'You're not going to stop imports, but you can compete with them'

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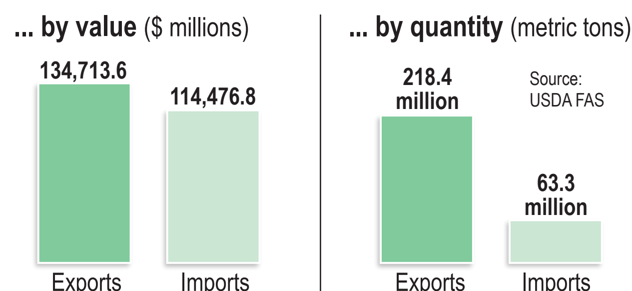
Courtesy of the Eby family

Mike Eby, left, and his son, Jackson, 17, walk their cows to a neighboring farm, which purchased the animals when Eby decided to exit the dairy business in 2016.

2016 U.S. agricultural trade ...



U.S. ag imports by select commodity, 2016

Item	Quantity (Million pounds)	Total domestic use (Million pounds)	Imports/share of domestic use (% percent)
Dairy	7,034	209,766	3.4
Beef	3,015	25,673	11.7

Source: USDA Economic Research Service *Fiscal year

Carol Ryan Dumas and Alan Kenaga/Capital Press

Consumer preference

A 2011 survey of primary grocery shoppers by Dairy Management Inc. showed 78 percent of respondents viewed the "100 percent USA" label on milk, cheese and yogurt as extremely important or very important in their purchases. Some 18 percent saw it as somewhat important, and only 5 percent considered it not very or not at all important.

The survey also found consumers were willing to pay an average of 5 percent more for those labeled products.

"Our co-ops need to proudly display the USA seal," Eby said.

Identifying the product as "100 percent USA" would increase the value of the product and U.S. milk — and it might have helped his situation, he said.

"I think I would have been more profitable because the milk would have been worth more," he said.

But co-ops don't use the label because they blend lower-cost imported ingredients into their products, he said.

If co-ops would use the "100 percent USA" label, the problem of low milk prices and import competition would fix itself, he maintained.

"You're not going to stop imports," said Bob Krucker, an Idaho dairy farmer and NDPO board member. "But you can compete with them, and we can successfully compete with them."

The key is showing consumers which products are made with U.S. milk and which aren't, he said. "Right now, they can't tell the difference."

NDPO's trademark "100 percent USA" is available to any food producer or retailer that can verify the product.

"We need to give the consumers the tools to choose because consumers will make the right choice, they will make the U.S.-made choice," he said.

And dairy producers don't need government-mandated country-of-origin labeling — known by the acronym COOL — to do it, he said.

"We can do it on our own; we don't need permission from anybody. We have the solution right here," he said.

Farmer-owned co-ops could put the seal on every product they make that is 100 percent U.S., he said.

But they don't seem willing to do that, he said. Either they don't have the best interest of their dairy farmers at heart or they're using cheap imported ingredients or non-dairy ingredients, he said.

"We're here to promote U.S. agricultural products. And if we do that right, we won't have to worry about imported product," he said.

Bigger concerns

The dairy industry already has a de facto COOL label with its REAL Seal, said Chris Galen, senior vice president of communications for National Milk Producers Federation. Several versions of the seal are available, including one that states a product is "American Made." It's up to the marketer to choose which version to use, he said.

The voluntary label has been around since 1976 and can only be used on food products made in the U.S. that contain only real dairy ingredients produced from U.S. milk.

The seal allows marketers to identify products that contain 100 percent U.S. milk ingredients. More than 200 companies use the seal on more than 6,000 products, and NMPF would like to see those numbers grow, he said.

A bigger concern for the industry, however, is the misleading labeling and branding of imitation dairy products — plant-based products using dairy terminology, such as "milk" made from nuts and other crops, he said.

"Imports are a very small component of the dairy industry. We're much more concerned with imitation dairy products," he said.

Those products mimic dairy products but don't have the same level of nutrition or product attributes as real dairy products, he said.

Another concern is the use of "absence" labels — such as "GMO-free" or "hormone-free" — that are used to scare consumers, he said. Such labels refer to whether the product contains genetically modified organisms and whether cattle are given a genetically modified hormone to increase milk production.

Transparent labeling of imitation products and "absence" products is where NMPF sees a need to police food marketing, he said.

Dairy Farmers of America doesn't currently use a U.S. label on its products but does have several regional brands found at retail stores, said John Wilson, DFA senior vice president and chief fluid milk marketing officer. These include Borden and Dairy Maid.

"Many of our packages highlight the brand's local heritage of our American farm ownership, as our research has shown that this messaging resonated with consumers," he said.

DFA does support COOL laws for foods sold at retail. However, the reality is there are World Trade Organization issues that limit the laws' effectiveness, he said.

As a national dairy cooperative owned by family farmers, DFA monitors world trade of dairy products, and the quantity of dairy imports into the U.S. has been relatively flat over time, he said.

