**Testimony of Leo McDonnell**
**Owner/Operator of McDonnell Angus and Midland Bull Test**
**On Behalf of the United States Cattlemen's Association**

**Submitted to the U.S. Senate**
**Committee on Agriculture, Nutrition, and Forestry**

**"Country of Origin Labeling and Trade Retaliation: What's at Stake for America's Farmers, Ranchers, Businesses, and Consumers"**

**June 25, 2015**
**Washington, D.C.**

## Introduction

Mr. Chairman, Ranking Member Stabenow and Members of the Committee, I am Leo McDonnell, owner-operator of McDonnell Angus and Midland Bull Test, based in Rhame, North Dakota and Columbus, Montana respectively. I appreciate the ability to be here today and provide a voice to U.S. producers and consumers on the issue of country of origin labeling.

I am here today on behalf of the United States Cattlemen's Association (USCA). USCA represents cow-calf producers, backgrounders, and feedlot operators from across the country. USCA was founded on the idea that a grassroots effort by U.S. cattlemen can work positively and effectively with the U.S. government to reform U.S. agriculture policy and thus ensure a fair, competitive marketplace. We believe in a marketplace based on transparency, strong competition, and sound science. Moreover, we strive to provide the highest quality cattle and beef for our consumers at home and abroad. These high standards are the basis behind the effort to maintain country of origin labeling (COOL) and the integrity behind the current "A" label, which distinguishes those products born, raised and harvested in the U.S.

USCA members strive every day to produce a high quality product which reflects the health standards and continued feed efficiency and genetics programs developed by U.S. producers. The ability for U.S. cattle producers to distinguish their product in the marketplace is seemingly an inherent right which has, over recent years, been misconstrued and attacked by our trading partners.

## Background on COOL

Congress enacted COOL in the 2002 and 2008 Farm Bills in response to a growing call from producers and consumers for more transparency and information regarding the origin of food products. Since its initial implementation, COOL has provided consumers and producers with the ability to distinguish and choose products in the marketplace with origin information readily available. COOL was founded on the idea that consumers deserve the right to choose their meat products based on origin and that producers deserve the right to support and distinguish their own product in the marketplace. COOL is a program based on choice, the efforts to strip this program through a blanket repeal approach is unfounded and unwarranted and I am here today to provide a voice to all of those who have fought for, and continue to fight for, COOL.

In 2008, the World Trade Organization began weighing a dispute against the United States raised by Canada and Mexico. In what has been a succession of decisions on COOL, the WTO ultimately ruled that origin labels are legitimate but that the implementation of the program was inconsistent. Inconsistencies were initially brought to light regarding the actual implementation of the labels, with the WTO ultimately reaching the decision that the labels did not go far enough in providing accurate information to consumers. Specific concerns raised focused on the absence of ground meat products in the labeling system in addition to the lack of application to restaurants and the food-service industry.

It is abundantly clear that consumers are demanding more information on the origin of their food. Rather than rescinding and decreasing the information we are providing individuals, we should be readily looking to act on consumer demand and provide transparency in our industry. All other sectors of the agricultural industry have origin labels in place. Produce is clearly marked with its point of origin; marketing campaigns that tout "Avocados from Mexico" are the norm in grocery stores today. Our consumers want to know where their food comes from; by not willingly providing this information, we are taking a step back as an industry, and that is where the disagreement on this issue originates.

**COOL Implementation: Fact or Fiction?**

The main arguments against COOL have focused on the supposed impacts on cattle exports from Canada and Mexico into the U.S. Since 2009, the U.S. has experienced a historic high of imports from both countries as a direct calculation from their respective annual cow herd sizes[1].

Additionally, the disparities between the base price of Canadian and Mexican cattle vs. U.S. cattle prices has not been accurately portrayed. As reported through the U.S. Department of Agriculture's mandatory price reporting data, Canadian fed cattle prices have actually improved more in the past years than U.S. fed cattle prices[2].

