Fighting for the U.S. Cattle Producer!

R-CALF USA

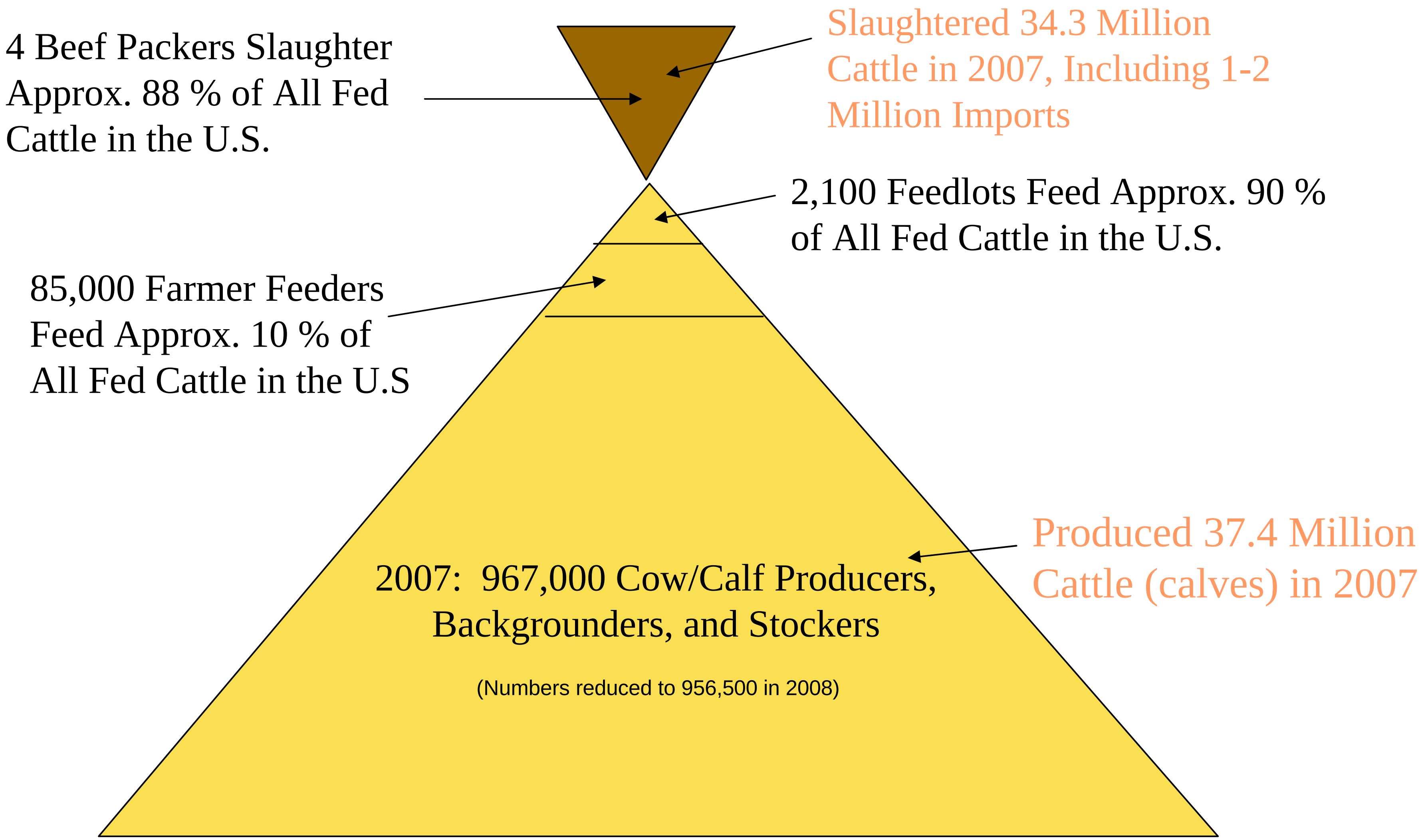
Presentation to the Honorable Tom Vilsack, United States Secretary of Agriculture

State of the U.S. Cattle Industry:

An Industry in Immediate Need of Solutions

February 25, 2009

Today's U.S. Cattle Industry



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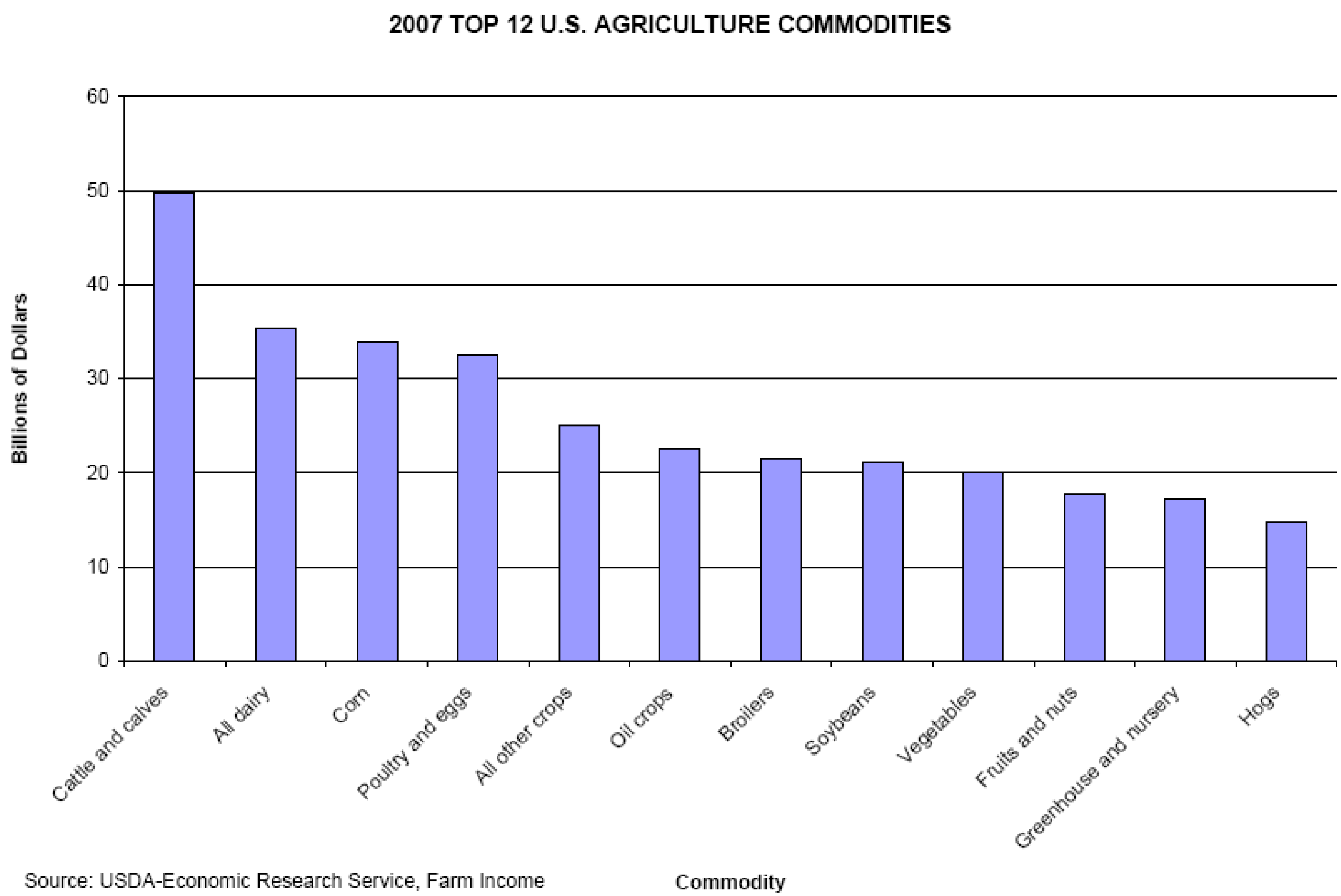
Live Cattle Industry is By Far the Largest Segment of U.S. Agriculture



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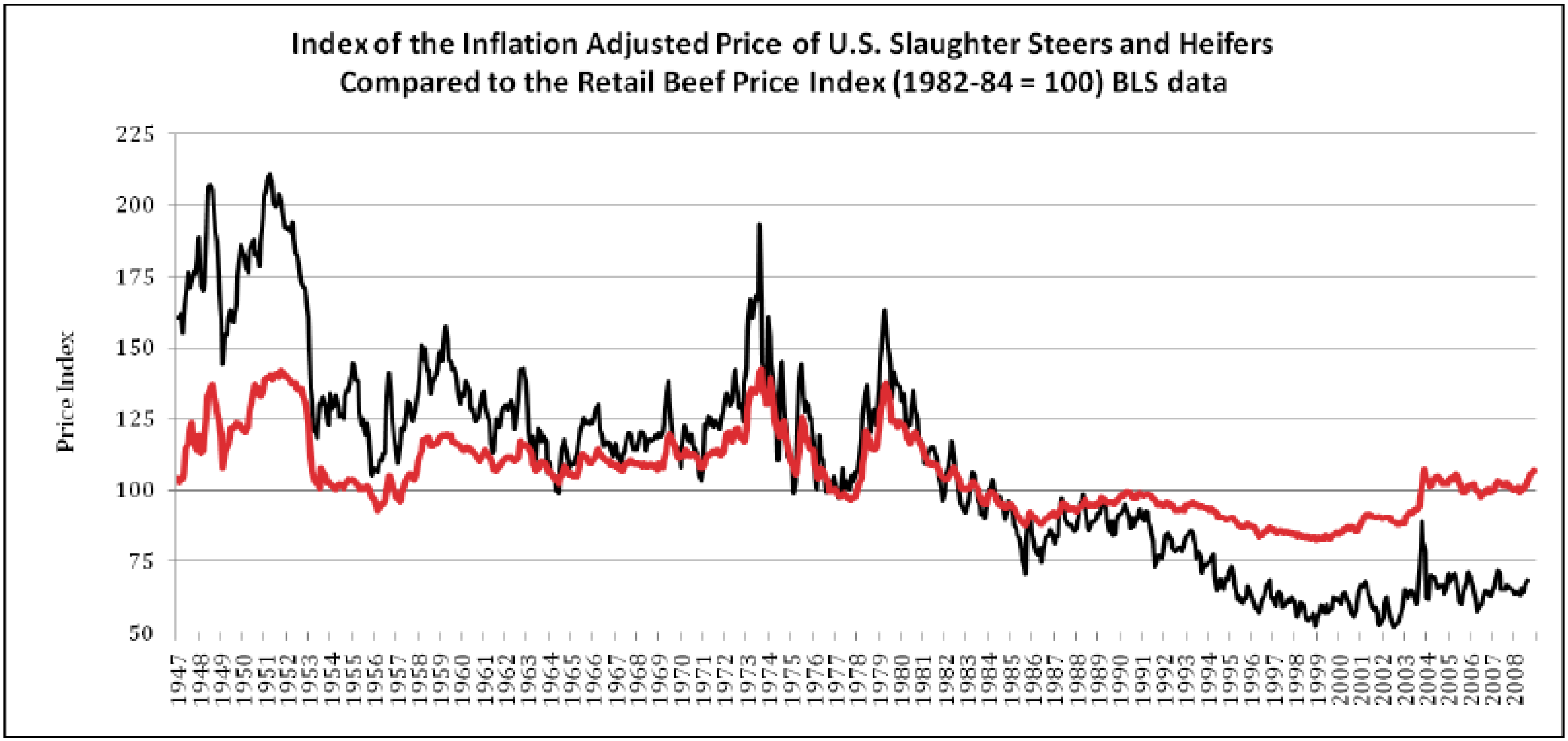
U.S. Cattle Markets Have Been Broken for Past Two Decades



