Statement of the

National Pork Producers Council

Before the

U.S. House of Representatives Committee on Small Business

On the

Impact of U.S. Trade Policies

April 6, 2011

The National Pork Producers Council is an association of 43 state producer organizations, representing the federal and global interests of 67,000 U.S. pork operations, which annually generate approximately $15 billion in farm gate sales and add nearly $35 billion to the U.S. gross domestic product.

The future of the U.S. pork industry and of America's family hog farms depend on the continued expansion of exports. Demand in the United States for pork continues to grow, but demand in global markets for pork is growing much faster. The United States must take the steps necessary to increase its access to those overseas markets or it will start to lose even the shares of those markets it currently has.

In short, there is no standing still when it comes to trade. If the United States does not implement the trade agreements it has negotiated with Colombia, Panama and South Korea and fails to move ahead with new trade deals, it will forfeit sales to foreign competitors who are aggressively negotiating free trade deals of their own.

As important as opening new markets through trade negotiations is, so is keeping those markets open through enforcement efforts. Through those efforts, the United States has been able to re-open a number of markets closed to it because of spurious sanitary or food-safety obstacles erected by governments for protectionist purposes. Dealing with these issues, unfortunately, is a never-ending task; the United States continues to face such barriers in a number of markets around the world.

It is important to note that the ability of the United States to challenge protectionist foreign restrictions disguised as safety measures is weakened when the United States resorts to such restrictions. U.S. pork exports to Mexico, for example, have suffered from retaliatory tariffs as a result of the failure of the United States to abide by its NAFTA commitment on cross-border trucking. U.S. pork exports to Mexico from August to December were down 9 percent from the same period in 2009. And, while U.S. exports fell, Canadian exports grew by 99 percent over the same period, with September and October reaching near-record levels. Although its exports are low relative to U.S. exports, Canada's sizable export growth because of this dispute has become a concern to the U.S. pork industry.

According to an analysis conducted by Iowa State University economist Dermot Hayes, the loss of the Mexican market over several years would result in the loss of 1,389 direct jobs in the pork industry and 22,009 in secondary employment in areas such as veterinary services, input supplies and local businesses and government. Labor income lost would total $827 billion. U.S. pork producers need the United States to resolve the trucking dispute with Mexico. As long as these tariffs remain, the United States will continue to lose exports and jobs.

The insistence of the United States that other nations abide by their trade agreement obligations is only credible if it practices what it preaches. Resolving the Mexican trucking dispute will demonstrate the commitment of the United States to abide by the terms of trade agreements it signs. NPPC urges members of Congress to support the recently agreed arrangement to establish a new cross-border pilot program and to eliminate the retaliation against U.S. pork and the other 97 products on Mexico's retaliation list.

Importance of Trade Agreements

There is no disputing that free trade agreements have been a major factor in the rapid growth in U.S. pork exports over the last two decades. Since the year before NAFTA was implemented in 1994, U.S. pork exports to Mexico have increased 780 percent to $986 million last year; since the year before the Australia FTA was implemented, our exports to that country have grown by 1,300 percent to $148 million; since the year before the Central America FTA was implemented, U.S. pork exports to the CAFTA countries have increased by 313 percent to $119 million; and in the two years since the Peru FTA took effect, our pork exports to that South American country have almost doubled to $1.2 million.

The United States is now the lowest-cost pork producer in the world, and we have established ourselves as the No. 1 global exporter. But we will not stay in that position, even as the lowest-cost producer, if competitor countries cut trade deals in key markets and the United States does not. How could we possibly compete in a foreign market if we face tariffs that may almost double our price to consumers and our competitors are free of those tariffs? This is what is happening and will continue to happen if the United States sits on the sidelines as other nations implement free trade deals.

In 2010, nearly 20 percent of the pork produced in the United States was exported compared with only about 6 percent 10 years ago. In 2010, the United States exported more than 1.9 million metric tons of pork, valued at $4.8 billion. Virtually all of this trade today is the direct result of U.S. efforts over the years to tear down foreign import barriers through bilateral, regional and multilateral trade agreements.