"The United States imports approximately 4 percent of the dairy products consumed today, and this amount hasn't varied significantly over the last several years. In contrast, U.S. dairy exports have recently risen to more than 14 percent of the total market," he said.

In 2016, U.S. dairy exports were more than 2 million metric tons, compared to imports of 841,198 metric tons, according to USDA's Foreign Agricultural Service.

Increasing exports to support the growing U.S. dairy industry is the goal at International Dairy Foods Association, the association said in a statement to Capital Press.

U.S. milk production is projected to grow 23 percent over the next 10 years. Coupling that additional 48 billion pounds with the 30 billion pounds being exported today, there will need to be either greater domestic consumption or increased export opportunity for about 80 billion pounds of milk.

"With more than 95 percent of our potential customers living outside our borders, expanding access to international markets is essential for our future success," DFA stated.

Jayson Lusk

The Asia-Pacific region is one such critical market, and the U.S. should pursue bilateral trade agreements with key markets in the region. The EU, Australia and New Zealand are already negotiating with key markets, such as China and Japan, and "the U.S. must not fall behind the curve," DFA said.

Where's the beef?

Beef imports are a big problem for U.S. ranchers, said Bill Bullard, CEO of the cattlemen's group R-CALF USA.

"They are a substitution for domestic product and as a result reduce the demand for U.S. cattle," he said.

They undermine the value of U.S. beef, causing prices to fall to the lowest common denominator, he said.

"We import from about 20 different countries, and the mix of imported product is changing. It used to be lower-value grinding product to mix with our higher-quality trim. Now it's more muscle cuts of beef," he said.

A COOL label would help because consumers could choose to buy beef exclusively produced in the U.S. and support U.S. ranchers, he said.

Several studies have shown the labeling would increase demand for U.S. beef, he said.

A 2014 survey by Oklahoma State University indicated consumers were willing to pay $1.05 per pound more for beef steak labeled born, raised and slaughtered in the U.S. than beef born and raised in Canada.

A 2003 survey by Colorado State University indicated 73 percent of consumers were willing to pay an 11 percent premium for U.S.-labeled steak and a 24 percent premium for U.S.-labeled hamburger, he said.

Surveys do show consumers desire country-of-origin labeling and are willing to pay more for U.S. products, but it's a mixed bag, said Jayson Lusk, who leads the Department of Agricultural Economics at Purdue University.

"What we (economists) haven't seen is that translate to demand in the marketplace," he said.

When country-of-origin labels were on beef, retailers didn't promote it, most consumers weren't aware of it and economists weren't able to pick up much effect, he said.

Economists who say there was no increased demand are looking at selective data, Bullard said.

"The historical facts disprove the economic theories that have been proffered in opposition to COOL," he said.

After COOL was amended in May 2013 to label beef that was born, raised and slaughtered in the U.S., cattle producers saw prices and demand skyrocket, he said. The high prices continued until November 2014, when it was clear to everyone that COOL would be short-lived, he said.

Canada and Mexico took the matter of COOL on beef and pork to the World Trade Organization. After a series of rulings and subsequent appeals by the U.S. government, the WTO determined the mandatory COOL constituted unfair trade practices and the U.S. would have to repeal the law or face retaliatory trade measures.

Cattle prices continued to fall and hit bottom in 2016 after COOL was repealed in December 2015, Bullard said.

Lusk looked into that issue and concluded that the fall in cattle prices after the COOL repeal had more to do with normal changes in cattle supply resulting from the cattle cycle than anything to do with COOL.

There's nothing stopping packers from voluntarily labeling their products as U.S. beef. If there's money to be made doing it, they will — and some have, Lusk said.

Private affair

National Cattlemen's Beef Association supports voluntary labeling but is staunchly against mandatory labeling.

"We don't believe the government should be in competition with private labeling," said Kent Bacus, NCBA director of trade and market access.

COOL for beef was on the books for about six years, and it had nothing to do with food safety; it was a marketing program run by USDA, he said. The law didn't apply to about half of the meat sold because it only applied to beef sold in grocery stores and wasn't required for fast-food and restaurant channels, he said.

"It didn't make a whole lot of sense to have that law in the first place," he said.

The problem was it put a lot of cost on producers without rendering any benefit, with packers and feeders passing down the cost of implementation to producers. It also resulted in retaliatory tariffs of $1 billion from Canada and Mexico when the WTO ruled it discriminatory, he said.

And it had no value, he said. It's one thing to ask consumers if they want to know where their food comes from and another to actually see if they bought the product. When it came down to it, consumers were more interested in price, cut and grade, Bacus said.

"Consumers honestly didn't pay attention to it," he said.

The mandatory labeling was really small, black and white print and nobody noticed it, he said.

"We think we can do a better job marketing our beef than the government can," he said.

NCBA isn't opposed to labeling U.S. product as long as it's private industry doing the labeling, but it doesn't support the mandatory component that other groups do, he said.

"We've already gone down this road before. It did nothing to add benefit to prices, did nothing to build consumer confidence, did nothing to improve food safety," he said.