Source: Dr. Robert Taylor, Auburn University

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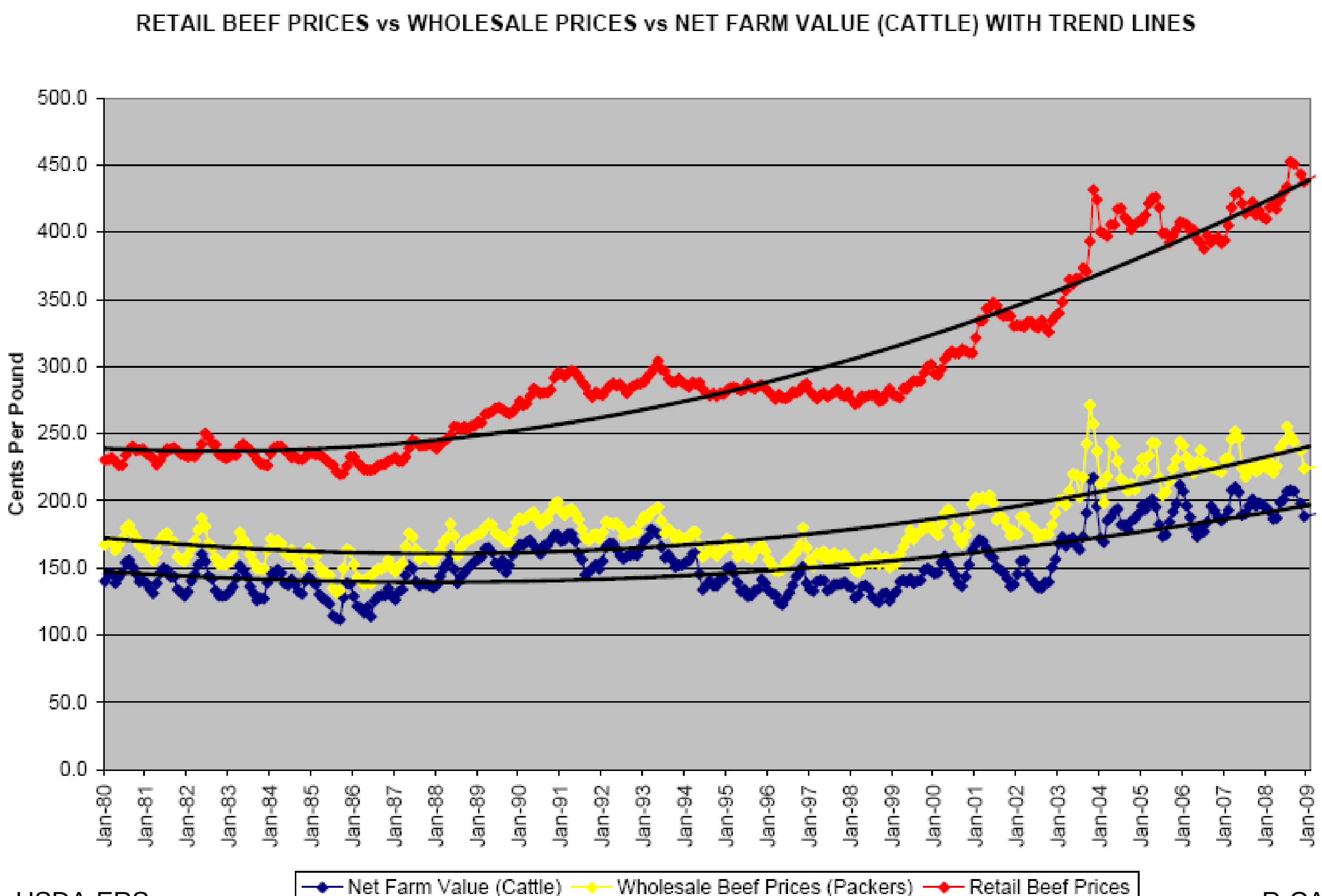
U.S. Cattle Market Has Become Inefficient and Inequitable for Producers and Consumers



Source: USDA-ERS

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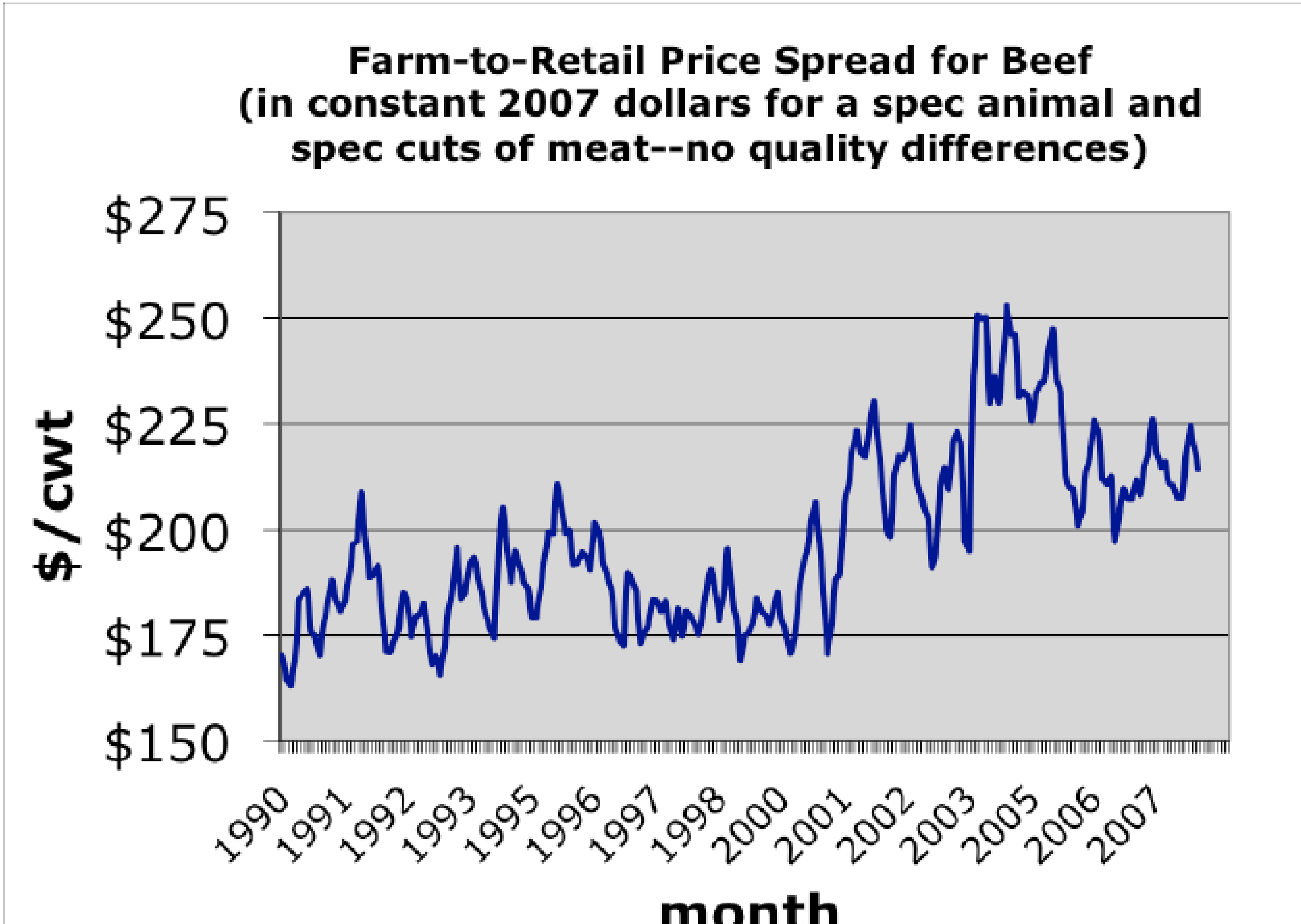
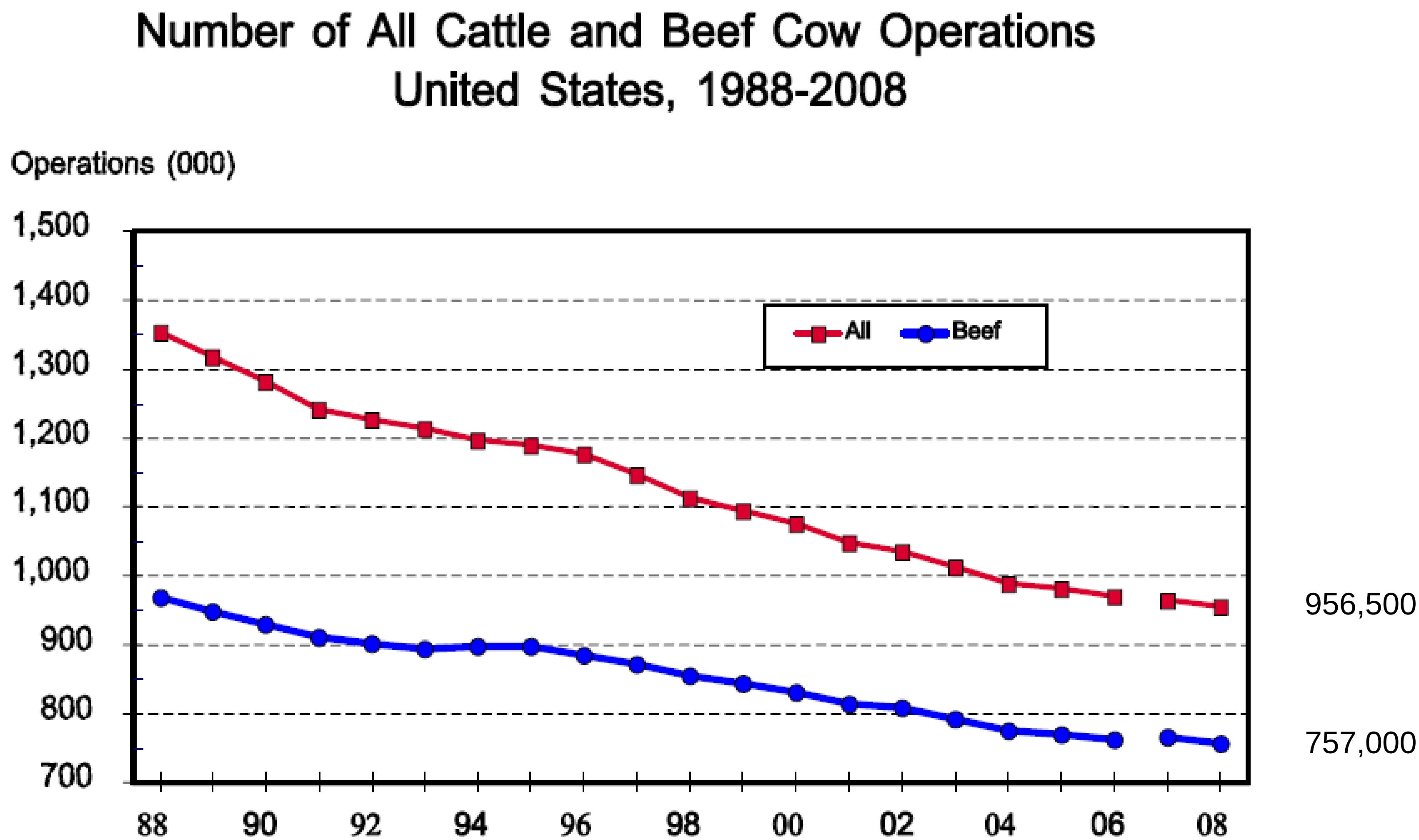