But increasing pork exports is important to more Americans than just pork producers. The U.S. pork industry supports an estimated 550,000 domestic jobs, 110,000 of which are the result of U.S. pork exports. And the industry generates more than $97 billion annually in total U.S. economic activity. For each 1 percent increase in the size of the U.S. pork industry, the U.S. economy creates 920 full-time pork industry jobs and 4,575 jobs in total. And for each additional 1 percent of U.S. pork production that is exported, live hog prices increase by approximately $3 per hog. Higher prices eventually stimulate additional pork production, and the industry expands to meet the new opportunity, thus creating more jobs. Just last year, U.S. pork exports grew by almost $500 million. The U.S. Department of Agriculture estimates that each $1 billion in additional agricultural exports generates approximately 8,400 new U.S. jobs. For the meat sector, however, USDA puts the job-creating number at more than 12,000. So, the increase in pork exports last year created about 6,000 new jobs.

Impact of Sitting on the Trade Agreement Sidelines

The pork industry's disappointment in having lost new market opportunities for so many years is rapidly being replaced by fear. While the U.S. has dithered on trade agreements, other countries have moved ahead with their own – and many of those have the effect of putting U.S. pork at a competitive disadvantage in key markets. For example, Iowa State's Hayes calculates that, with the European Union implementing an FTA with Korea on July 1, if the United States does not implement its own FTA with Korea, it will be completely out of the Korea pork market within 10 years. This, Hayes calculates, would cost 3,628 full-time direct pork industry jobs and 18,000 economy-wide full time positions, after allowing for indirect employment impacts. To make matters worse, Korea has negotiated or is negotiating some 13 separate FTAs, which include 50 countries. They include some major agricultural producing and exporting countries: Chile, Australia, New Zealand, Canada, the 27-nation European Union, Mexico, Mercosur (Argentina, Brazil, Paraguay and Uruguay), Peru, and the ASEAN bloc.

Korea is just one example. Colombia is on the verge of implementing FTAs with Canada and the European Union. And other major agricultural exporting countries, such as Argentina and Brazil, already have preferential access to that market. The U.S. share of that market in wheat, feed grains and other products is certain to plummet unless the United States acts promptly to correct these inequities. According to USDA, the U.S. share of Colombia's total agricultural imports already has fallen from almost 44 percent in 2007 to 27 percent in 2009.

Panama does not currently have an FTA in place with any major pork exporting country, but it finalized free trade agreements with Canada and (along with other Central American nations) the EU in 2010. Once again, the United States will win if it implements the Panama Trade Promotion Agreement, and it will be certain to lose if it does not.

Globally, the situation is no better. The WTO reports that as of July 2010 some 371 bilateral or regional trade agreements had been notified to the organization, of which 193 were in force. The WTO also estimated that about 400 new agreements are either pending notification to the WTO, are being negotiated or are in the proposal stage. Of those, the U.S. is a party only to the three pending agreements and the Trans-Pacific Partnership.

The U.S. trade agenda must recognize that by sitting on the sidelines, the United States is forfeiting the ability to compete on a level playing field. The United States, and no one else, will be to blame when it is left behind as much of the rest of the world engages in global trade liberalization. Market access gains, economic growth and job creation will be achieved by those who are not afraid to participate.

U.S. Pork Producers Would Benefit From Pending Agreements

U.S.-Korea Free Trade Agreement (KORUS FTA)

The Korean market is currently the fifth largest for U.S. agricultural exports, valued at $5.3 billion in 2010. According to an economic analysis by the American Farm Bureau Federation, the Korea FTA would expand exports in a wide range of commodities and result in $1.9 billion in additional sales – a 36 percent increase.

The KORUS FTA would be one of the most lucrative for the U.S. pork industry. According to Iowa State University economist Dermot Hayes, by the end of the FTA's 15-year phase-in period, total U.S. pork exports to South Korea will be almost 600,000 metric tons. That represents nearly twice the current U.S. export level to Japan – now the top value market for the U.S pork industry. The FTA will lift live hog prices by a staggering $10 per animal and will generate an additional $687 million in U.S. pork exports. South Korea alone will absorb 5 percent of total U.S. pork production, and the FTA will create more than 9,100 new direct jobs in the U.S. pork industry.

