

05/26/2002 Entry: "R-CALF USA Cautions Against NCBA Letter Regarding McDonald's Corp."

The National Cattlemen's Beef Association (NCBA) is circulating a "letter to the editor" to state cattle associations suggesting that state cattle associations forward the letter to their local media. The letter is intended to "put the McDonald's decision to purchase imported beef into perspective."

The letter advances two arguments in support of McDonald's decision: First, NCBA argues that "[E]ven with the importation of product for 400 of its approximately 18,000 stores, McDonald's remains the largest purchaser of U.S. beef." Second, NCBA argues that "[T]he decision means nothing to how much beef will be imported into this country. Because of Trade Rate Quotas (TRQs), Australia and New Zealand are limited in what they can practically send to our country."

The second argument advanced by NCBA is fatally flawed. NCBA has misrepresented TRQ's. A TRQ is not a Trade Rate Quota; it is a Tariff Rate Quota. Tariff Rate Quota's (TRQs) do not impose a limit on the volume of product a country can export to the United States. Instead, a TRQ is a two-tiered tariff system. The first tier is the quota tier and the tariff for this tier is set relatively low. The second tier tariff level is set at a higher level than the first tier (or quota level). The U.S. sheep industry provides an example where because the currency values in Australia and New Zealand were considerably less than the currency value in the U.S., these countries found it profitable to pay the higher tariff and continue exporting lamb over the quota level established following their win on their trade case against Australia and New Zealand.

Moreover, if McDonalds were to purchase large quantities of imported beef for considerably less than the cost of U.S. beef, its overall savings under the first tier may make it economical to exceed the TRQ and pay the higher tariff for the remainder of its beef needs. This would be especially true if it were concerned about retaining its overseas supplier. It should be noted that any additional imports could be used to leverage down domestic cattle prices.

Further, the U.S. is now considering a Free Trade Agreement (FTA) with Australia. This means the U.S. could lose all tariffs and quotas on beef arriving from Australia. Both Australia and U.S. beef industry groups are presently lobbying to raise the TRQ's for Australian beef so more product can be delivered under the lower tariff.

State cattle associations will find it interesting that the American Sheep Industry (ASI) recently reported, "Imported lamb now makes up slightly over one-third of domestic lamb consumption as compared to eight percent of consumption just ten years ago." The sheep industry's experience reveals just how quickly an imported meat product can overrun a domestic market.

R-CALF USA urges you to consider the long-term consequences of attempting to help McDonald's justify its decision to begin offering imported beef. We recognize McDonald's as a major beef purchaser. McDonald's will respect our industry more if we stand firm on our principles and deliver the unified message that we want them to serve U.S. beef in their stores. At the very least, if McDonald's is to begin substituting imported beef for domestic beef, our industry should be calling on McDonald's and other fast food chains to begin labeling the country of origin of their beef.