Source: C. Robert Taylor, Auburn University

The Result is a Shrinking Industry: Industry Participants



Source: USDA-NASS

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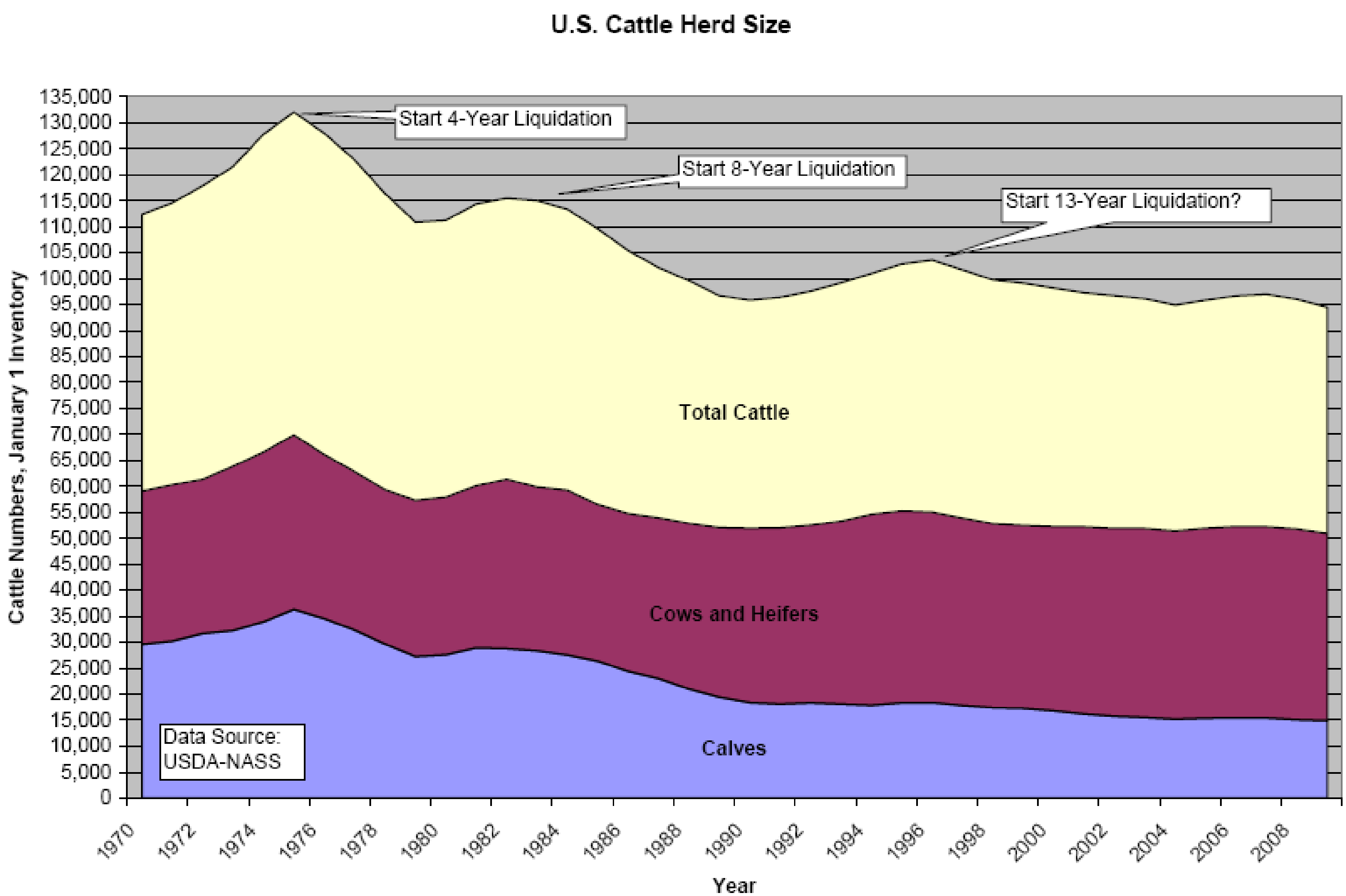
The Result is a Shrinking Industry: Cattle Herd Size



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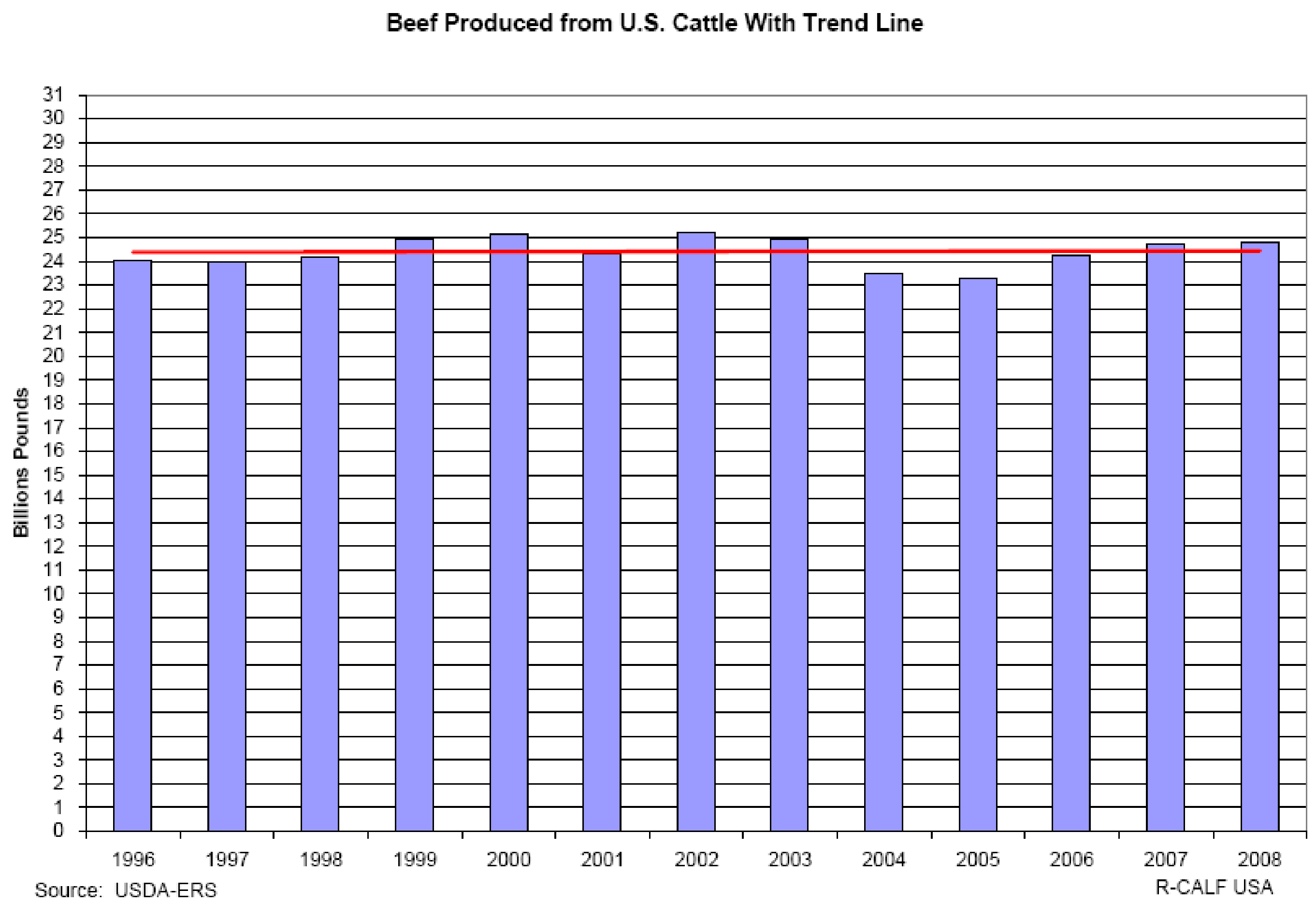
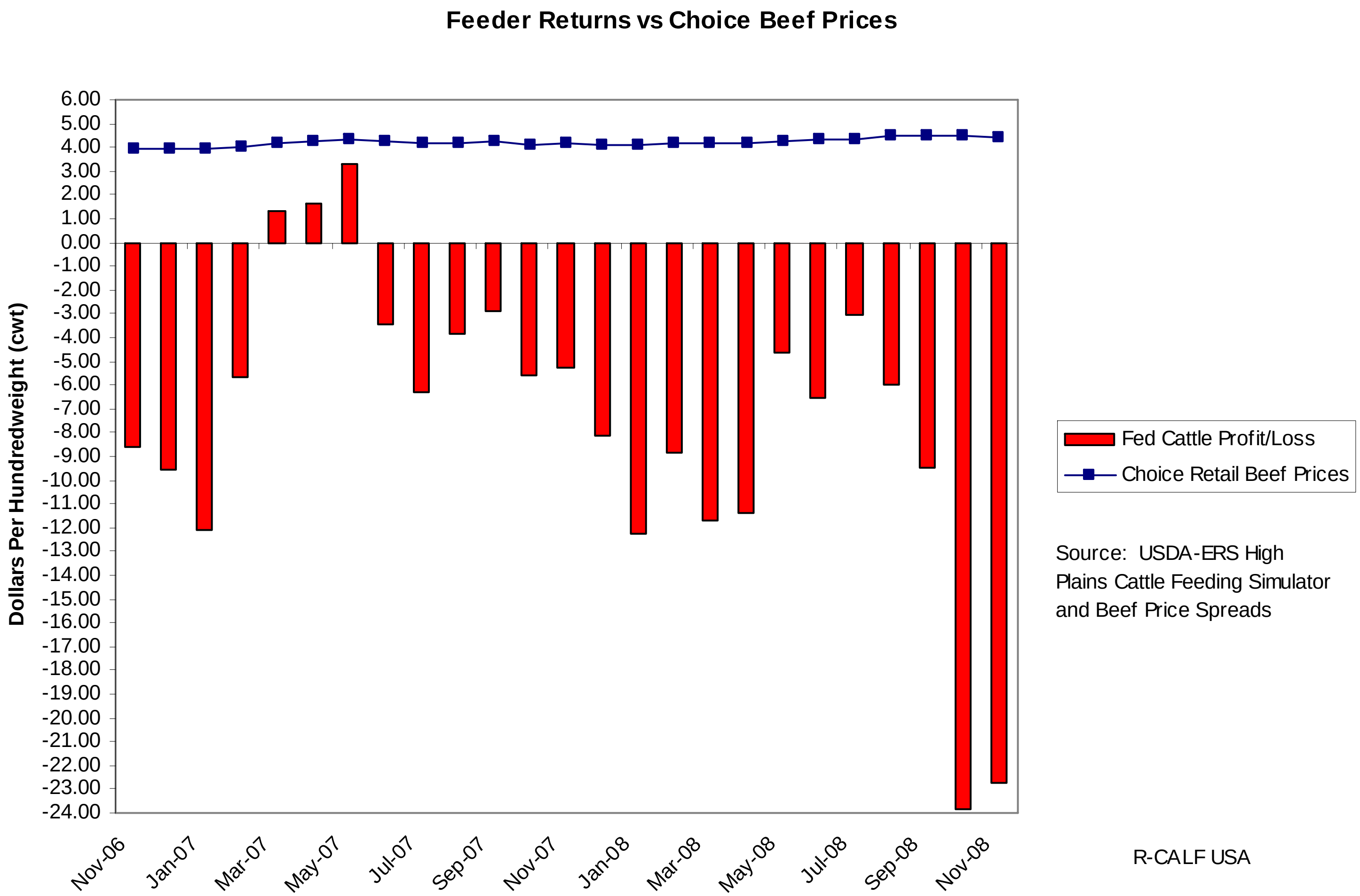
The Result is a Shrinking Industry: Stagnant Domestic Production



Note: The volume of beef produced from imported cattle (No. of imported cattle x each year's average carcass weight) is excluded from these data.