It has been more than three years since the KORUS FTA was signed. While the U.S. delays implementation, Korea continues to move forward in strengthening trade relationships with other countries. Korea already has concluded, is negotiating or is planning FTAs with Chile, Australia, New Zealand, Canada, China, the European Union (27 nations), India, Japan, Mexico, Mercosur (Argentina, Brazil, Paraguay and Uruguay) and Peru. Many of these countries are competitors of U.S. pork exports. Two major competitors, Chile and the EU, pose the largest threat to the future success of U.S. pork exports to Korea.

U.S.-Colombia Free Trade Agreement

According to the American Farm Bureau Federation, the U.S.-Colombia FTA, if and when it is implemented, would result in U.S. agricultural export gains of more than $815 million a year at full implementation.

In the agricultural sector as a whole, not a single U.S. product currently receives a zero tariff in Colombia, and applied tariffs range from 5 to 20 percent. These could rise to as much as 388 percent under Colombia's current WTO commitments. Under the U.S. FTA, tariffs on 77 percent of all agricultural tariff lines, accounting for more than 52 percent of current U.S. trade by value, would be eliminated immediately.

Iowa State University economist Dermot Hayes calculates that when fully implemented the U.S.-Colombia FTA will generate an additional $68.9 million in U.S. pork exports and will create 919 new jobs because of increased pork exports alone. In addition, live hog prices will be $1.15 higher per animal than would be the case if we lost an export market of this size, and this beneficial price impact is based on the assumption that the Canada-Colombia FTA is implemented in 2011. However, should the U.S. fail to implement its FTA with Colombia, the U.S. will be completely out of the Colombian pork market within 10 years.

To make matters potentially worse, Colombia also anticipates signing a trade agreement with the European Union that will also allow for pork access to Colombia. The failure to implement our FTA in advance of these agreements has prevented our industry from getting a head-start on the EU and Canada, which are the second and third largest global pork exporters after the U.S., both in terms of reduced tariffs and the ability to lock in all-important marketing arrangements. U.S. pork producers need the United States to implement the FTA with Colombia.

U.S.-Panama Free Trade Agreement

The American Farm Bureau Federation's economic analysis group estimates that the U.S.-Panama FTA could mean increased U.S. agricultural exports to Panama of more than $195 million per year by full implementation. Once the FTA is in place, the tariff disparity in agricultural trade between the United States and Panama will immediately become more balanced. In the case of Panama, over 99 percent of its agricultural exports enter the U.S. market duty free. In contrast, Panama's average agricultural tariff rate is 15 percent, but many key U.S. export products face much higher rates.

U.S. pork exports to Panama are currently restricted by a very limited quota and out-of-quota duties as high as 80 percent. However, the FTA would provide immediate duty-free treatment for pork variety meats, expanded market access for U.S. pork through tariff rate quotas and a phase out of tariffs on certain processed pork items within five years. Only by implementation of the FTA will the disparity in these tariff levels be reduced and ultimately eliminated.

According to Iowa State University economist Dermot Hayes, the FTA will generate an additional $16 million in U.S. pork exports and will cause live hog prices to be 20 cents higher per animal, when fully implemented, than would be the case if we lost an export market of this size. In addition, the FTA will create 213 new jobs because of increased pork exports alone.

Panama concluded an FTA with Chile last August and also has concluded negotiations of an FTA with the EU and Canada. The failure to implement our FTA with Panama two years ago has prevented our exporters from getting a head start on those major agricultural exporting countries, both in terms of preferential tariff rates and the ability to lock in new marketing arrangements in Panama.

Canada's FTA with Panama would immediately eliminate import duties on 90 percent of Panama's pork tariff lines. As our closest competitor, Canada will have a distinct advantage in the Panamanian pork market, resulting in the loss of market share for the U.S. pork industry.

