liberalized its own markets to imports of agriculture from other trading partners. As you know, the tariffs, as you heard earlier, are about one-fifth of what other countries are.

As a result, although this country's farmers and ranchers are the most efficient in the world, they are being driven from their land and their homes by depressed prices caused by both foreign barriers that restrict our exports and by surplus imports.

I won't repeat those examples here but would be pleased to discuss them during the question and answer.

Let me add that it is also important that we maintain our tariff rate quotas and strengthen our trade laws and improve our trade remedies to ensure trade is fair and not injurious to U.S. industries.

Although tearing down foreign barriers to U.S. exports will help, equally important, if not more

so, is restoring conditions of fair and equitable competition in our domestic markets.

The lack of progress in opening foreign markets, the continuing increases in agricultural imports, the substantial concentration of market power in the packing and processing sector all combine to put downward pressure on the prices that American farmers and ranchers receive.

I think with that, in an effort to save some time, I want to thank you for having me here today, and in conclusion, U.S. farmers and ranchers are doing poorly at a time when they should be thriving. The problems we face here at home as well as in foreign markets, including the apparent unwillingness of our trading partners to dismantle existing trade barriers in the foreseeable future, threatens the futures of our farmers and ranchers.

MR. ANGELL: Thank you very much. Leland Swenson is President of the National Farmers Union. People that know agriculture well know that there is a rich tradition of the National Farmers Union having its own independent view. This Commission looks with favor on hearing what you have to say. Mr. Swenson.