Cattle Feeders Suffer Long-Run Losses While Beef Prices Steadily Climb to Record Levels



Source: USDA-ERS High Plains Cattle Feeding Simulator and Beef Price Spreads

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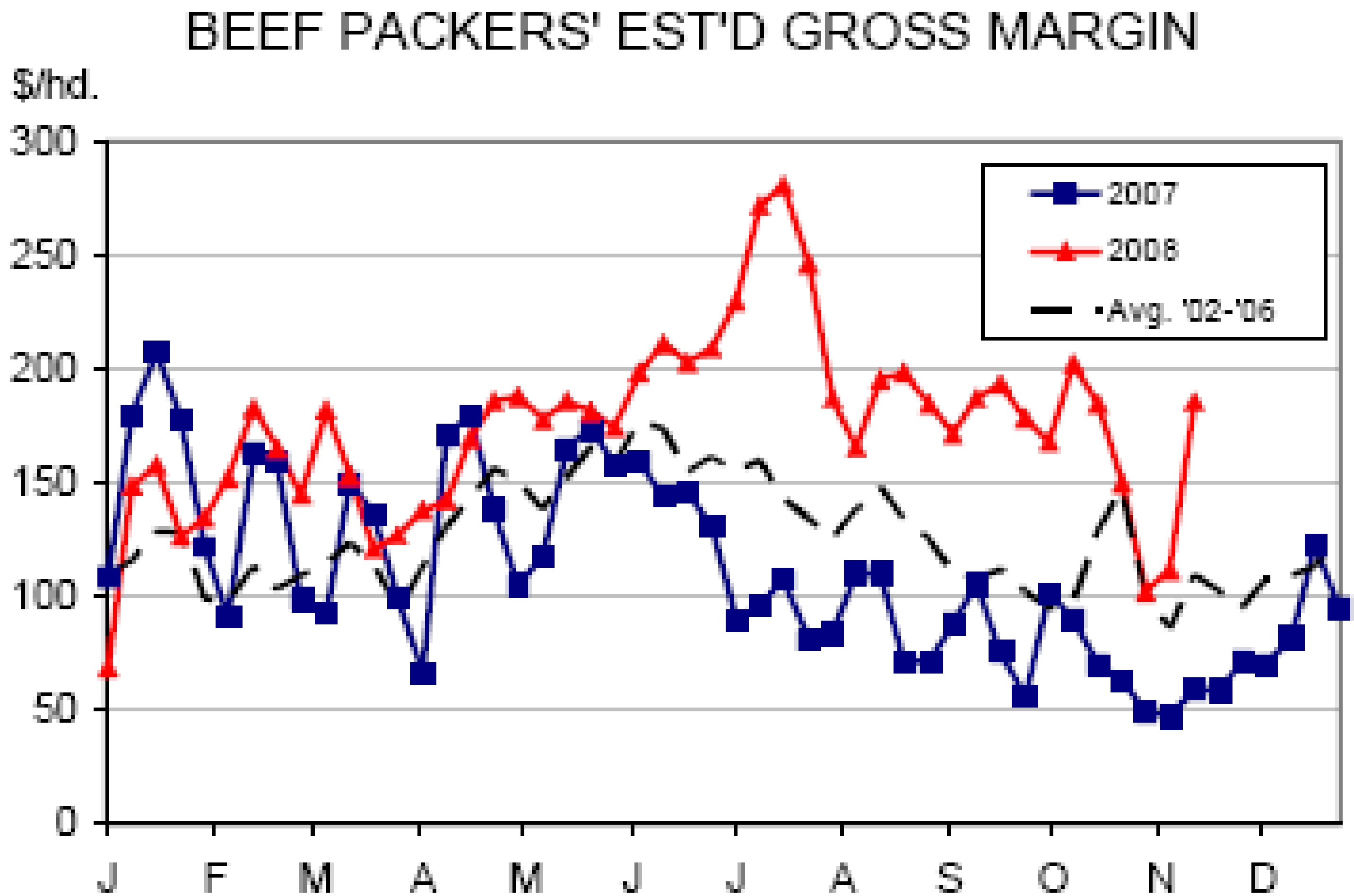
Losses to Cattle Feeders Equate to Higher Beef Packer Margins



Source: CME Group Daily Livestock Report, Nov. 24, 2008

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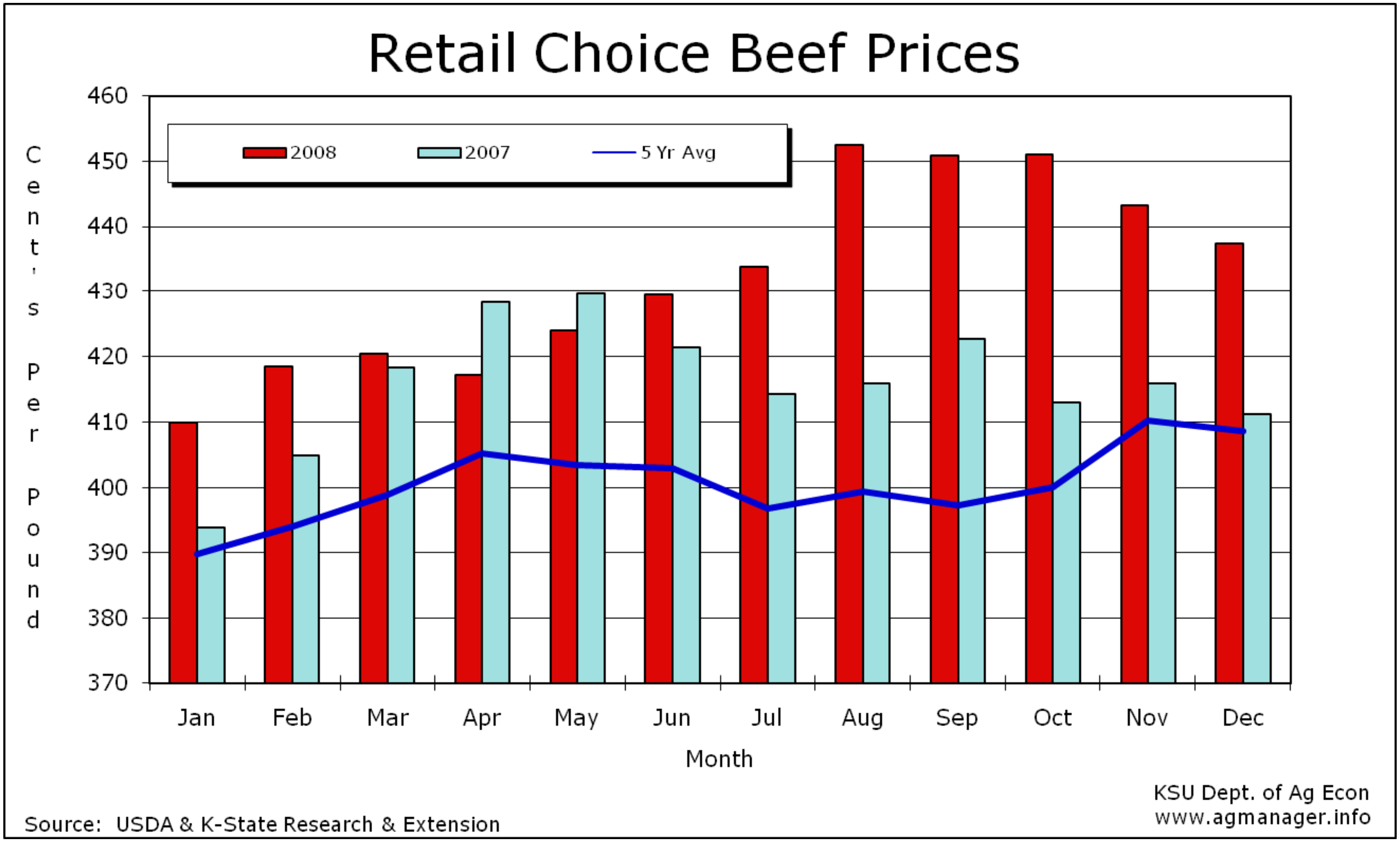
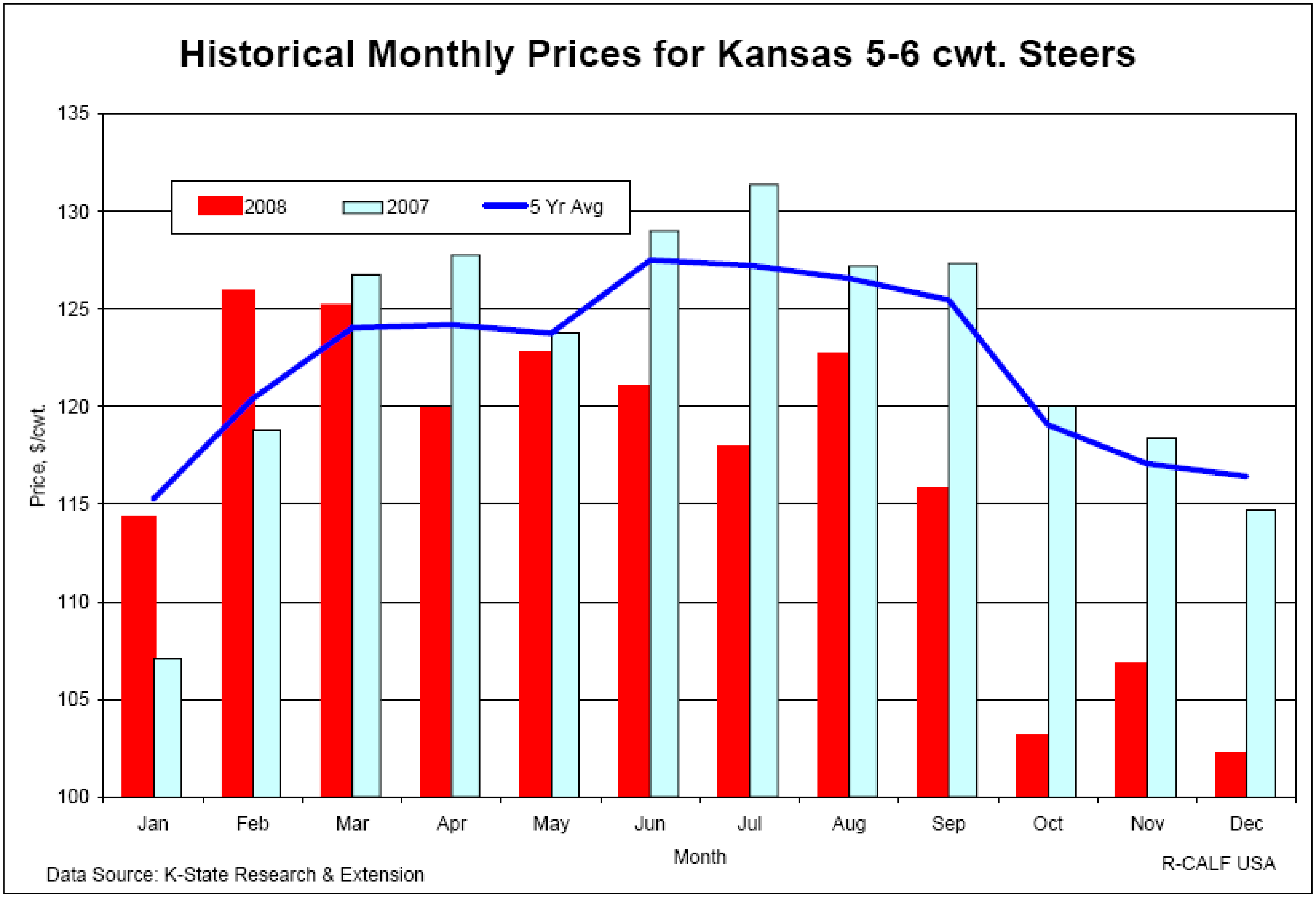
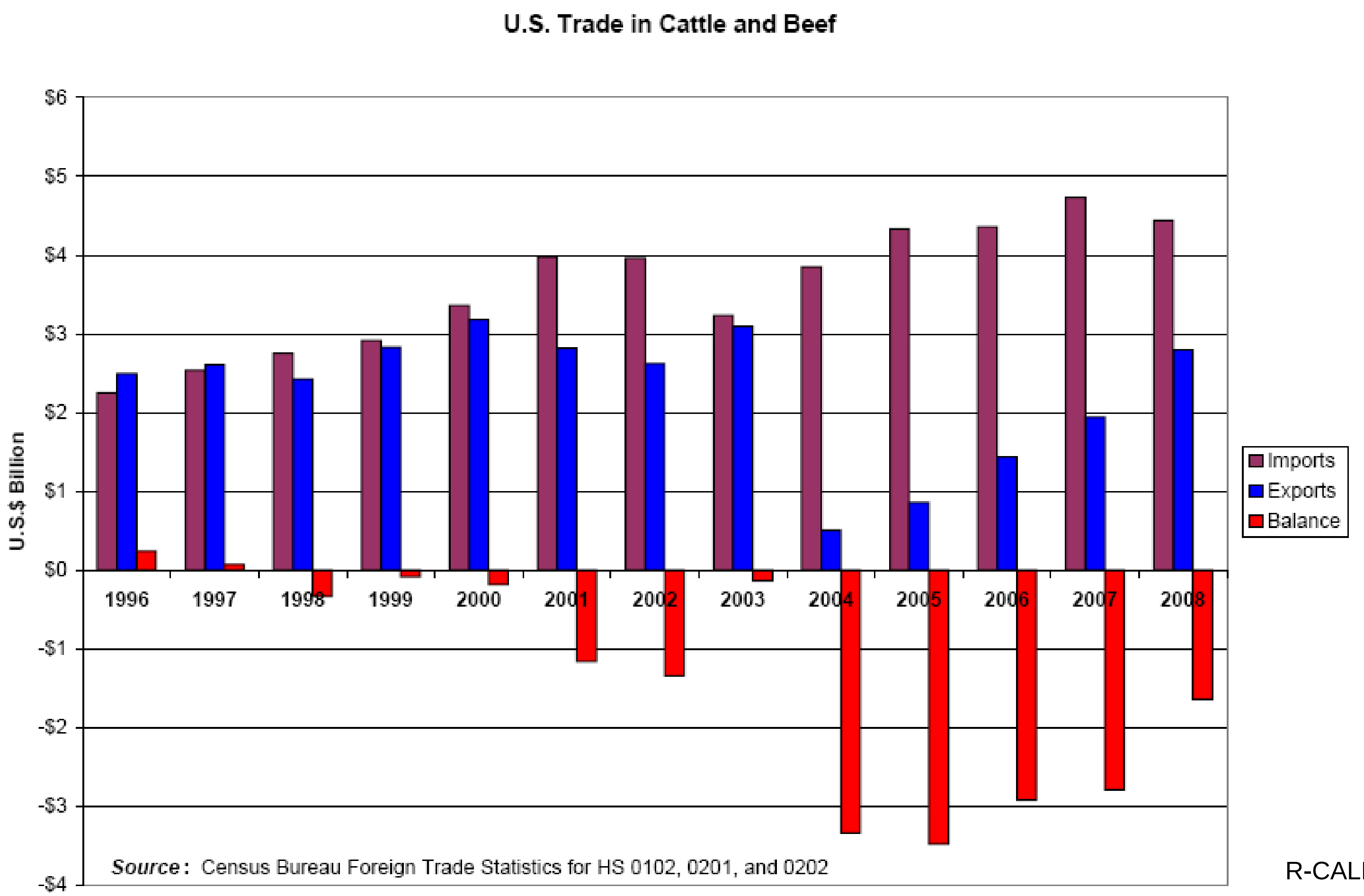
Consumers Paying Record Beef Prices