USDA FAS pegs beef imports in 2016 at more than 1 million metric tons, compared to exports of 813,332 metric tons.

Beef coming into the U.S. is labeled as coming from a certain country and is inspected to meet U.S. safety standards. Most of it is frozen lean trimmings from Australia and New Zealand used to mix with U.S. higher fat trimmings to make ground beef patties for fast-food restaurants, Bacus said.

The benefits

While producers have differing views on imports, most consider them to be a reality that is here to stay.

The net effect of trade on individual producers is a bit ambiguous, said Purdue's Lusk.

Trade is going two ways, and it largely depends on the commodity, he said.

For example, the U.S. both imports and exports beef. While domestic producers might face more competition, two-way trade also gives them more customers and a larger market.

In addition, an animal is made up of many cuts, and the U.S. has more use for some cuts than others. While the U.S. is importing some products, exports allow the entire animal to be used efficiently, he said.

The real question is "What would we give up if we didn't have imports?" he said.

For U.S. consumers, imports are a clear benefit. Without imports, there'd be more volatile food prices, less variety and fewer options, he said.

Other countries export to the U.S. because they want the higher prices the U.S. offers. That can bring food prices down in the U.S., and consumers get more options available to them at a lower price.

"The main effect is it helps cushion price swings," he said.

For instance, the U.S. imports a lot of fruits and vegetables, which gives consumers year-round availability to products — and at a lower price than if they were solely dependent on U.S. production, he said.

"The benefit to consumers is we get things cheaper than we would otherwise," he said.

A 2013 bill makes it easier for farmers to replace buildings

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"I think that's overblown," Gelardi said.

The matter has ended up before the Oregon Court of Appeals, which is scheduled to hold oral arguments in the case on Jan. 9.

In 2013, Oregon lawmakers passed a bill that made it easier for farmers to replace buildings that had become dilapidated, or that had been destroyed or demolished.

The law basically stated that dwellings on farmland could be replaced as long as they once had modern amenities, such as indoor plumbing, electricity and heat. Previously, dwellings could only be replaced if they currently had those features.

Another requirement pertained to whether property taxes had been paid on the property, and how recently. This awkwardly worded provision is at the heart of the legal dispute.

A permitting authority can allow replacement dwellings as long as they were subject to property taxes for the lesser of:

"A) The previous five property tax years unless the value of the dwelling was eliminated as a result of the destruction, or demolition in the case of restoration, of the dwelling; or

(B) From the time when the dwelling was erected upon or affixed to the land and became subject to assessment as described in ORS 307.010 unless the value of the dwelling was eliminated as a result of the destruction, or demolition in the case of restoration, of the dwelling."

The government of Lane County interpreted this passage to mean that dwellings can be rebuilt at any time after they were eliminated, regardless of the five-year property tax rule.

After the county approved King's application to rebuild the three homes, Landwatch Lane County objected to the decision before Oregon's Land Use Board of Appeals, or LUBA.

The board rejected the county's interpretation and overturned the dwelling approval, rejecting the concept that demolished or destroyed homes could be rebuilt after an indefinite period of time.

The five-year period was established as a maximum "look-back," according to LUBA. In other words, dwellings could only be rebuilt if they were subject to property taxes within the past five years until they were destroyed or demolished within that time window. The provision also applied to homes that were built and taxed less than five years before they had to be replaced.

Original policy wasn't a problem for farmers, foresters

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This original policy wasn't a problem for farmers and foresters, though, because it largely just required them to follow the EPA pesticide label and general "integrated pest management" standards, said Scott Dahlman, policy director for the Oregonians for Food and Shelter agribusiness group.

"It formalized what these guys are already doing," Dahlman said.

"Most people were covered but didn't know it," added Cooper.

That original general permit expired in 2016, which prompted DEQ to begin devising an updated version.

The Oregon Farm Bureau and Oregonians for Food and Shelter are concerned by proposed drafts they've discussed with DEQ, which indicate dry waterways would be defined broadly, requiring many more farmers to register with the agency and submit pesticide management plans.

"We're seeing no justification as to why this is necessary," said Dahlman.

Even if the DEQ wouldn't enforce the general permit as applying to every dry puddle, the program would fall under the federal Clean Water Act, which allows for private litigation over alleged violations, Cooper said.

"There would be citizen suit enforcement," she said.

If the DEQ seriously extended its authority over pesticide spraying, that would also effectively usurp the Oregon Department of Agriculture's jurisdiction under the agricultural water quality program, Cooper said.

Growers have been encouraged to advise ODA on water quality plans and voluntarily improve water conditions on their properties, which would be undermined by DEQ's planned policy, she said. "That's a big betrayal of trust for a lot of farmers."

Ron Doughten, water quality permitting manager for DEQ, said the agency is in the process of addressing comments about the general permit.

The agency is still analyzing which pesticide applications would be considered to come from "point sources" — opening them to Clean Water Act regulation — and which waters would be covered by the permit, whether wet or dry, Doughten said.

"How and where that applies is still a part of the discussion," he said. "We're far from anything being settled."