Why America is Losing Its Ranchers

And, what we as a nation can do about it

Bill Bullard, CEO, R-CALF USA

It was not long ago that the American landscape, from ocean-to-ocean and border-to-border, was dotted with cattle owned and cared for by U.S. farmers and ranchers. Their ranching operations were perhaps the most common of small businesses in America, and a blind throw of a dart at a United States map was as likely as not to hit upon a U.S. ranching operation.

As recently as 1980, there were well over a million such ranching operations dispersed across every state of the Union. America's appetite for safe, wholesome beef supported these ranches. Agricultural crops such as corn, wheat or barley can be used as both human food and animal food, yet cattle are raised almost exclusively to feed our human population. These food-producing cattle ranches were, and still are, an important economic engine that combines sunlight, grass, air and water with human labor and one of God's creatures to produce new, renewable wealth each year. This renewable wealth breathes economic life into rural communities all across America.

Fifty billion dollars is about what U.S. cattle ranches have generated during each of the past five years in cash receipts from the sale of their cattle, which makes the cattle industry the largest of all food-producing sectors in the United States. In addition to ranchers' envious opportunity to live and work in nature's backyard, we might think that, because of their ownership of cattle and often expansive landholdings, they are a rich, wealthy lot. Although there are exceptions to nearly every rule, such a blanket conclusion is wrong – very wrong.

The men and women who care for our nation's air, land and water while raising the safest, healthiest cattle in the world, have been plagued with a marketplace that persistently produces prices below the cost of production. According to the U.S. Department of Agriculture (USDA), the average annual returns to U.S. ranchers over the 14-year period from 1996-2008 was -$14.96 per bred cow per year. That means a rancher that raises calves from his or her 300-cow herd (which would necessitate a ranch consisting of 6,000 or more acres in many parts of the West) has lost more than $62,000 over this period while he/she has been providing you and your family with healthy, U.S.-raised beef. In 2007 and 2008, these ranchers lost much more than the average. They lost $46.25 and $117.35 per bred cow, respectively. Can this possibly be right?

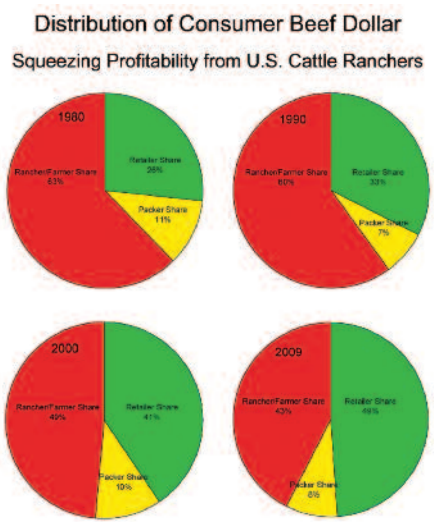
Unfortunately, it is even worse as this per-head loss is based only on annual operating costs, not on the additional costs of taxes, insurance, general overhead and hired labor. This lack of profitability in the U.S. cattle industry explains why America is losing its ranchers at an alarming rate. Just since 1980, over half a million ranching operations have been eliminated from America's landscape, representing a decline of 41 percent. Beginning in 1996, the rate-of-loss of U.S. ranchers accelerated, and we have been losing about 12,000 ranching operations each year ever since. To put this in perspective, the U.S. is losing more ranching operations each year than there are in California, Arizona, Colorado, Idaho, Montana and North Dakota. The sizeable financial losses experienced during the past two years (2009 data is not yet available, but will certainly be worse) suggests this alarming decline will not end soon.

Two Primary Reasons Why the Marketplace Returns Below Cost-of-Production to Ranchers

As we all know, the price of beef in our grocery stores jumped to an all time high in 2008 and remains at near record levels today. This certainly does not square with the assertion that cattle prices are seriously depressed. And, ***Reason No. 1 why ranchers receive below cost-of-production prices from the marketplace is that grocery store beef prices have become disconnected from ranchers' cattle prices.***

While the remaining U.S. ranching operations are still widely dispersed across America, their markets are not. Cattle raised by ranchers are eventually sold to meatpackers that convert the cattle into edible beef. The meatpackers *are* the market, and the meatpacking industry is among the most highly concentrated in the United States (four packers control approximately 88 percent of the primary cattle market). The highly concentrated meatpackers, in turn, market their beef to retailers, which also have become highly concentrated (four firms now control over 50 percent of the retail beef market). The retailers then sell their beef to you and me.

The substantial market shares of the meatpackers and retailers give them considerable economic power in the marketplace, enough power to interfere with competition. The exercise of this market power enables the meatpackers and retailers to capture a huge chunk of the profits that a competitive marketplace should be allocating to ranchers, but is not. The following pie charts show that meatpackers and retailers have captured, over a very short period, a full 20 percent of the share of each consumer's beef dollar away from the U.S. rancher. These charts depict the progressive reduction in the amount of each consumer's beef dollar that actually reaches the rancher. In 1980, the rancher received 63 cents of every dollar you spent on beef. By 2009, the rancher received less than 43 cents – a 20 percent reduction.