Cow/Calf Producers Receiving Depressed Prices



Long Run Value Deficit in Cattle and Beef Trade Exacerbates Broken Market Problems



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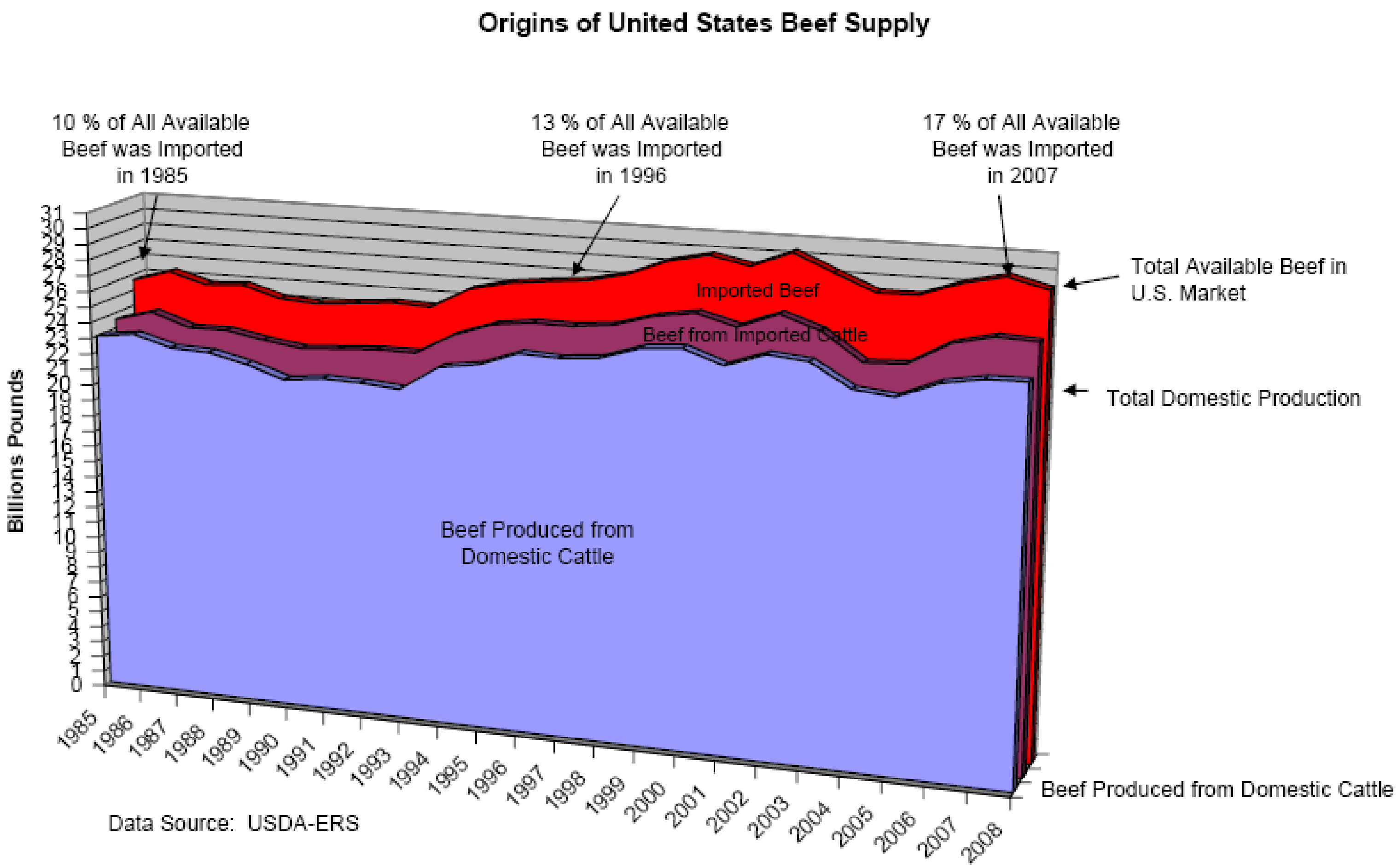
Cattle and Beef Imports Capturing Growth in Domestic Beef Supply



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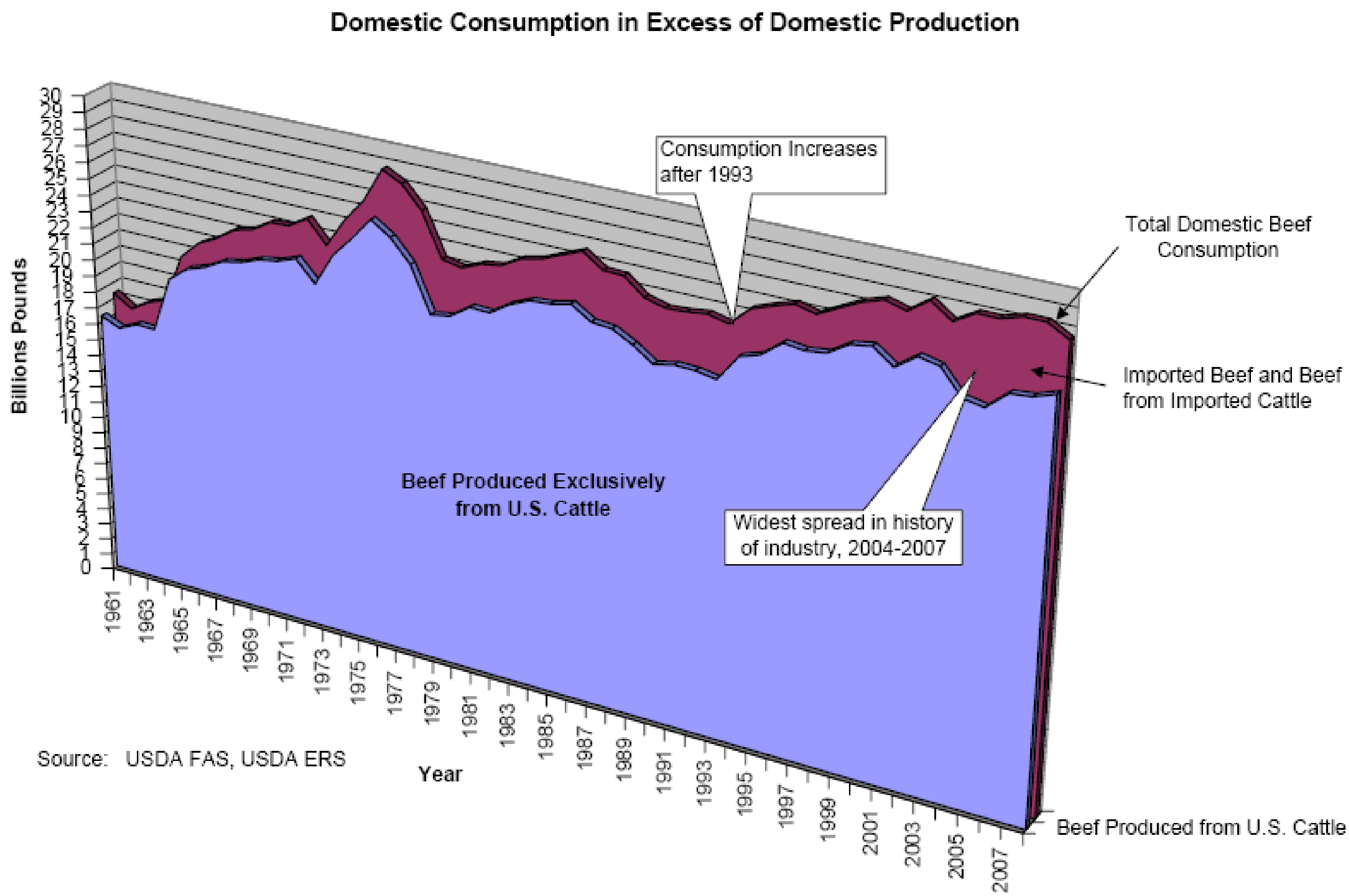
Conversion of imported cattle to beef accomplished by multiplying the number of imported cattle by each year's average slaughter carcass weight.

Historic Under-Production of Domestic Beef in Recent Years



Conversion of imported cattle to beef accomplished by multiplying the number of imported cattle by each year's average slaughter carcass weight.