Trans-Pacific Partnership (TPP)

Equally important to U.S. pork producers is the earliest possible conclusion of negotiations on and implementation of the strategic TPP negotiations. These negotiations offer the opportunity to eliminate import tariffs in Vietnam and New Zealand, as well as address a variety of sanitary-phytosanitary issues in various countries participating in the TPP. The elimination of import duties in Vietnam would be particularly valuable to the U.S. pork industry; Vietnam has one of the highest per capita consumption rates for pork in the world.

The TPP would allow the United States to keep pace with the recent explosive growth in FTAs in the Asia-Pacific region. There are more than 152 agreements in force in the region, 21 more agreements are completed and awaiting implementation, 72 are being negotiated and 81 are in an exploratory phase. The TPP would be an important step in allowing the United States to keep pace in this increasingly competitive regional trade environment.

WTO Doha Round

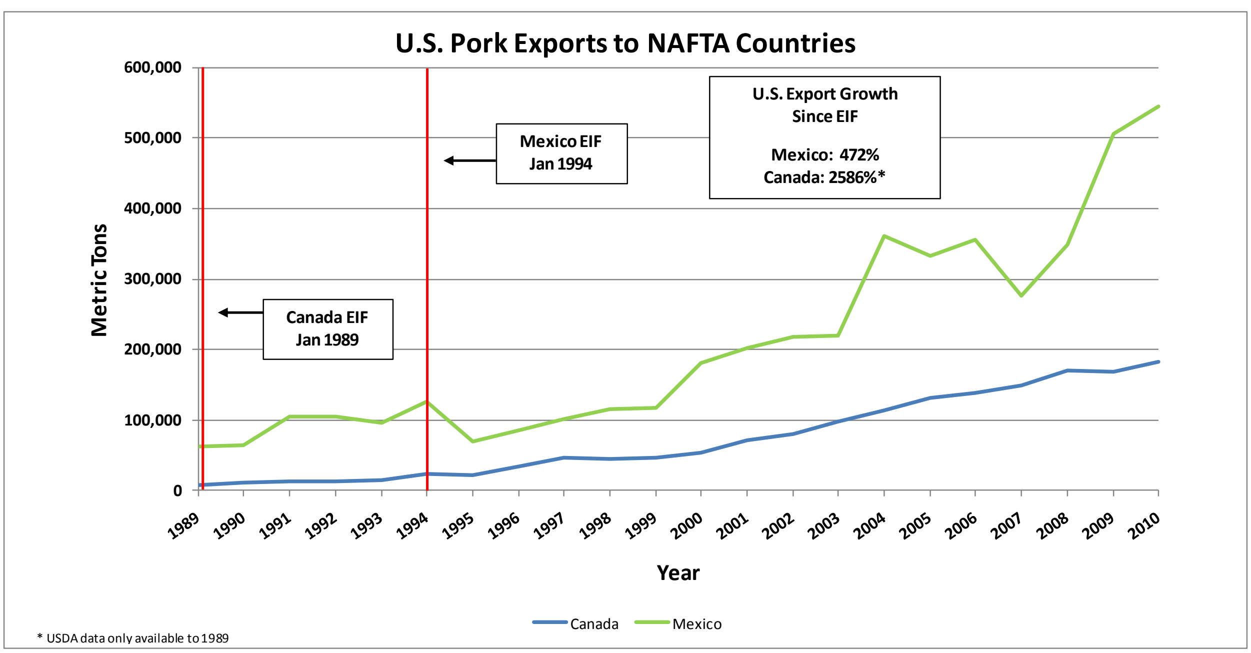
The WTO Doha Round is another negotiation of major strategic importance to U.S. pork. NPPC supports the Obama administration taking an active role in bringing these negotiations to a successful conclusion. We anticipate that a successful Doha Round would result in significant new market access opportunities in developed country markets, such as the European Union and Japan, through the reduction of tariffs and other market access barriers, as well as the elimination of agricultural export subsidies. In addition, the Doha Round has the potential to create new market access opportunities for U.S. pork in developing country markets around the world, as long as developing countries are not allowed to escape market access liberalization through safeguards and special product provisions that are overly lenient.