As recently reported through a study conducted by Auburn University's Dr. Bob Taylor, there is no statistical difference in base prices from either Canada or Mexico to U.S. prices; the only exception being in 2013 due to the overall economic downturn experienced across the country[3]. All data utilized in the study was collected and analyzed via USDA's Mandatory Price Reporting information.

Another popular argument against COOL is a supposed contraction in the Mexico and Canada cattle industries. The herd sizes in both countries were in steep decline for several years leading up to 2009. Post-COOL implementation, each country's respective herd numbers have leveled off as reported in the attached CME report detailing the declining Canadian beef cow herd. Along similar lines, both country's industries have not been economically harmed by COOL. Rather, Mexican and Canadian cattle producers have experienced the highest profits in recent history, in addition to the longest periods of consistent profit margins. COOL has not had a disastrous effect on either market as has been portrayed.

This issue is where it is today due to great differences within our industry. Instead of coming to an agreement amongst all players, we have left critical decisions to the WTO and we are now reacting to our neighbors' retaliatory threats. Fortunately, for U.S. cattle producers, the signal is there pointing toward increased demand for origin labels. As a recent member of the Cattlemen's Beef Board (CBB) Long Range Planning Committee, our task was to determine the best interests of the industry. The committee included an industry wide group effort which

[1] Canadian and Mexican beef and cattle imports as a percent of their cow herd--historical analyses
[2] CME Group: Daily Livestock Report
[3] Impacts of COOL on Cattle Trade

brought in all segments of the industry from retailers, to packers, to feeders and cow-calf operators. The committee sought to identify the goals of the industry in order to promote and market U.S. beef in the years to come. The emphasis here being, “U.S. Beef”. During the January 2015 meeting of the committee, analyses were presented on average prices of beef products across the globe. In the global marketplace, where U.S. beef and U.S. ranchers are touted as a component of the product, average prices reach $3.27/lb. For comparison, the second leading country, Canada, brought $2.53/lb.[4].

The global market is demanding U.S. beef. As discussions continue to move forward on such free trade agreements as the Trans Pacific Partnership (TPP), U.S. producers deserve the right and ability to differentiate their product and consumers deserve the right to choose.

**Voluntary COOL**

Through a series of WTO decisions, and subsequent unsubstantial threats from Canada and Mexico, the COOL program is now at risk. While USCA and I remain committed to COOL, we recognize the pressures facing Congress. Today, I come to you to propose a commonsense compromise. U.S. cattle producers want the integrity behind the “A” label to remain intact. In no circumstance should a product not born, raised and harvested in the U.S. be granted a “U.S. label”. Through a voluntary program, we ask that this label be maintained and not comingled with other product originating in Canada and Mexico. Through a voluntary approach, only those packers willing would be subject to adhering to the policy behind the “A” label. The assurance provided by stipulating a product labeled as a “Product of the U.S.” is truly that, is a basic right deserving of both consumers and those in the industry, from the cow-calf producer to the meat market owner. Through providing certainty on a voluntary label, the U.S. cattle industry is honoring a right that should inherently be given.

**Conclusion**

Today’s global marketplace necessitates a robust labeling system to appeal to a growing public demand for transparency within the food production system. As a rancher, our industry has an opportunity through COOL to take a step forward in providing such information, and while we are instead now taking two steps back, those in support of COOL are committed to the program in both representing our country, our producers, our consumers, and our inherent rights to know where our food comes from.

This issue has been labeled as one focused on so-called “discrimination” of non-U.S. products. This is a dangerous precedent to set. A marketplace functions only as well as the demand for a product remains in place. In taking a top-down approach to this issue, packers are in essence dictating what a consumer’s choice will be. As we review this issue and move toward a voluntary COOL system, we must be given the specific line-item costs that are actually

[4] Global Agritrends Report

associated with COOL in the realm of segregation. COOL is a marketing program by which to push a truly U.S. product to consumers. In the face of voluntary COOL we must be told what the actual costs are of the program as it relates only to the segregation process. This will allow those packers and markets the opportunity to continue with the valued program and be aware of all supposed costs ahead. Marketing programs, such as “Harris Ranch”; “Certified Angus Beef” and others all employ a labeling and segregation system in their supply chains to achieve desired results. This industry has the ability to implement and carry out an effective COOL program and I appreciate the opportunity to speak today before the Committee.