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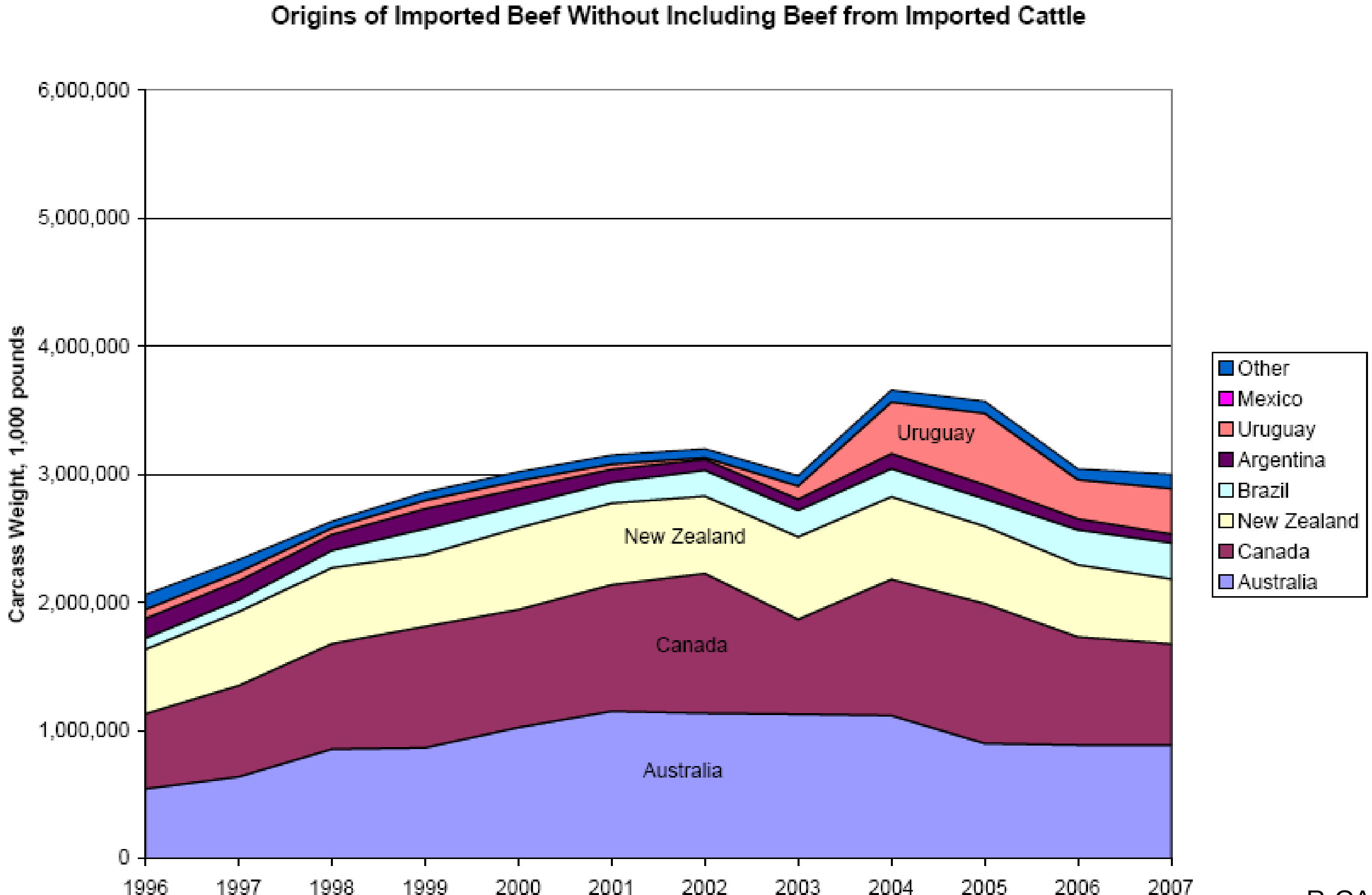
U.S. Cattle Industry is Highly Sensitive to Slight Changes in Cattle Supplies

- The staff at the U.S. International Trade Commission found that the farm level elasticity of demand for slaughter-ready cattle is such that:

  "[E]ach 1 percent increase in fed cattle numbers would be expected to decrease fed cattle prices by 2 percent."

  U.S.-Australia Free Trade Agreement: Potential Economywide and Selected Sectoral Effects, United States International Trade Commission (Publication 3697; May 2004) at 44, fn 26, available at http://hotdocs.usitc.gov/docs/pubs/2104f/pub3697.pdf.

Origins of Imported Beef When Only Imported Beef Product is Included



Source: USDA-ERS

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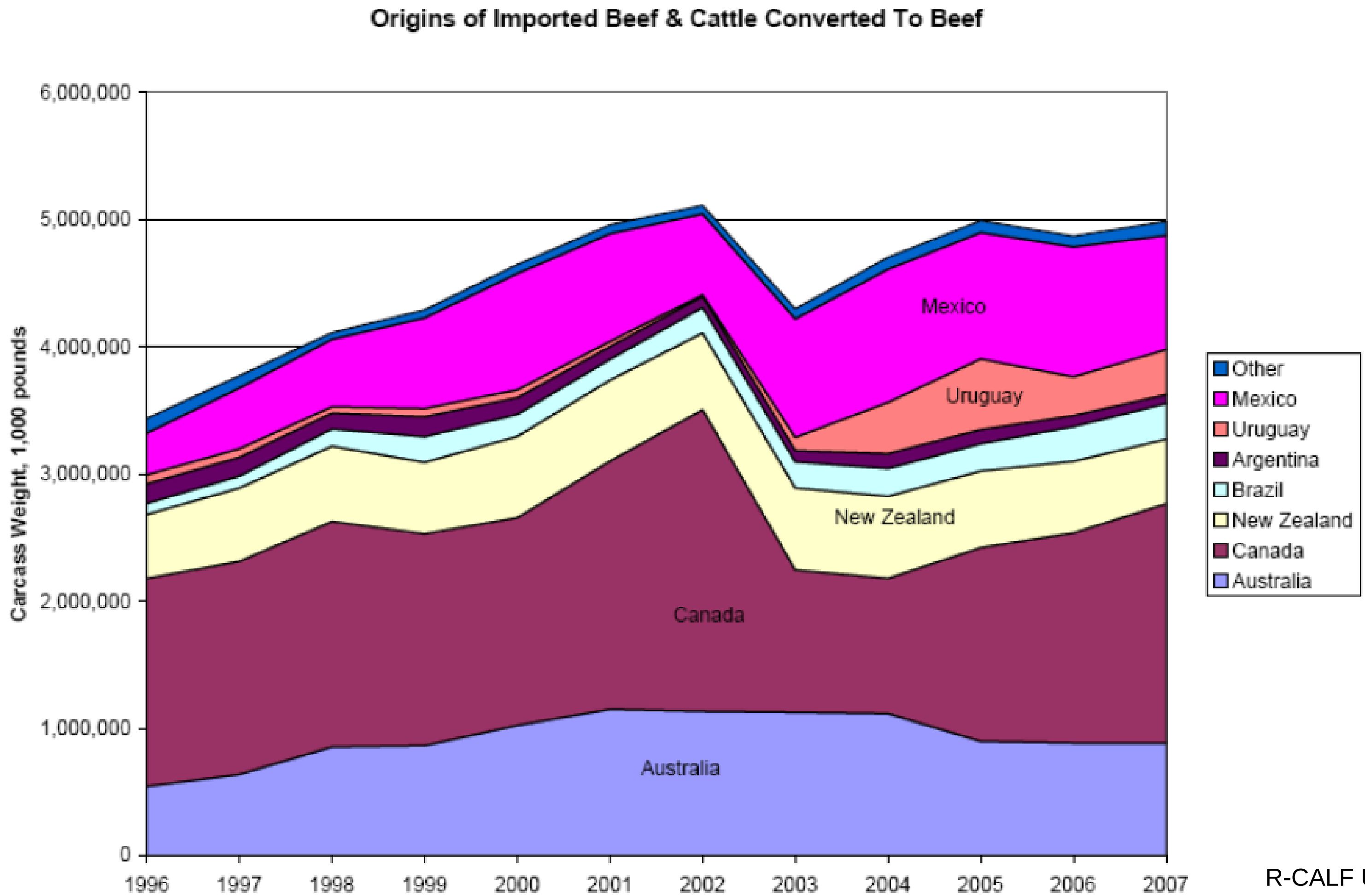
Canada and Mexico Become Largest Beef Sources When Imported Cattle are Slaughtered



Source: USDA-ERS

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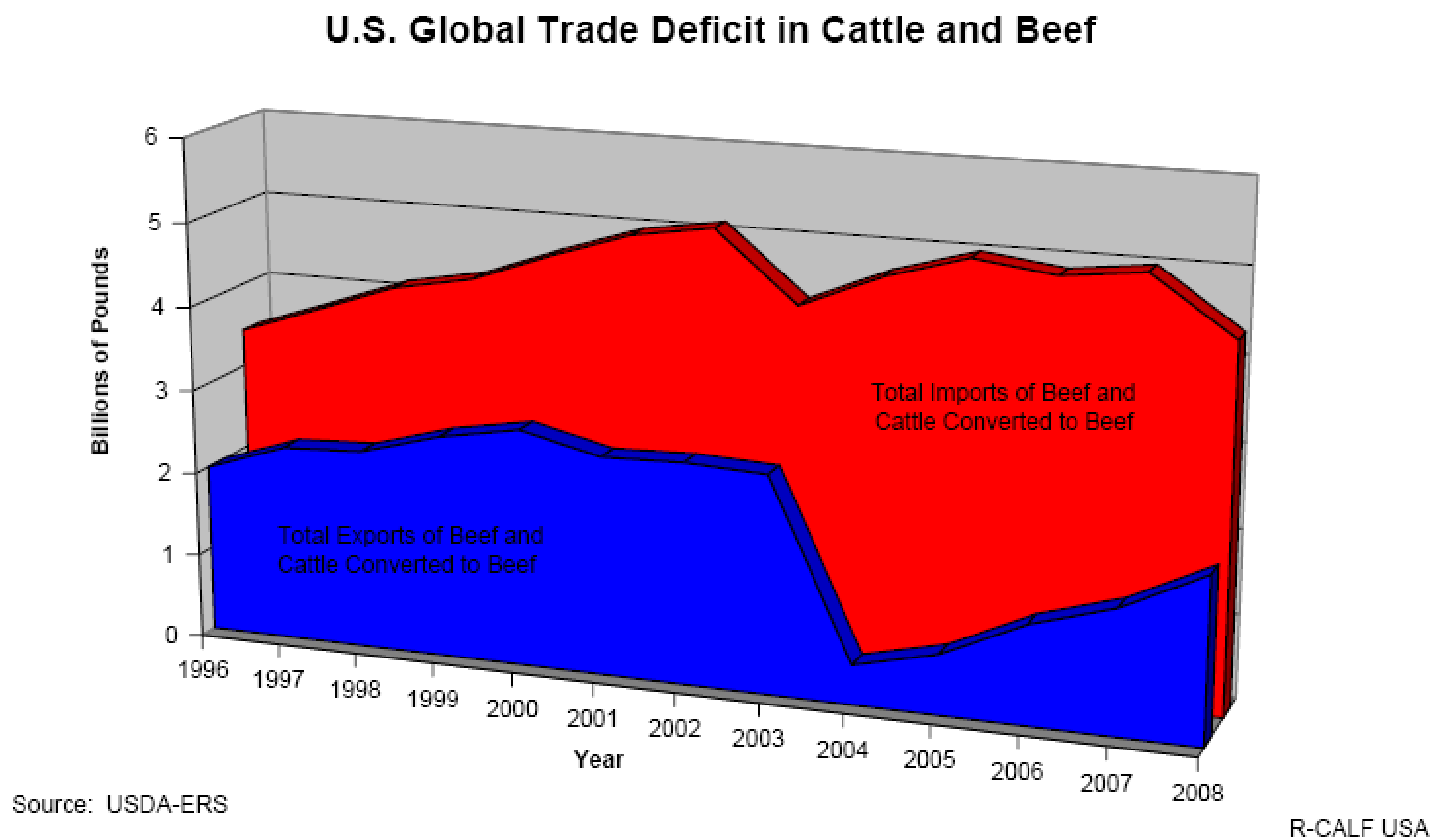
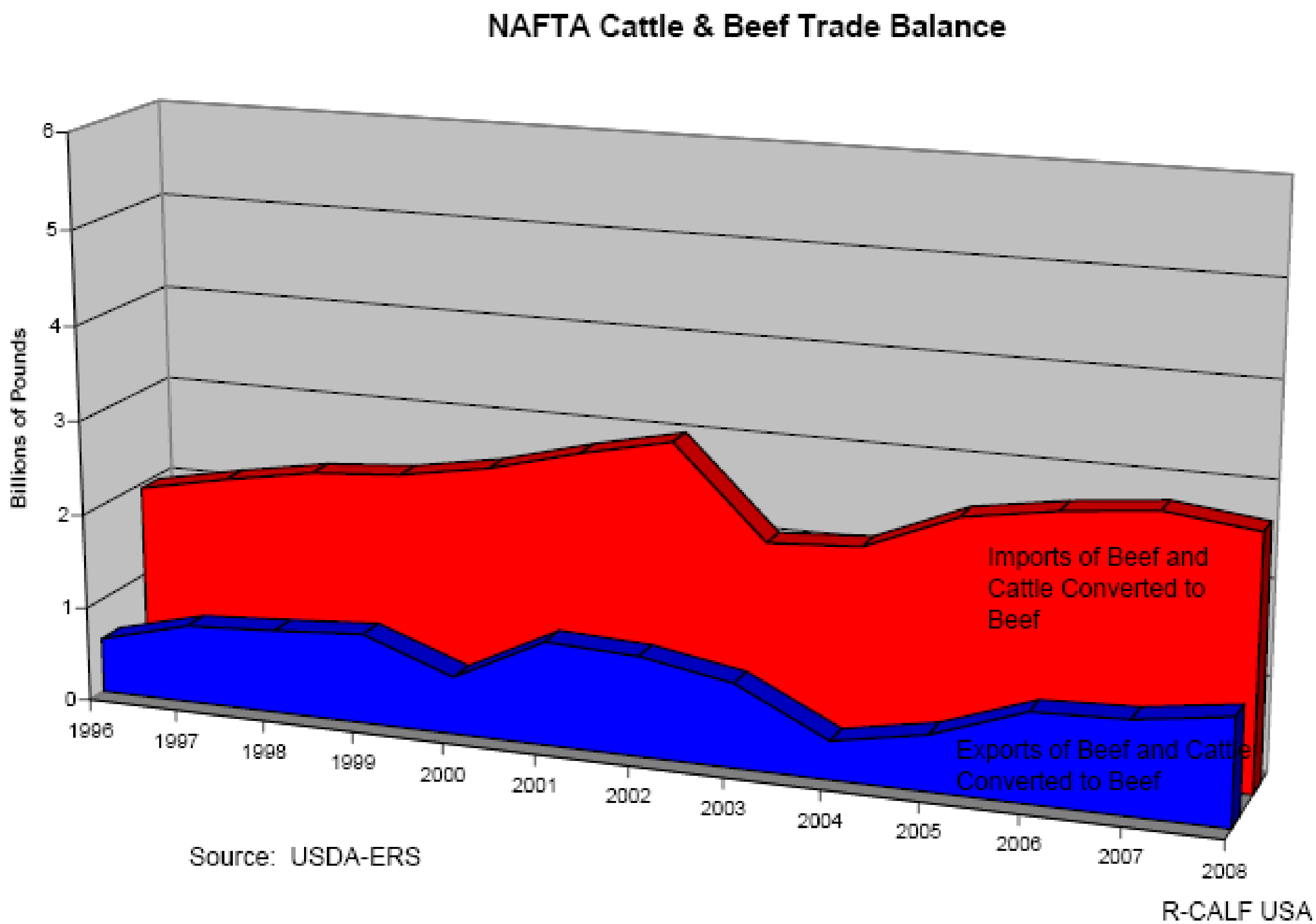
Tremendous Volume Deficit in Cattle and Beef Trade Forces Domestic Cattle Prices Lower