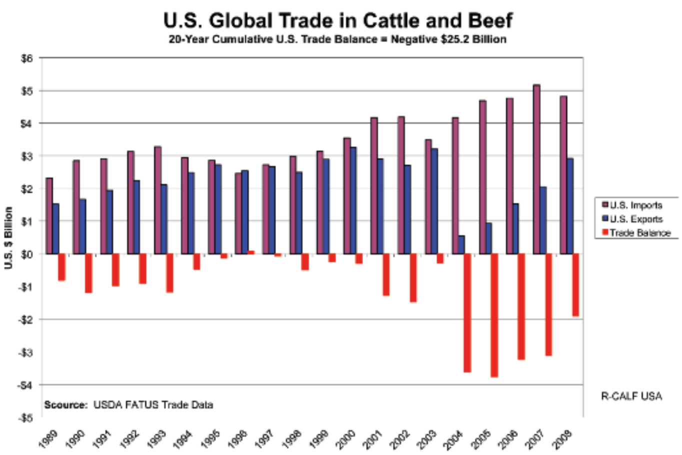


The solution to this serious problem is simple – the proper enforcement of our existing antitrust laws, which if they had been enforced would have blocked the unbridled mergers and acquisitions that occurred among meatpackers and retailers, allowing them to both acquire and exercise anticompetitive and monopoly-like market power. Further, America needs proper enforcement of what is known as the Packers and Stockyards Act, the act that prohibits meatpackers from engaging in anticompetitive behavior to the detriment of U.S. ranchers. Unfortunately, this Act and our antitrust laws have been collecting dust while on the shelves of Washington regulators.

Market power held by meatpackers gives them considerable leverage over the prices U.S. ranchers receive for their cattle. But, that is a rather abstract concept. To actually exercise their leverage, meatpackers need favorable circumstances with which to actually apply such leverage. One such favorable circumstance leads us to ***Reason No. 2 as to why ranchers receive below cost-of-production prices from the marketplace – the ongoing, global trade deficit in cattle and beef is draining billions of dollars from our ranching economy each year.***

Although news reports claim that U.S. agriculture maintains a global trade surplus, this certainly is not true for the largest sector of U.S. agriculture – the U.S. cattle industry. Over the past two decades, the U.S. enjoyed only one year when we sold more cattle and beef than was purchased (creating a trade surplus that benefits the U.S.). That was 14 years ago, in 1996. Since then, our nation's meatpackers and retailers have purchased far more cattle and beef abroad than was sold abroad (creating a trade deficit that forces our nation to either increase borrowing from foreign countries or liquidate assets to maintain balance).

This drain on our economy has been considerable, averaging about $3 billion during each of the past five years (2004-2008). Our cattle and beef trade deficit with Canada and Mexico alone averaged over $1.3 billion during this period. To put this into perspective, for each head of cattle we exported over the past three years, we imported more than two. Below is a chart that shows we have drained over $25 billion from our U.S. economy over the past 10 years (1989-2008). Not only is this situation unsustainable, it is flooding the U.S. market with cheap imports that are not produced under health and safety standards identical to the United States. The trade deficit, which increases the volume of cheaper imports in the U.S. market, is a favorable circumstance that meatpackers and retailers use to leverage prices paid to U.S. ranchers below their cost of production.



The solution to this economy-draining trade deficit is to encourage our U.S. Senators and U.S. Representatives to reverse current trade policies that: 1) make the U.S. the most easily accessible market in the world; 2) allow imports of beef and cattle from foreign countries that do not enforce the same health and safety standards that are enforced in the U.S.; and, 3) do not recognize that our national security depends on our ability to maintain a viable food production system within our own borders.

American consumers also have a unique opportunity to influence the volume of food imports – as consumers, you can exercise your power in the marketplace by choosing to buy food that is born, raised and slaughtered in the U.S. (meats) or grown and produced in the U.S. (fruits, vegetables and nuts) for your families. This is now possible because R-CALF USA helped pass the new country-of-origin labeling (COOL) law that requires food sold at grocery stores to be labeled with its country of origin.

Buying USA food is something every consumer can now do to support U.S. ranchers!

The size of the U.S. cattle herd is now the smallest in more than 50 years. The numbers of ranchers are also the fewest and ranchers are exiting this industry at an alarming rate. While writing this article, a rancher from the Southern Plains called me and said he was a fifth-generation rancher and would probably be the last. He said he's on the way out. "I'm not interested in staying in business just to go backward," he said, adding that he was worried that there may not be enough time to turn things around.

It's up to each and every one of us. If we want to preserve for ourselves and our grandchildren a safe, secure food supply in this country, which equates also to maintaining our national security, we must "turn things around."

Every American can help every single day by seeking out USA-grown food in their grocery store. Every American also can send a letter to the address below stating who you are and what you do and urging our federal government to put an immediate halt to the anticompetitive practices of the meatpackers and retailers that are disrupting market competition and forcing the exodus of hundreds of thousands of our U.S. ranchers from our American landscape.

A letter to your U.S. Senators and U.S. Representative urging an end to the untenable trade deficit in cattle and beef, and an end to allowing imported food to enter this country without meeting health and safety standards that are at least equal to our own, also would distinguish you as an American willing to stand up for a better, safer future.

To urge an end to anticompetitive practices, write to:
Legal Policy Section
Antitrust Division
U.S. Department of Justice
450 5TH Street, NW, Suite 11700
Washington, DC 20001
Or e-mail: agriculturalworkshops@usdoj.gov

To urge reforms to failed trade policies, write to:
The Honorable (Full Name)
United States Senate
Washington, DC 20510

The Honorable (Full Name)
United States House of Representatives
Washington, DC 20515