R-CALF USA

R-CALF United Stockgrowers of America
P.O. Box 30715
Billings, MT 59107
Phone: 406-252-2516
Fax: 406-252-3176
E-mail: r-calfusa@r-calfusa.com
Website: www.r-calfusa.com

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The Honorable Leonard Boswell, Chairman
House Agriculture Subcommittee on Livestock Dairy and Poultry
United States House of Representatives
1427 Longworth House Office Building
Washington D.C. 20515

Dear Chairman Boswell,

As you begin your Subcommittee mark-up of the 2007 Farm Bill this week, U.S. cattle ranchers and farmers represented by R-CALF USA urge you to include three critical reforms in your initial draft. These reforms are: H.R. 2135 to enhance fair and open competition in the production and sale of agricultural commodities; H.R. 2213 to prohibit the use of certain anti-competitive forward contracts; and, the reforms contained in S.305 to make it unlawful for large packers to own, feed, or control livestock intended for slaughter.

For many years conventional beef industry groups have insisted that your Subcommittee leave the cattle market alone. However, none of those conventional groups are structured to represent the unique interests of actual cattle producers. For example, the American Meat Institute (AMI), the National Meat Association (NMA), and the National Cattlemen's Beef Association (NCBA), if not exclusively, each have packers serving on their governing boards. As a result, the competing economic interests between cattle producers and packers are effectively concealed.

This is why R-CALF USA was formed in 1999 – to correct the misperception that these conventional groups are genuinely representing the unique interests of U.S. cattle producers, and to restore the once robust market competition lost during these conventional groups' dominance over the industry.

Since 1994 and during the reign of these conventional beef industry groups, over 122,000 cattle producers exited the U.S. cattle industry. As recently as 2002 live cattle prices remained too low to even cover the costs of production. But in 2003, an extraordinary event occurred that caused the packers' control over domestic cattle prices to slip through their fingers. This extraordinary event was the abrupt closure of the Canadian border, which temporarily halted annual imports of 1 billion pounds of beef and 1.7 million head of cattle from Canada. Prior to this event, packers used undifferentiated imports, captive supply cattle – including packer-owned cattle – and limited price disclosure to "manage" the price they paid for domestic cattle. Upon the packers' loss of just one of these price-management tools (access to Canadian imports), the domestic fed cattle market experienced the largest one-year price jump witnessed for at least 30 years, if not ever.

In 2006, despite extremely tight cattle supplies relative to strong beef demand, the largest packers reacquired and exercised their considerable control over the domestic market. Again, using undifferentiated imports, captive supplies – including packer-owned cattle – and limited price disclosure, the four largest packers avoided purchasing cattle in the cash market for about two weeks in February. Within the first five months of 2006, the fed cattle market was stripped of nearly the entire record-increase that had occurred between the years 2002 and 2003, after the Canadian border was closed.

This is but a recent demonstration of the largest packers' ability to "manage" domestic cattle prices to the detriment of U.S. cattle producers, using the same set of price-management tools they skillfully deployed in the marketplace prior to 2003. The only deterrent they presently face to the redeployment of their price-management tools is the prospect that Congress may exact meaningful reforms in the 2007 Farm Bill. If the largest packers were without the ability to avoid proper enforcement of the Packers and Stockyards Act and engage in preferential agreements with the largest of cattle feeders (H.R. 2135 and H.R. 2213), and were without the ability to offer contracts without establishing a firm base price and disclosing terms (H.R. 2213), and were without the ability to own, feed, and control cattle long before slaughter (S.305), what would remain is a robust, open, and competitive U.S. cattle market.

R-CALF USA represents approximately 15,000 of the widely dispersed, independent U.S. cattle ranchers and farmers whose lion's share of cattle (over 80 percent) are ultimately marketed to just four of the largest packers. We urgently need Congress to proactively and decisively restore and protect our competitive market from the disproportionate market power emanating from the highly concentrated packing industry. The reforms contained in H.R. 2135, H.R. 2213, and S.305 all are necessary to accomplish this task, as is the implementation of mandatory country-of-origin labeling, which Congress previously passed in 2002.

Thank you for your consideration of our request. We look forward to working with you during the development of the 2007 Farm Bill to achieve the reforms necessary to ensure the proper functioning of the U.S. cattle market.

Sincerely,

R. M. Thornsberry DVM

R. M. Thornsberry, D.V.M.
President, R-CALF USA Board of Directors

Cc: Members of the Subcommittee