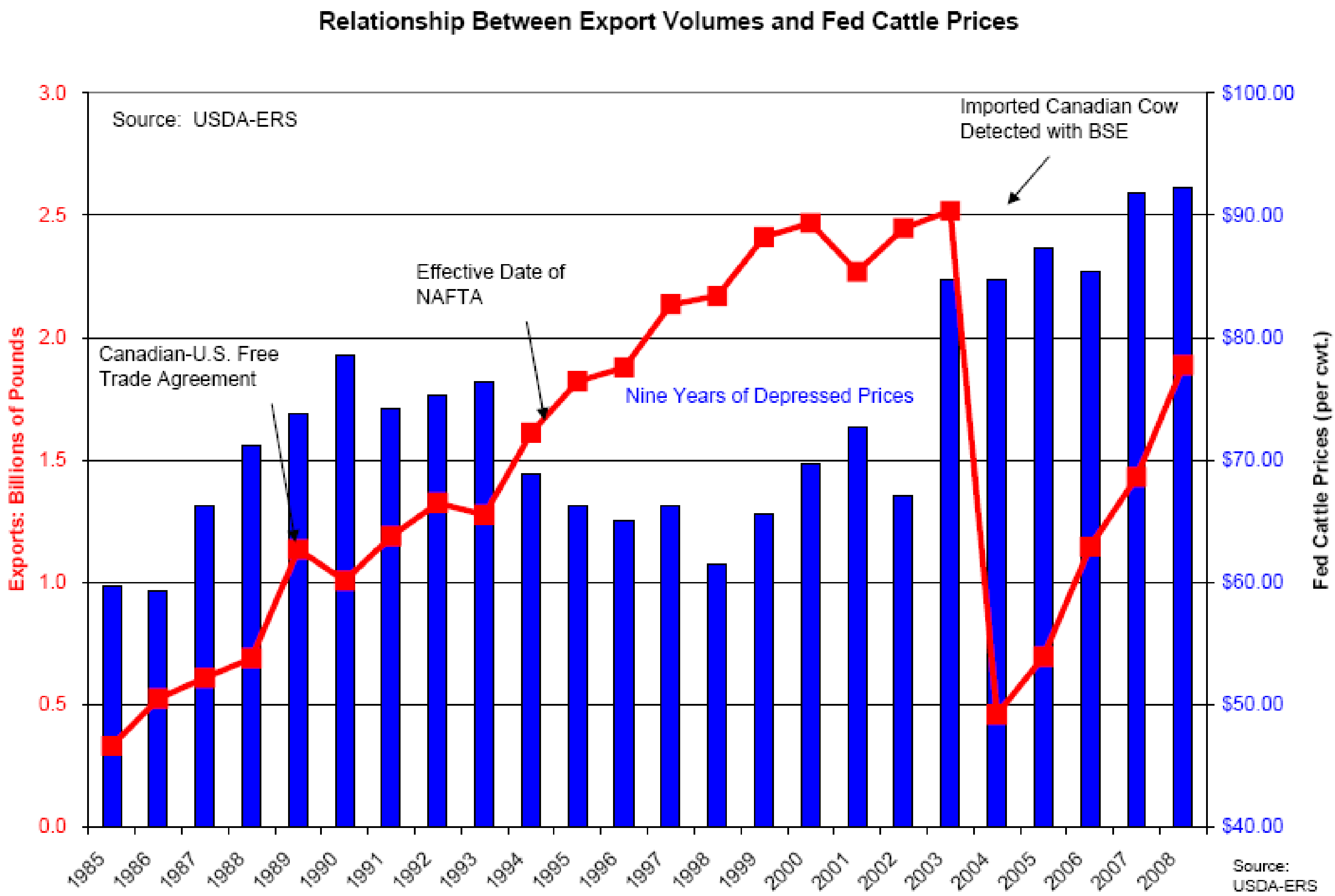
Conversion of imported cattle to beef accomplished by multiplying the number of imported cattle by each year's average slaughter carcass weight.

NAFTA Trade Deficit Represents Over Half of U.S. Global Trade Deficit in Cattle & Beef



Conversion of imported cattle to beef accomplished by multiplying the number of imported cattle by each year's average slaughter carcass weight.

Increased Exports Do Not Always Lead to Higher Cattle Price



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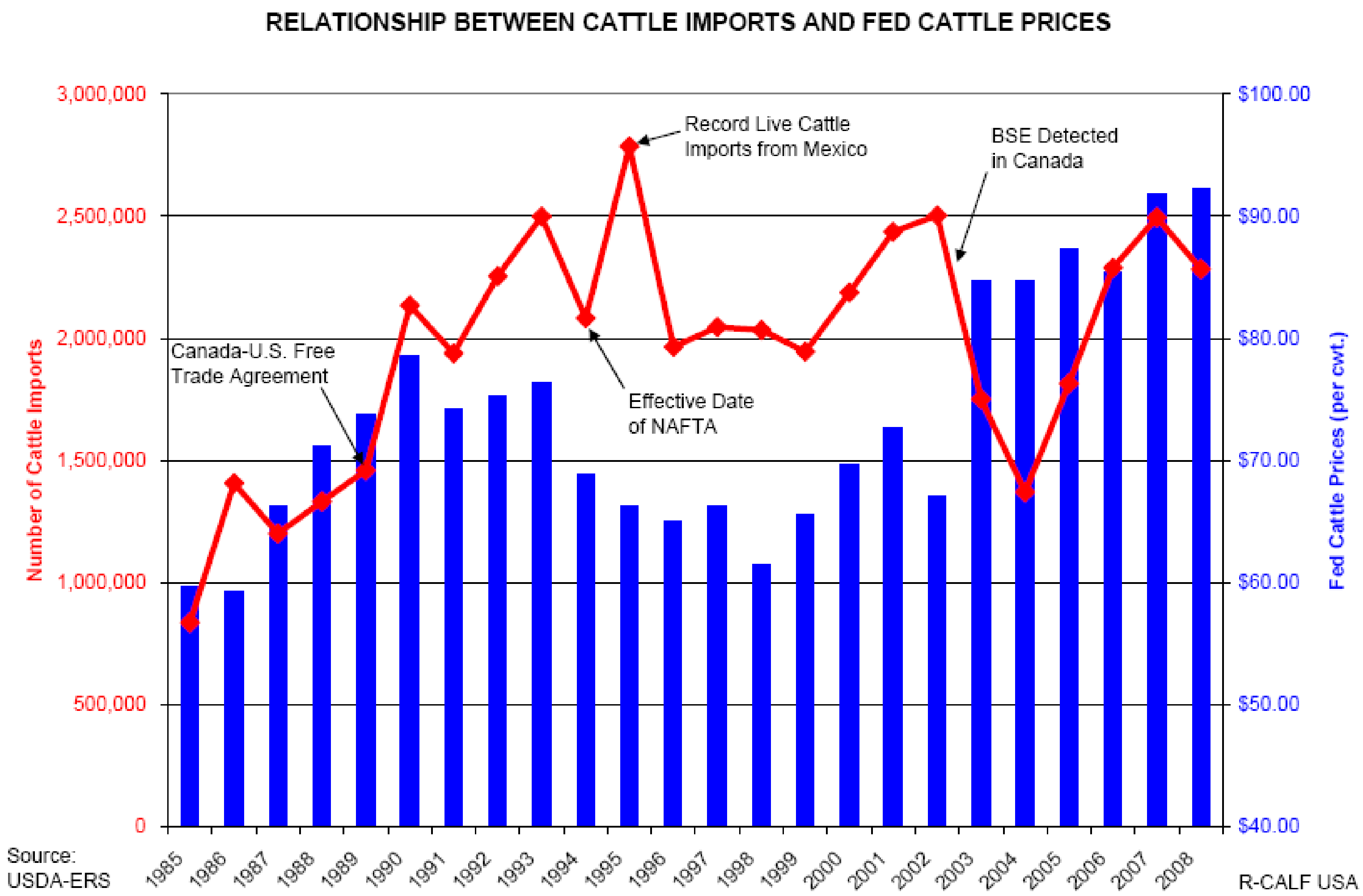
Long-Run Price Depression Coincides with Increased Cattle Imports



