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Monday, 12 June 2017

Pet Food Institute Submission in Response to the Office of the United States Trade Representative Request for Comments on Negotiating Objectives Regarding Modernization of the North American Free Trade Agreement with Canada and Mexico

Docket Number USTR-2017-0006

Dear Sir or Madam:

The Pet Food Institute (PFI) thanks the Office of the United States Trade Representative (USTR) and the International Trade Commission (ITC) for this opportunity to provide information regarding the United States' negotiating objectives regarding modernization of the North American Free Trade Agreement (NAFTA) with Canada and Mexico, in response to the Federal Register (FR) notice 82 FR 23699, published on 23 May 2017. As we will discuss in this written submission, the Canadian and Mexican markets account for approximately one-half of US pet food exports and will be critical to the growth and health of US pet food makers. We trust that the information we share with USTR and ITC will assist USTR in developing a NAFTA negotiating strategy that builds on the success of the agreement and improves it to the benefit of US food and agriculture producers generally, including US pet food makers.

Established in 1958, PFI is the voice of US cat and dog food manufacturers. For almost sixty years, PFI has worked with its members to educate the world about pet nutrition and health, the need to balance pet ownership rights with responsibilities, and to maintain the highest standards of product integrity, safety and quality control. PFI members account for approximately 98 percent of the cat and dog food produced in the United States. Among its members are 25 dog and cat food makers and more than sixty affiliates who supply ingredients, equipment and services to dog and cat food makers. PFI members employ approximately 30,000 Americans in twenty-nine states, providing stable jobs in rural and urban cities and towns across the country.

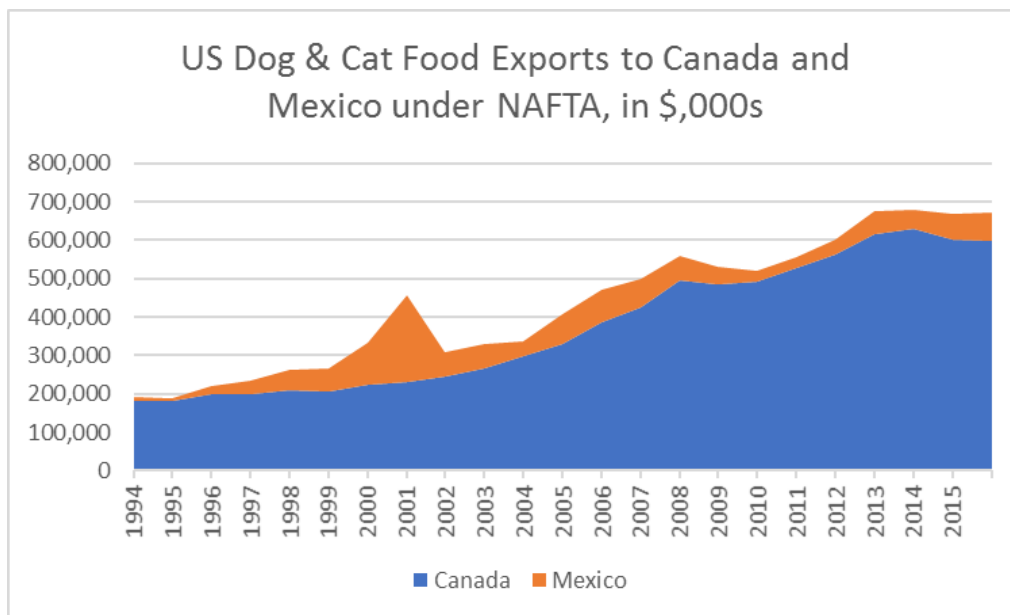
PFI is an ardent supporter of US Government efforts to negotiate free trade agreements (FTAs) like NAFTA that create opportunities for US exports, including exports of safe, high quality, US pet food. Through its International Trade Subcommittee, PFI gathers and delivers to appropriate US Government agencies our priorities and interests on a range of trade topics, from FTAs to specific policy, sanitary and technical challenges facing US exports. Above all else, PFI members are committed to product safety and quality – this applies equally to feeding dogs and cats here and around the world.