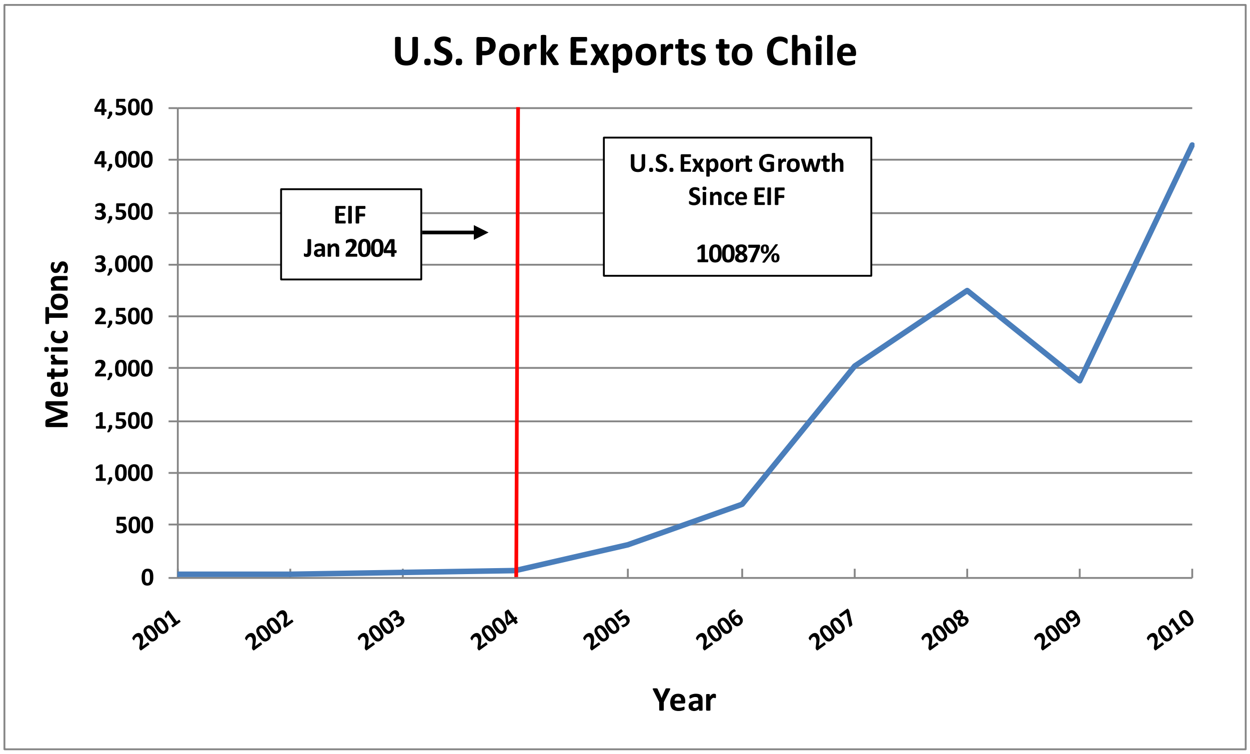
GIPSA

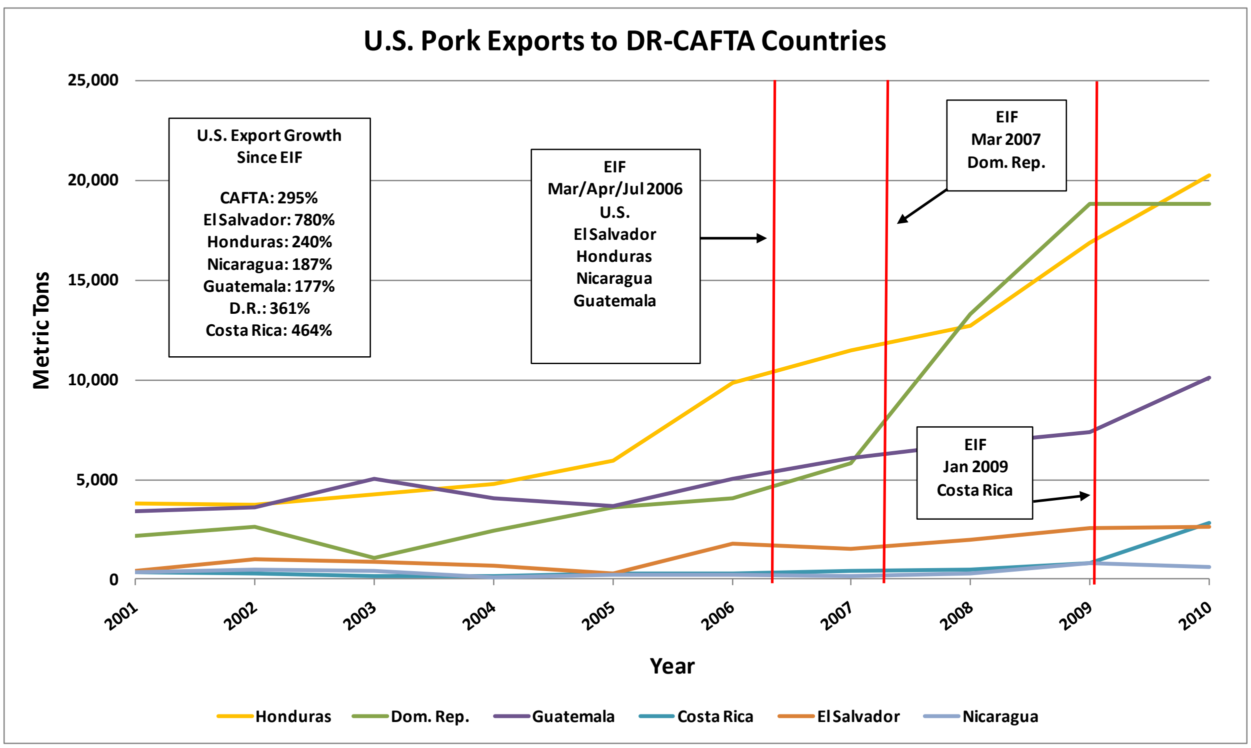
Before concluding, it must be noted that U.S. trade policy does not exist in a vacuum. It is not separate and apart from our business conducted inside the borders. So U.S. domestic policy can and does affect our exports. Currently, we are awaiting from USDA a final rule on the buying and selling of livestock and poultry, which, if implemented as currently drafted, would have a devastating impact on our producers. According to an analysis of the GIPSA rule conducted by Informa Economics, it would cost the U.S. pork industry nearly $400 million annually. Industry analysis of the regulation concludes that it likely will have a chilling effect on innovation and flexibility, leading to a race toward mediocrity. It will create legal uncertainty that will drive costs higher and cause an increase in vertical integration in the livestock sector, driving producers out of the business and possibly affecting supplies. None of that bodes well for our exports. Again, free trade agreements and our position as the world's lowest-cost producer have made U.S. pork exports extremely attractive around the globe. But if we no longer are the lowest-cost producer, our exports will become less competitive with other countries, and all the FTAs in the world won't help us much. NPPC continues to urge USDA to scrap the current GIPSA rule and to write a regulation that sticks to the five mandates it was given by Congress in the 2008 Farm Bill.