Increased Captive Supply Use Temporarily Disrupted by BSE

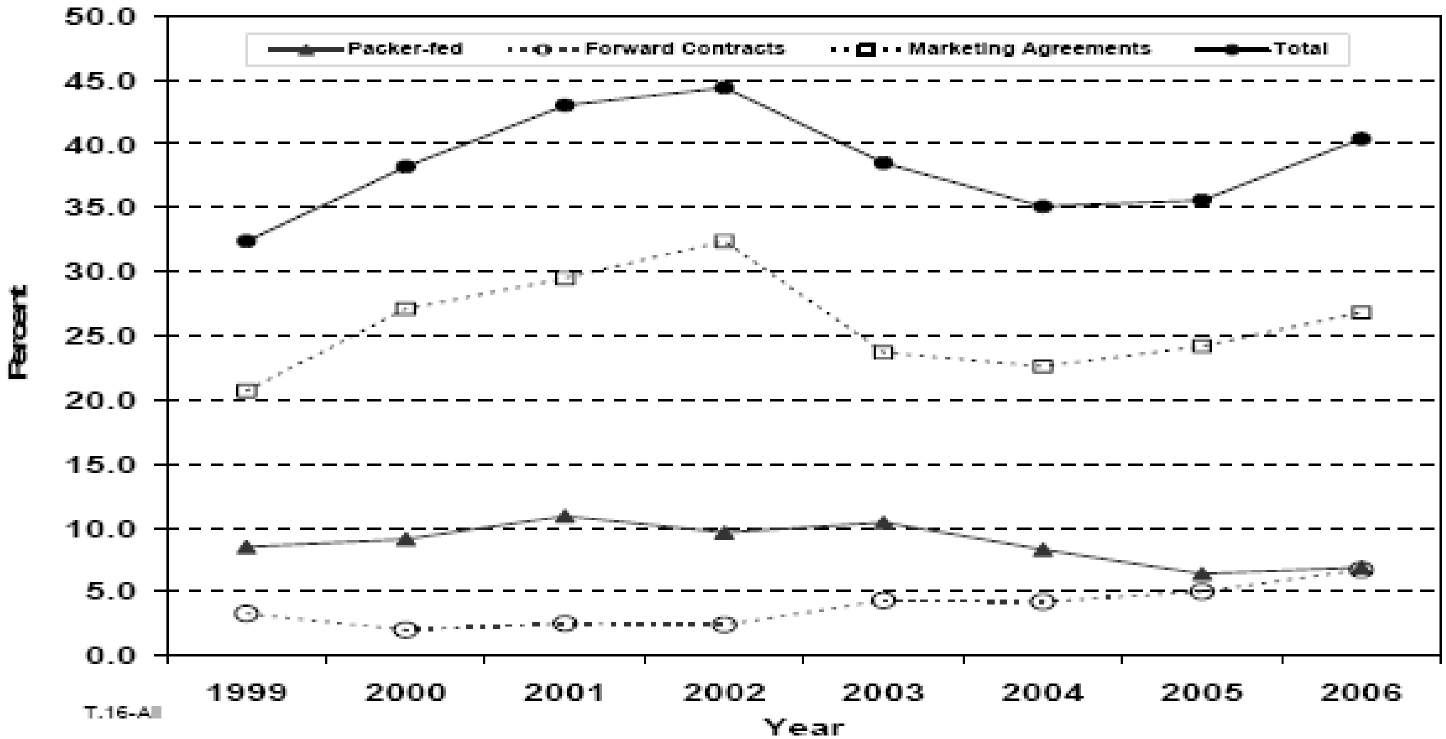


Figure 17. Percentage of Steers and Heifers Procured Through Alternative Types of Committed Procurement Arrangements by the Four (Five) Largest Steer and Heifer Slaughter Firms[11]

Source: Assessment of the Livestock and Poultry Industries, Fiscal Year 2007 Report, USDA-GIPSA, May 2008.

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Cash Cattle Market is Rapidly Shrinking; Captive Supply Use is Rapidly Increasing

TX-OK-NM NUMBERS (Cattle that were fed in these three states)

****Head Counts below reflect slaughter totals for each purchase type from January 1 through June 1 of each year******

	2005	**2006**	**2007**	**2008**	**Net Change**
Cash	1,097,605 (51.7%)	986,744 (45.9%)	823,810 (38.5%)	804,736 (34.0%)	-17.7%
Formula	811,620 (38.2%)	854,802 (39.8%)	983,029 (45.9%)	1,198,462 (50.7%)	+12.5%
Forward Contract	71,665 (3.4%)	108,816 (5.1%)	53,279 (2.5%)	143,886 (6.1%)	+2.7%
Negotiated Grid	142,091 (6.7%)	197,518 (9.2%)	280,070 (13.1%)	216,875 (9.2%)	+2.5%
TOTAL	**2,122,981**	**2,147,880**	**2,140,188**	**2,363,959**	

Source: USDA Livestock and Grain Market News/Mandatory Price Reporting/St. Joseph, MO

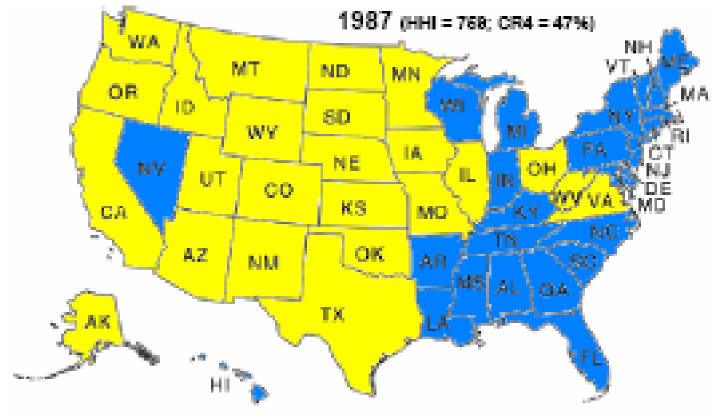
Effects of Declining Competition on Cattle Prices 1987 - 2007

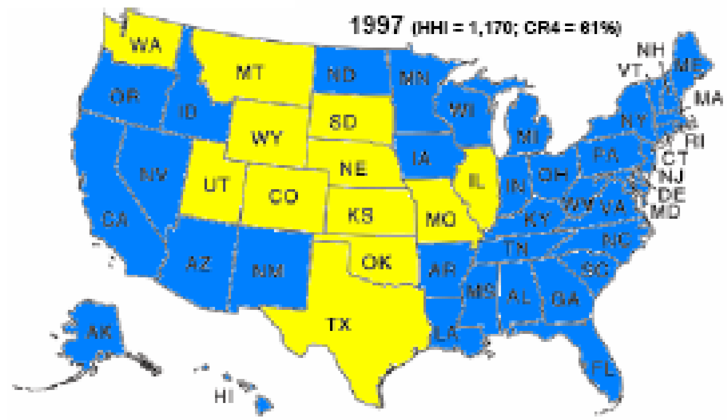
Prepared by R-CALF USA

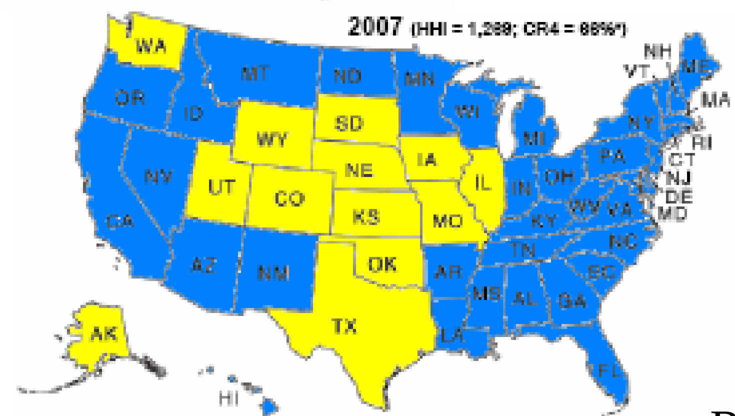
Key:

Above-the-Average National Cattle Price

Below-the-Average National Cattle Price







Data Source:

Average Cattle Prices: USDA, NASS, Meat Animals: Production, Disposition and Income, Summaries for 1987, 1997 and 2007.
HHI and CR4: USDA GIPSA, Livestock Purchase Concentration, Packers and Stockyards Statistical Report, 2006 (CR4 is the concentration ratio for top 4 firms).

*2006 is the latest data available.

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U.S. Has Weakest Import Standards Against Introduction of Mad Cow Disease (BSE)

BSE STANDARDS OF MAJOR BEEF IMPORTING COUNTRIES

Country	Age Restriction	Specified Risk Material (SRM) Definition	Commodity Restrictions
Japan	20 months or younger	Head (excluding tongue and cheek meat), palatine and lingual tonsils, spinal cord and dura matter, distal ileum, vertebral column, and dorsal root ganglia.	No ground beef, processed beef, head meat, finely textured beef, or mechanically separated meat.
Korea	Under 30 months	Skull, brain, eyes, distal ileum, tonsils, spinal cord, vertebral column.	Cattle must be born and raised in the United States, or imported from a country deemed eligible by the Korean government to export beef or beef products to Korea, or raised in the United States for at least 100 days. Traceback records must be maintained for at least 2 years. No mechanically recovered meat or mechanically separated meat.
Mexico	Under 30 months	Skull, brain, eyes, tonsils, spinal cord, and small intestine.	No ground meat, feet, sweetbreads, weasand meat, or head meat.
Hong Kong	Under 30 months	Skull (including brain, eyes and trigeminal ganglia), tonsils, spinal cord, dorsal root ganglia (with the vertebral column) and intestine.	No ground beef, bone-in beef, edible offal, or beef derived from advanced meat recovery systems.

Source: USITC Publication 4033, September 2008, 4-9.

Packers/USDA/Ear Tag Companies Are Forcing International Trade Compliance Costs on U.S. Producers

Previous Administration promoted NAIS as “crucial for trade,” an inappropriate consideration for domestic animal disease prevention and control.*

*“But the sooner producers in the U.S. and around the world get on board with animal ID, the more options they will have to market their livestock. In other words, traceability is the key to international sales and market expansion. Animal ID will open doors for producers everywhere.”**

** Bruce Knight, USDA Under Secretary, Houston Livestock Show and Rodeo, March 4, 2008.*

First Steps Regulatory Solutions: APHIS

1. Restore Previously Weakened U.S. Disease Protections:

First: Reverse APHIS' OTM Rule (over-30-month rule).

The agency's risk modeling conducted for this rulemaking predicts the introduction of 19 BSE-infected Canadian cattle, resulting in 2 BSE infections of U.S. cattle over the next 20 years.

First Steps Regulatory Solutions: GIPSA

2. Take Steps to End Anticompetitive Marketing Practices of Concentrated Packers:

First: Initiate a rulemaking to eliminate captive supply use by concentrated packers.

First Steps Regulatory Solutions:

3. Restore APHIS' Mission Regarding Foreign Animal Diseases to that of Prevention, Not Management:

First: Cease all agency efforts to implement a national animal identification system (NAIS).

APHIS' NAIS usurps Congress' authority by mandating NAIS participation, including premises registration, for producers that participate in federal disease programs. At the same time, APHIS knowingly allows disease introduction at our borders, e.g., TB and fever ticks from Mexico and BSE from Canada. Also, APHIS proposes to allow products of higher risk for FMD from Argentina.

R-CALF USA Greatly Appreciates and Supports Secretary Vilsack's Recent Action to Properly Implement COOL

- Although further improvements can and should be made, the substantive improvements already requested by Secretary Vilsack effectively address the most severe deficiencies within the final COOL rule.

Because of its dominant size and widespread geographical footprint, the U.S. live cattle industry is uniquely positioned to help revitalize Rural America's ailing economy – without any direct government expenditure – but only if effective solutions are implemented to address the industry's systemic problems.

The initial solutions offered by R-CALF USA are intended to put a stop to the industry's misguided trajectory, which is caused by more than a decade of neglect.

After the industry's ongoing trajectory is stopped, it must then be realigned, which will require a host of additional solutions.

R-CALF USA has a comprehensive blueprint containing solutions designed to overcome the myriad of challenges the industry will face during its realignment phase, but these additional solutions must follow, not lead, a commitment to fundamentally change the course of the U.S. cattle industry.

Fighting for the U.S. Cattle Producer!

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