The top ten individual country markets for US dog and cat food, based on data gathered by the US Department of Agriculture (USDA's) Foreign Agricultural Service (FAS), include both developed and emerging markets: **Canada**, Japan, Australia, **Mexico**, South Korea, Hong Kong, Belgium-Luxembourg, New Zealand, Taiwan and the Philippines. Canada and Mexico alone accounted for about \$676 million of the \$1.3 billion in US dog and cat food exports last year, according to the US Department of Agriculture's (USDA's) Foreign Agricultural Service (FAS). This figure represents more than one-half of all US pet food makers' exports, so the importance of Canada and Mexico, our #1 and #4 export markets, cannot be overstated.

PFI priorities with respect to NAFTA are the following:

Maintain and expand current market access

As mentioned earlier in this submission, the Canadian and Mexican markets are vital to the health and the bottom line of US pet food makers, for different reasons. Like the United States, Canada is a mature market, with steady exports for many years, while Mexico represents a significant and growing market for US dog and cat food. As the chart below indicates, US exports to Canada and Mexico under NAFTA have been critical to the export success of US dog and cat food makers, representing about one-half our \$1.3 billion total annual export value.



Canada is by far the most important foreign market for US dog and cat food, as the chart above indicates, due in large part to the benefits NAFTA has conferred. Not only is Canada the #1 export market for US dog and cat food, but according to the Pet Food Association of Canada, approximately one-half of all dog and cat food sold in Canada is manufactured in the United States.

NAFTA eliminated tariffs on US pet food to Canada, which has allowed US producers and exporters to compete with Canadian pet food. Our exports to Canada are stable at around \$600 million per year, due in

large part to the predictable policy and regulatory environment and the commitment to transparency that NAFTA provides.

The spirit of cooperation characteristic of the NAFTA was critical to US pet food makers' and distributors' ability to work with Canadian and US regulators in 2015, when Canada proposed changes to its import policy that, if implemented as proposed, would have threatened our ability to supply the Canadian market. Working together, Canadian and US regulators, US pet food stakeholder groups and interested Canadian stakeholders developed and implemented a solution that preserved Canadian market access for US pet food makers. Such a collaborative approach might not have been possible without the commitment to work together that underpins NAFTA.

NAFTA has facilitated impressive growth in US dog and cat food exports to Mexico. Since this agreement entered into force in 1994, US exports have increased more than tenfold, from around \$11.5 million in 1994 to almost \$77 million last year. NAFTA's tariff elimination has been a major factor in this rapid growth. PFI, joined by many in the US food and agriculture stakeholder community, believes that, by creating more opportunities for cross border trade, NAFTA has allowed Mexico to become a more reliable customer of safe, high quality US products, including dog and cat food. US dog and cat food exports grow in emerging markets as tariffs on US products are reduced or eliminated and as living standards in these emerging markets increase. NAFTA has helped bring about these changes in Mexico, resulting in a growing market to our south that complements the mature Canadian market to the north.

As USTR prepares for this important negotiation, PFI reminds US negotiators of the unique benefits that NAFTA confers on US companies. PFI members, along with many other US food and agriculture producers, rely on the predictability and transparency that NAFTA's trilateral approach provides for trade with Canada and Mexico. The NAFTA environment is largely tariff-free and relatively free from non-tariff barriers, allowing US companies to produce, compete and grow in this dynamic space.

Improve regulatory coherence and cooperation

US dog and cat food producers, as well as many of our food and agriculture stakeholder partners, have benefited greatly from NAFTA. As with all such agreements, there is room for improvement. PFI members have identified a few such areas for USTR's consideration.

Adoption/incorporation of the World Trade Organization (WTO) Agreement on Sanitary and Phytosanitary Measures (SPS Agreement) into the NAFTA – The WTO SPS Agreement entered into force in 1995, one year after the NAFTA entered into force. Adoption or incorporation of the WTO SPS Agreement into the NAFTA will help ensure that all three NAFTA parties abide by their WTO SPS obligations, including the obligation to only use the least trade restrictive, science-based sanitary and phytosanitary measures to protect animal and plant health, as well as food safety. PFI also supported the Trans-Pacific Partnership (in which Canada and Mexico were negotiating parties) and believes the SPS Plus provisions in that agreement should be considered for inclusion in a modernized NAFTA.