COOL is a program that represents much more than just a labeling system. COOL provides a means by which U.S. cattle producers may distinguish themselves in a growing global trade arena. Products are touted as “Made in the USA” on a daily basis. What better way to honor the hard work and heritage of the U.S. cattle industry than to provide the means by which producers can continue to identify and distinguish their products and consumers have the ability to choose. As a long standing supporter of COOL, USCA looks forward to your thoughts and comments on this matter as it moves forward to a successful conclusion for both producers and consumers in which we can celebrate, not disparage, those meat products “Born, Raised and Harvested in the U.S.”.

# Appendix

## Footnote 1: Canadian and Mexican beef and cattle imports as a percent of their cow herd-historical analyses

| year | cow nu | cattle imp | beef imp | Jan1 Dresssed Wts. | cattle eguiv | combined | new % cow herd | % of cow herd | based on 90% calf crop |
|---|---|---|---|---|---|---|---|---|---|
| 2000 | 4.45 | 965,000 | 919,100 | 760 | 919,100 | | | | |
| 2001 | 4.6 | 1,306,000 | 987,100 | | | | | | |
| 2002 | 4.64 | 1,687,000 | 1,090,900 | | | | | | |
| 2003 | 4.75 | 512,000 | 740,100 | | | | | | |
| 2004 | 5.02 | 135 | 1,062,000 | | | | | | |
| 2005 | 5.28 | 559,000 | 1,092,000 | 765 | 1,427,450 | 1,986,450 | | 38 | |
| 2006 | 5.25 | 1,032,000 | 843,900 | 782 | 1,079,156 | 2,111,156 | | 40 | |
| 2007 | 4.99 | 1,405,000 | 789,500 | 779 | 1,013,478 | 2,418,478 | | 48 | |
| 2008 | 4.91 | 1,581,000 | 841,200 | 775 | 1,085,419 | 2,666,419 | | 54 | |
| 2009 | 4.52 | 1,061,000 | 812,400 | 785 | 1,034,904 | 2,095,904 | | 46 | |
| 2010 | 4.23 | 1,063,000 | 860,800 | 775 | 1,133,000 | 2,196,000 | | 52 | |
| 2011 | 4.05 | 687,000 | 689,100 | 782 | 881,202 | 1,568,200 | | 39 | |
| 2012 | 3.99 | 815,000 | 537,500 | 783 | 686,462 | 1,501,462 | | 38 | |
| 2013 | 3.94 | 1,044,000 | 538,200 | 802 | 708,100 | 1,752,100 | | 44 | |
| 2014 | 3.91 | 1,242,150 | 590,000 | 803 | 734,744 | 1,976,894 | | 51 | |
| | cow nu fro | CanSim in millions | | | | | | | |
| | beef imp are in 1000 lbs. carcass equivalent | | | | | | | | |
| | | | | | | | | | |
| Mexico | | | | | | | | | |
| 2000 | 10.8 | 1,228,000 | 10,100 | 760 | | | | | |
| 2001 | 10.8 | 1,130,000 | 12,200 | | | | | | |
| 2002 | 10 | 816,000 | 16,700 | | | | | | |
| 2003 | 9.5 | 1,240,000 | 15,900 | | | | | | |
| 2004 | 9 | 1,370,000 | 19,500 | | | | | | |
| 2005 | 8 | 1,256,000 | 26,700 | 765 | 34900 | 1,291,000 | | 16 | |
| 2006 | 7 | 1,257,000 | 40,800 | 782 | 52,174 | 1,,309174 | | 19 | |
| 2007 | 6.71 | 1,091,000 | 49,800 | 779 | 63,928 | 1,155,028 | | 17 | |
| 2008 | 6.81 | 703,000 | 43,800 | 775 | 56,516 | 759,516 | | 11 | |
| 2009 | 6.91 | 941,000 | 65,900 | 785 | 83,949 | 1,024,949 | | 15 | |
| 2010 | 6.97 | 1,221,000 | 107,300 | 775 | 138,451 | 1,359,451 | | 20 | |
| 2011 | 7 | 1,422,000 | 154,900 | 782 | 198,081 | 1,625,081 | | 23 | |
| 2012 | 6.9 | 1,468,000 | 242,300 | 783 | 309,450 | 1,777,450 | | 26 | |
| 2013 | 6.75 | 989,000 | 251,600 | 802 | 313,715 | 1,302,715 | | 19 | |
| 2014 | 6.7 | 1,115,855 | 290,000 | 803 | 361,145 | 1,477,000 | | 22 | |
| | cow nu from Omundi Index/USDA | | | | | | | | |