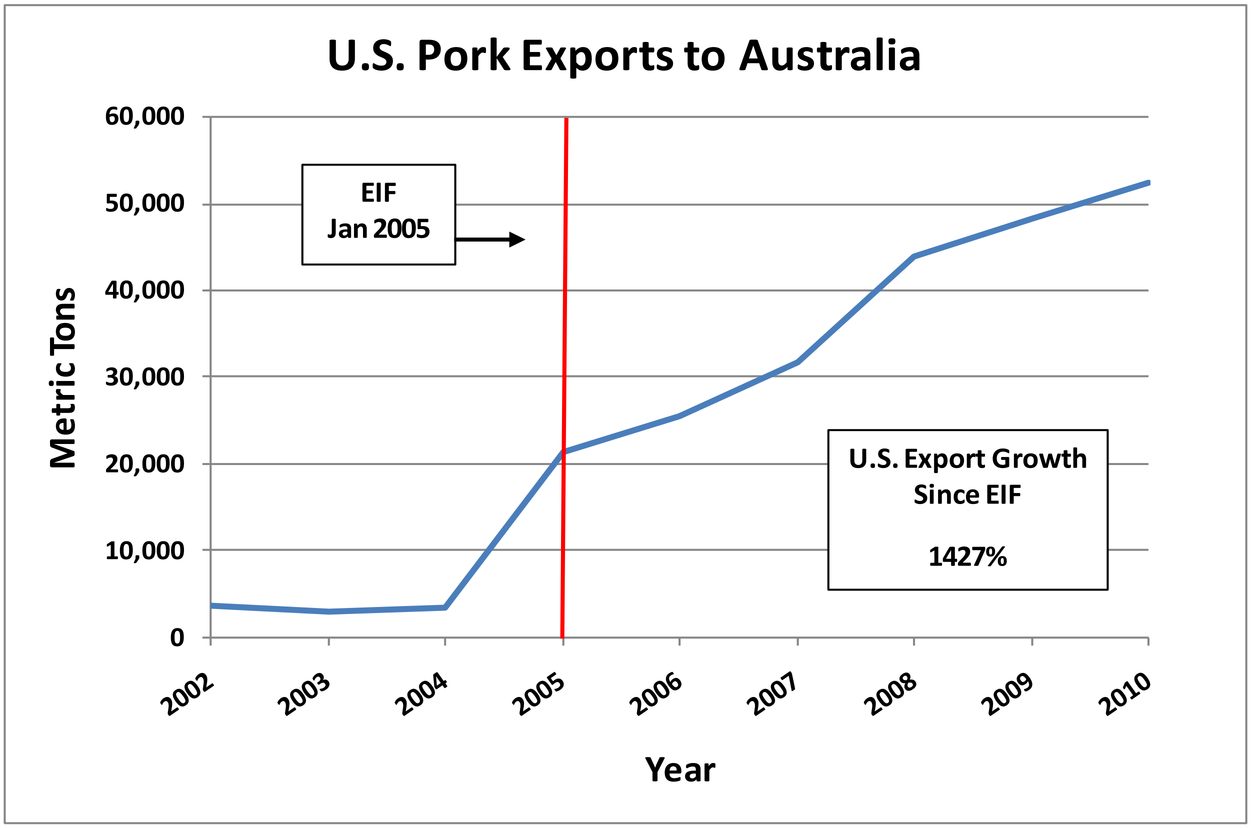
Pork Producers Benefit from Past Trade Agreements

