



Testimony of

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**Before the
Senate Committee on Finance**

**Regarding
Opportunities and Challenges in the U.S.-China Economic Relationship
March 27, 2007**

Mr. Chairman, Ranking Member, and Members of the Committee thank you for allowing me the opportunity to submit this testimony. For more than 100 years, AMI has provided service to the nation's meat and poultry industry -- an industry that employs nearly 500,000 individuals and contributes approximately \$100 billion to the nation's economy.

AMI members include 250 of the nation's most well-known meat and poultry packers and processors. Collectively, they produce 90 percent of the beef, pork, veal and lamb food products and 75 percent of the turkey food products in the U.S. Among AMI's member companies, 60 percent are small, family-owned businesses employing fewer than 100 individuals. Some are publicly traded and employ tens of thousands. These companies operate, compete, sometimes struggle and mostly thrive in what has become one of the toughest, most competitive and certainly the most scrutinized sectors of our economy: meat and poultry packing and processing.

In recent years, the Chinese economy has soared at consistently astonishing rates. As their economy has grown, diversified, and generated greater household wealth, Chinese consumers have become some of the best new customers for the members of AMI. The Congressional passage of permanent normal trade relations for China and their accession to membership in the World Trade Organization (WTO) has compounded the economic emergence of China and their integration into the global economy.

Despite their membership in the rules-based system of the WTO, disputes and significant problems do arise such as the continued ban on U.S. beef. Prior to the ban, China was the ninth largest market for U.S. beef in 2003 with sales in excess of \$27 million. But the

real value of this market is their rapidly growing middle class. The average Chinese consumer's largest expenditure is food. A recent McKinsey and Company report estimated growth rate for Chinese household food expenditures will grow by 6.7 percent annually for the next two decades. The same report also estimated that slightly more than 700 million Chinese households will migrate from poor to middle class in the next ten years. This demographic shift will press greater demand for food and proteins as new middle class consumers seek to improve their diets.

In 2006, China imported more than \$575 million in pork and poultry products, a 55 percent increase over 2005 values. For 2007, they are already importing 121 percent more pork and poultry products by value than by this same time in 2006. Compared to only four years ago, their exports of pork and poultry were approximately \$100 million annually.

The protracted ban on U.S. beef has frustrated the beef industry – an industry that has taken great strides to ensure the health of our animals and the safety of our products. The U.S. has demonstrated its trustworthiness in food safety and animal health matters in accordance with internationally accepted scientific principles and should have access to the Chinese market.

Beef on the Menu for the Strategic Economic Dialogue

It has been more than three years since the trade ban was placed on U.S. beef. During this time many countries have resumed trade with the U.S., yet China has been reluctant to advance negotiations to restore full trade. As a member of the WTO, it is critical for China to appreciate the importance of trade based on adherence to the internationally developed and accepted guidelines of the World Animal Health Organization (OIE). The discussions surrounding the upcoming Strategic Economic Dialogue (SED) meeting provide a unique opportunity to resolve this matter and restore full beef trade (i.e all ages, all products).

Despite the overwhelming scientific evidence supporting the safety of U.S. beef, more than 17 years of BSE controls, and a preliminary OIE expert panel designation, the ban persists. Therefore, we urge you and your colleagues to press the Administration and the Chinese to include negotiations to resolve this ban as part of the formal agenda for the upcoming Strategic Economic Dialogue meeting set to occur in mid-May. This high level bilateral meeting will provide a unique opportunity to resolve this long standing trade ban benefiting U.S. farmers and processors and Chinese consumers. The resolution of this ban by the Chinese will signal to other trading partners and economic sectors of their commitment to adhere to internationally accepted scientific principles for trade and a rules-based system.

Recently, the beef industry sent the attached letter to Secretary of the Treasury Henry Paulson, as the lead U.S. representative to the Strategic Economic Dialogue, requesting that beef be placed on the agenda for the upcoming meeting of the Strategic Economic

Dialogue. This unique venue provides an opportunity for the most senior level and technical level trade negotiations to yield a mutually beneficial outcome.

Trade Ban Background

The trade ban followed the December 2003 diagnosis of a single case of BSE in an imported Washington state cow born before feed restrictions were implemented.

The case was detected through the U.S.' routine and aggressive surveillance program, which began shortly after the UK's BSE crisis and long before BSE was ever diagnosed in the U.S. In fact, the United States was the first BSE-free nation ever to launch a surveillance program for the disease.