Footnote 2

CME Group

# Daily Livestock Report

Vol. 10, No. 37 /  February 22, 2012

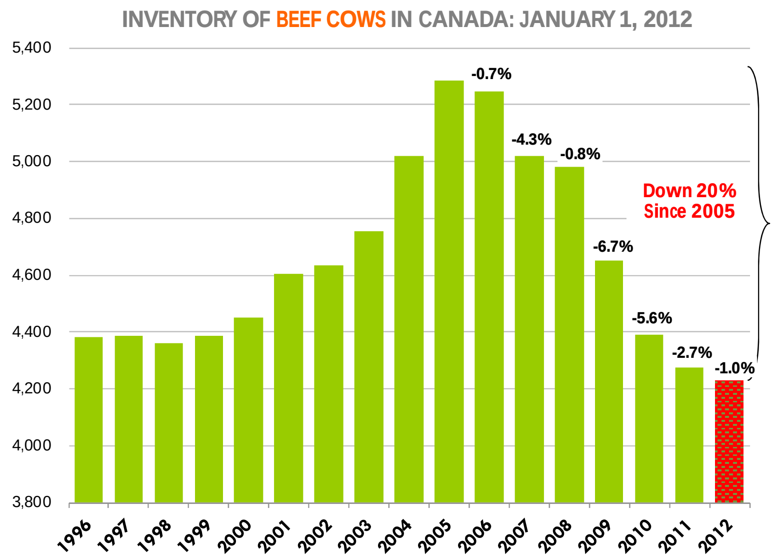
## Market Comments

Canadian cattle supplies have been shrinking since 2005 and, in the short term beef supplies will likely be even tighter as producers try to hold back heifers and rebuild the herd. Statistics Canada released on Monday the results of its semi-annual survey of cattle operations and the data contained a sobering, although somewhat disorienting, view of current conditions. Probably the more surprising result from the survey was that the number of beef cows on January 1, 2012 was down 1% from the previous year. The Canadian beef cow herd is down 20% from its peak in 2005. The smaller beef cow inventory is a surprising result considering:

- Shipments of slaughter cows to the US in 2011 were down 24% from the year before;
- Canadian cow slaughter (based on weekly data) declined about 13% from the previous year
- Producers on January 1 2011 indicated heifer retention for beef cow replacement was up 2.9% from the previous year and in the Jan 1, 2012 beef cow replacements were up 4.3%.

So if the industry in Canada is slaughtering fewer cows, it is exporting fewer cows and it is holding back more females to replenish the herd, how is the beef cow inventory going down? The best answer we have is that the data is coming from different sources and year to year the numbers will not jive well. It is likely that the upcoming July and January surveys will capture the shift in cow numbers in Canada. Canada shipped a lot more breeding females to the US in 2011, some 7,500 more head (+170%) but that still does not explain the decline in the Canadian cow herd. For now, the latest numbers have us scratching our heads.