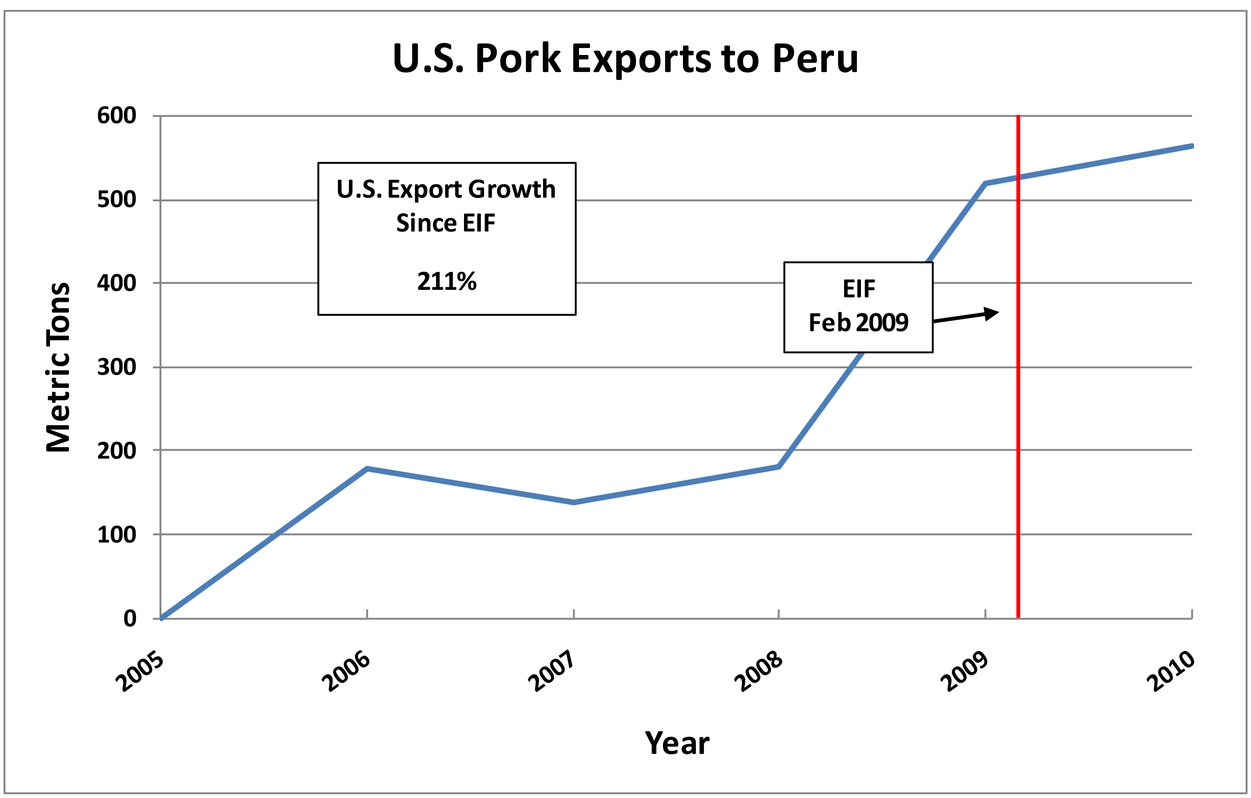
The following charts demonstrate the benefits to pork producers from trade agreements that were negotiated in the past and are currently in force.




U.S. Pork Exports to Chile
Metric Tons
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
EIF
Jan 2004
U.S. Export Growth
Since EIF
10087%
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Year


U.S. Pork Exports to DR-CAFTA Countries
Metric Tons
25,000
20,000
15,000
10,000
5,000
0
U.S. Export Growth
Since EIF
CAFTA: 295%
El Salvador: 780%
Honduras: 240%
Nicaragua: 187%
Guatemala: 177%
D.R.: 361%
Costa Rica: 464%
EIF
Mar/Apr/Jul 2006
U.S.
El Salvador
Honduras
Nicaragua
Guatemala
EIF
Mar 2007
Dom. Rep.
EIF
Jan 2009
Costa Rica
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Year
Honduras
Dom. Rep.
Guatemala
Costa Rica
El Salvador
Nicaragua


U.S. Pork Exports to Australia
60,000
50,000
40,000
30,000
20,000
10,000
0
Metric Tons
EIF
Jan 2005
U.S. Export Growth
Since EIF
1427%
2002
2003
2004
2005
2006
2007
2008
2009
2010
Year


U.S. Pork Exports to Peru
600
500
400
300
200
100
0
Metric Tons
U.S. Export Growth
Since EIF
211%
EIF
Feb 2009
2005
2006
2007
2008
2009
2010
Year

Conclusion

At this time of very tight budgets, America's pork producers are not asking for U.S. tax dollars. Producers receive no subsidies and seek no subsidies. What the U.S. pork industry is asking for, quite simply, is that the U.S. government take the actions necessary to keep us competitive in global markets so that we can retain and expand those markets and so we can keep creating new U.S. jobs in supporting businesses. That means approving the pending FTAs as soon as the president submits the implementing bills and moving forward with new trade agreements as soon as possible.