Such updates to NAFTA could help US pet food makers effectively address current barriers to the Mexican market. For example, Mexico requires that all US poultry meal facilities, which supply a key ingredient in many US dog and cat foods, must be inspected and approved by officials from Mexico's agriculture ministry (SAGARPA). Compliance with this requirement is confirmed by reference to a database that

SAGARPA maintains. The poultry meals from these US facilities pose no unacceptable animal health or food safety risks to Mexico, yet the need to obtain SAGARPA inspection and approval prevents the efficient flow of these products – and finished dog and cat foods containing them – to Mexico. SAGARPA often fails to properly update and maintain the database of approved facilities, resulting in unnecessary delays and rejected shipments at Mexican ports of entry. An updated NAFTA should provide the tools to allow USDA to negotiate with SAGARPA an agreement to allow USDA inspection of US poultry meal facilities to ensure compliance with science-based Mexican sanitary measures.

A modernized NAFTA should also ensure that Mexico aligns its import policies with the World Organization for Animal Health's (OIE's) recognition of the United States' as a negligible risk for bovine spongiform encephalopathy (BSE). This OIE recognition was conferred in May 2013. Moreover, the United States has for twenty years had measures in place to prevent cases of BSE through a comprehensive ban on the feeding of ruminant-derived material to other ruminants. A modernized NAFTA should ensure Mexico recognizes the United States' OIE-conferred BSE negligible risk status, due in large part to US government and industry efforts to prevent the disease. Such changes should then facilitate Mexican market access for US meat and bone meal.

US dog and cat food exports to Mexico have grown significantly under NAFTA, but the challenge of meeting Mexican product registration and import requirements is daunting. It can take as long as a year to complete the Mexican product registration process, a fact that discourages many US companies from even attempting to access this growing market. For those companies with the resources and patience to register their products, they must then submit up to forty pages of information, much of it redundant or duplicative, with each shipment. We urge USTR to use the NAFTA modernization negotiations to address these barriers to access – doing so will encourage US dog and cat food makers to establish or expand their presence in the Mexican market.

As tariffs have come down under NAFTA, non-tariff barriers pose a more likely threat to US exports to our NAFTA partners. PFI has provided above a few examples of opportunities for US negotiators to improve a trade agreement that has for more than two decades facilitated significant and growing exports of US dog and cat food. We urge USTR to consider these as areas for improvement, with an eye towards building on the success achieved to date under NAFTA.

Encourage the adoption of e-commerce to facilitate US exports

Agriculture, like every other business endeavor, has been profoundly affected by technology developments, including the growth in e-commerce. US food and agriculture generally and US dog and cat food makers specifically will benefit from the thoughtful implementation of technology tools to facilitate US exports to Canada and Mexico. The issuance and use of electronic (or e-) certificates to facilitate trade among NAFTA parties would make the export process more efficient, while ensuring that an importing country's applicable sanitary, phytosanitary and food safety requirements are met. PFI strongly supports initiatives to improve the efficiency of US food and agriculture exports. Accordingly, we urge the United States, in the negotiations to modernize NAFTA, to include provisions that commit the three countries to develop and implement e-certificates for the wide range of traded products, including pet food. The improved efficiency of an e-certificate system will allow regulatory and industry resources to be focused on challenges to food safety, animal and plant health.

PFI appreciates this opportunity to share our insights with USTR as it prepares its NAFTA negotiating objectives. We are committed to working with USTR and USDA to ensure that the effort to modernize NAFTA results in an agreement that builds on the success US food and agriculture have enjoyed, while identifying opportunities to ensure that all sectors of the US economy prosper under NAFTA.

Sincerely,

A handwritten signature in black ink, appearing to read "Cathleen Enright". The signature is written in a cursive, flowing style.

Cathleen Enright, PhD
President & CEO