Total Canadian cattle inventories on January 1, 2012 were pegged at 12.515 million head, 58,000 head or 0.5% higher than the previous year. While the increase will likely capture some headlines, it is relatively small and mostly the result of fewer feeder exports to the US. The inventory of steers and bulls under one year old was up almost 66,000 head or 1.6% from the previous year. It is an inconsequential result since overall North American cattle supplies remain limited and overall beef production in the continent will likely remain limited in the next few years. The combined US and Canada calf crop for 2011 is currently estimated at 39.975 million head, some 546,000 head or 1.3% smaller than a year ago. The Canadian calf crop for 2011 was estimated at 4.661 million head, 174,000 head or 3.6% smaller than a year ago. The decline in the Canadian calf crop accounted for about a third of the reduction in the combined calf crop, a significant number considering that the Canadian cow herd is only about 5.2 million head compared to about 40 million head in the US. The combined US and Canada calf crop has declined about 9% in the past 10 years, a dramatic change considering that both countries are striving hard to recover the beef export market share they lost after the outbreak of BSE. As trade normalizes and exports return to pre-BSE levels, this implies significantly less beef supply available for US and Canadian consumers. Beef demand in both countries struggled during the recession. A recovery in demand combined with the smaller supply will likely underpin significantly higher beef prices both in the US and Canada not just in 2012 but in the next few years.



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Footnote 3

# Impacts of COOL on Cattle Trade

C. Robert Taylor
Auburn University

Footnote 3, cont.

# Questions Addressed

* **Did the Price Basis (Canadian price minus Domestic price) Widen After COOL Was Implemented, as Asserted by Opponents?**
  * For Fed Cattle?
  * For Feeder Cattle?
* **Did COOL Negatively Impact Imports?**
  * Canadian Slaughter Cattle?
  * Feeder Cattle?
    * From Mexico?
    * From Canada?

Footnote 3, cont.

# Data Sources

* **Mandatory Price Reporting (MPR) weekly data,** 9/2005 through 11/2014 (not analyzed in previous COOL studies)
* **Monthly U.S. Cattle and Trade data** from various government sources, 1995-2014
* **Monthly CanFax data** (limited)
  * Public distribution of detailed Canadian cattle market statistics is controlled by the Canadian Cattlemen's Association)
* **Canadian Price and Slaughter Weekly Data** Obtained from AMS/USDA, 2005-2014

Footnote 3, cont.

# Price Basis

* **Economic theory: Higher segregation cost would widen the price basis**
* Claims by COOL Opponents:
  * Informa Economics
    * $15-$18/head under USDA's initial proposal
    * $10-$18/head under the final rule
  * Canadian Cattlemen's Association (CCA)
    * $90/head
* **Fact: The price basis narrowed, not widened, after COOL**
  * MPR data reported by the packers, 2005-2014

Footnote 3, cont.

# Price Basis[a] Before and After COOL, U.S. dollars

| | Purchase Arrangement | Before COOL (9/5/2005--3/9/2009) | After COOL (3/16/2009--12/15/2014) |
|---|---|---|---|
| **Slaughter Cattle (Dressed weight)** | Formula Net | -$3.30 | -$2.04 |
| | Forward Contract Net | -$4.78 | -$0.38 |
| | Negotiated Grid Net | -$1.03 | -$0.72 |
| **Feeder Cattle** | Alberta Steer compared to Nebraska | -$24.38 | -$17.45 |

[a] Price basis is defined to be the price for imports minus the price for cattle of domestic origin. Averages based on paired comparisons excluding weeks where there were no transactions, domestic or import, under the stated purchase arrangement. Negotiated cash prices are not shown because few imported cattle are acquired in a cash transaction on a live weight basis.

Footnote 3, cont.

# Price Basis[a] Before and After COOL, U.S. Dollars

* **Fed cattle price basis went down for most classes, grades and purchase arrangements**
  * An expanded Table is included in the report