It was just one part of our nation's extraordinary, focused, and disciplined steps designed to prevent a disease. These measures also included import controls and careful feed restrictions. The U.S. learned from the European BSE experience and pursued aggressive controls to address the disease.

After we detected the first of three total cases in the U.S., we enhanced our interlocking system of firewalls even further and today we can say with great confidence that our herd is healthy and our beef is safe. According to OIE data, the U.S. has the lowest rate of BSE per 100,000 head of any nation that has ever had BSE in its herd. This is testament to the effectiveness of our preventive measures.

The U.S. and Chinese governments have had a number of negotiating sessions over the past year in an attempt to reach an agreement on normalizing beef trade. The desired outcome is for China to adopt the OIE BSE's guidelines trade policy under the terrestrial animal code of the OIE.

In July 2006, after a number of negotiating sessions between USDA and China's Ministry of Agriculture and the Chinese Quarantine Service (AQSIQ), China unilaterally announced it would allow the resumption of U.S boneless beef from animals less than 30 months, but it was dependent on 22 requirements, some of which have no scientific rationale. During her 2006 visit, Vice Premier Wu Yi made a commitment to President Bush to open the Chinese beef market at the Joint Commission on Commerce and Trade (JCCT) principal level meeting last year. However, China made the July announcement unilaterally and included non-science-based conditions of trade in their proposal.

For the ensuing eight months, the U.S. and China no trade has occurred and negotiations have made minimal progress to resolve the issue.

On March 12, 2007, an OIE expert panel recommended a preliminary designation for the U.S. of a "Controlled Risk" country for BSE. This designation affirms the U.S.' proactive and effective commitment to preventing BSE and controlling it should it occur. Under such a designation, U.S. cattle and products from cattle of all ages can be safely

traded in accordance with international guidelines, due to our interlocking safeguards.

The facts are indisputable. No nation acted with as much forethought as the U.S. to prevent a disease, detect it if it existed and control and destroy it if it occurred. Using a surveillance system that far exceeds international guidelines, we have detected three cases in a 100 million head herd. More importantly, no BSE-related human illness has even been associated with eating U.S. beef. It is imperative that the U.S. and China abide by the OIE's international animal health guidelines to facilitate trade between both nations.

Mr. Chairman and Members of the Committee, our industry, workers and producers that supply us livestock have been significant beneficiaries of trade agreements and China's accession to the World Trade Organization. Every billion dollars in meat exports adds 13,000 U.S. food manufacturing jobs. The USDA has reported that the income multiplier from meat exports is 54 percent greater than the income multiplier from bulk grain exports.

The prolonged trade ban China maintains on U.S. beef imports is frustrating to many of our members and cattle producers. For our members, it means fewer sales, less jobs, and a negative impact on the communities where we operate. For producers, the impacts are similar with less destinations and consumers to demand their product. Despite the overwhelming scientific evidence supporting the safety of U.S. beef, more than 17 years of controls, and a preliminary expert panel designation, the ban persists. Therefore, we urge you and your colleagues to require that the resolutions of the beef trade ban be included on the upcoming meeting of the Strategic Economic Dialogue.

Thank you for the opportunity to present these views before you today.

March 23, 2007

The Honorable Henry M. Paulson
Secretary of the Treasury
United States Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Paulson:

As you prepare your agenda for the upcoming U.S-China Strategic Economic Dialogue (SED) meeting in May, we urge you to press China on resuming full trade in beef and all beef products from animals of all ages in accordance with Organization of International Epizootics (OIE) standards.

It has been more than three years since the trade ban was placed on U.S. beef. During this time many countries have resumed trade with the U.S., yet China has been reluctant to advance negotiations to restore full trade. As a member of the World Trade Organization (WTO), it is critical for China to appreciate the importance of trade based on adherence to the internationally developed and accepted guidelines of the OIE. The discussions surrounding the SED meeting provide a unique opportunity to resolve this matter and restore full beef trade (i.e all ages, all products).

The U.S. economic relationship with China is one of great importance to Congress. This is also a relationship that must be based on trust and mutual respect for each others trade commitments. During more than three years of this beef trade ban and with very few steps forward, it seems that our interests have not been given due consideration. The attempt to restore trade with 22 preconditions presents a web of unworkable technical barriers to trade.

Therefore, with full restoration of beef trade as our goal, we urge you to include this topic on your SED agenda and advance negotiations immediately in anticipation of achieving our goal when the Chinese are in Washington in May.

Sincerely,

American Meat Institute
National Cattlemen's Beef Association
National Meat Association