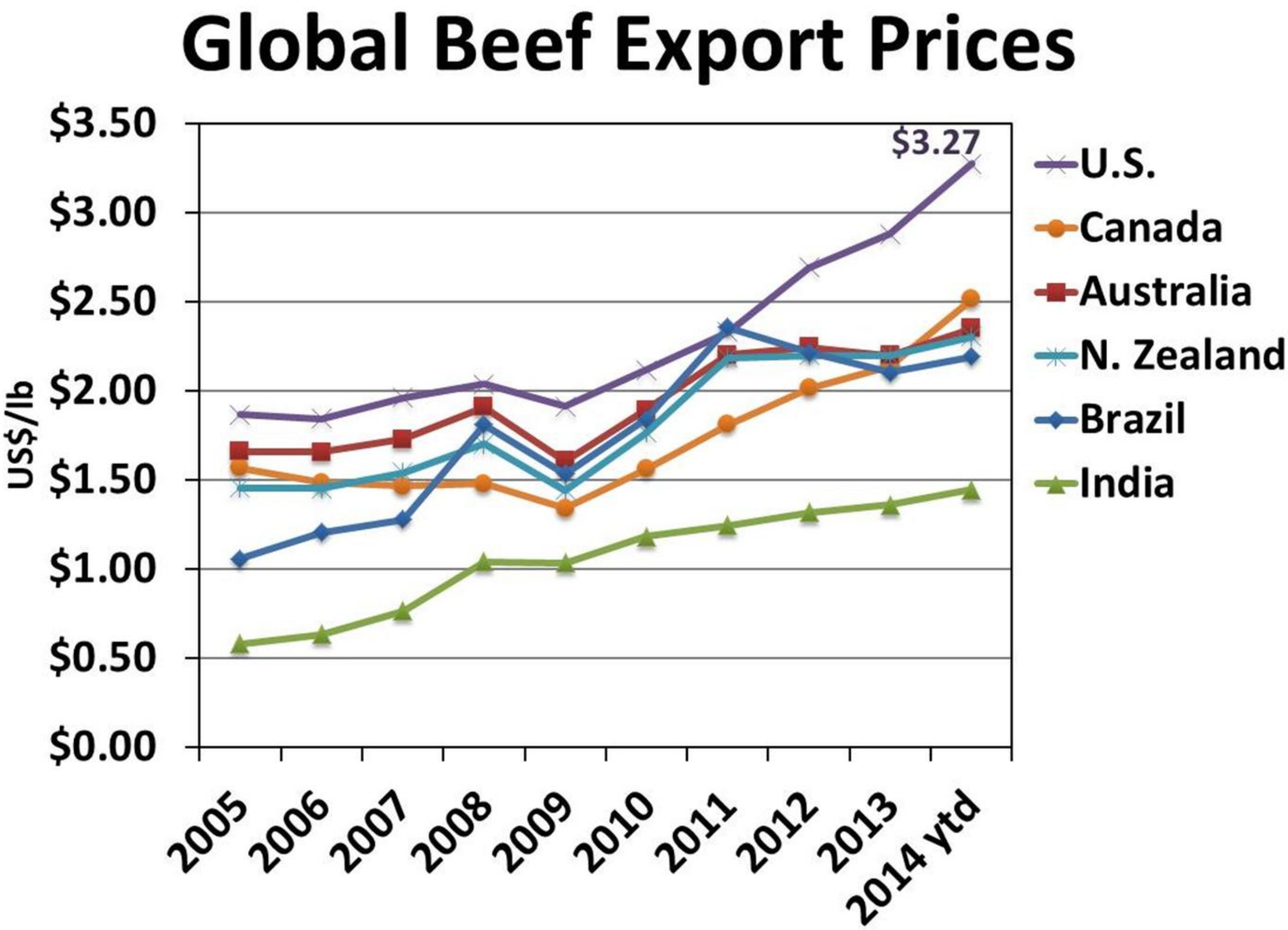
**Footnote 3, cont.**

# Answers to Questions

(based on qualitative and econometric analyses)

* Did the Fed Cattle Price Basis Decline After COOL Was Implemented? **NO**
* Did the Feeder Cattle Price Basis Decline after COOL was Implemented? **NO**
* Did COOL Negatively Impact Imports of Feeder Cattle? **NO**
* Did COOL Negatively Impact Imports of Slaughter Cattle? **Unlikely**
  * Econometric evidence of a significant effect of COOL is weak; results depend on observation period, data source, and model specification
  * Likely omitted variable bias in other studies

**Footnote 4: Global Agritrends Report**




**Source: GTIS, AgriTrends**