

Fighting for the U.S. Cattle Producer!



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February 3, 2016

The Honorable Charles E. Grassley
Chairman
U.S. Senate Committee on the Judiciary
224 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Patrick J. Leahy
Ranking Member
U.S. Senate Committee on the Judiciary
224 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Mike Lee
Chairman
Senate Judiciary Committee Subcommittee on
Antitrust, Competition Policy, and Consumer
Rights
330 Hart Senate Office Building
Washington, DC 20510

The Honorable Amy Klobuchar
Ranking Member
Senate Judiciary Committee Subcommittee on
Antitrust, Competition Policy, and Consumer
Rights
825 Hart Senate Office Building
Washington, DC 20510

Re: Second Follow-up Letter with Attachment to Senate Judiciary Committee

Dear Committee Chairman Grassley, Subcommittee Chairman Lee, Committee Ranking Member Leahy, and Subcommittee Ranking Member Klobuchar:

On January 22, 2016 I sent a follow-up letter addressing certain issues relevant to our request for an investigation into the cause(s) of the 2015 cattle-price collapse. Specifically, the letter suggests the antitrust question is not whether cattle prices reacted to changing market factors (*e.g.*, increases in competing proteins); but rather, it is who *caused* those market factors to change at the precise time necessary to facilitate the market collapse.

Also in the letter I encouraged an examination into the meatpackers' practice of shifting cattle from the cash market to formula contracts, now that the price-discovering cash market is nearly extinguished in some regions and much thinner nationally than when the U.S. Department of Agriculture (USDA) issued its 2007 study.

Recently I discovered a 2011 study that speaks directly to this issue but was published in a journal not generally associated with livestock procurement practices. The study, "Captive Supply Impact on the U.S. Fed Cattle Price: An Application of Nonparametric Analysis," was published in the *Journal of Rural Development* and is included as an attachment to this letter.

The study demonstrates that ongoing purchasing practices of the largest meatpackers unilaterally decrease prices cattle producers receive for fed cattle. Thus, and as shown below, the competitive allocation of revenues cattle producers should receive from the meatpackers' sales of

beef and beef products are offset in whole or in part by the meatpackers' now predominant cattle purchasing method.

The researchers explain there are two methods by which meatpackers purchase fed cattle for slaughter: through cash market transactions and the contract arrangement, including formula contracts, forward contracts and marketing arrangements, which are known as captive supply. (See Attachment, at 104.) The study's abstract states that when captive supply reaches 20 percent of total cattle procurement, "[b]eyond this point, the U.S. fed cattle price decreases approximately \$0.20/cwt ~ \$0.40/cwt for each percent increase in the captive supply share."

As shown in the USDA chart below, captive supply (*i.e.*, the total of formula and forward contract procurements) represented 74.5 percent of total cattle procurement throughout the nation in 2015, which was the highest in history. Based on the study's abstract summation, the unprecedented level of captive supply in 2015 reduced the price of fed cattle nationally between \$10.90 per cwt and \$21.80 per cwt, representing a reduction in price of between \$136.25 and \$272.50 for each 1,250 pound fed animal sold by U.S. cattle producers.

The level of statistical significance found in this study is incredibly high and R-CALF USA believes it discloses an antitrust instrument that the largest meatpackers are deploying in a coordinated manner to reduce competition in the marketplace and prices paid to producers.

LMR Purchase Type Breakdown by Region											
NATIONAL											
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Cash	52.1%	49.4%	47.3%	42.6%	38.8%	37.4%	32.6%	26.0%	23.1%	23.1%	21.3%
Formula	33.2%	34.3%	37.4%	39.1%	43.7%	43.1%	47.4%	54.8%	59.8%	56.8%	57.0%
Forward Contract	4.8%	7.2%	6.8%	11.2%	9.5%	11.9%	13.2%	12.0%	10.8%	15.8%	17.5%
Negotiated Grid	9.9%	9.0%	8.5%	7.1%	8.0%	7.6%	6.7%	7.2%	6.3%	4.3%	4.2%
Source: USDA AMS Livestock, Poultry & Grain Market News											

As mentioned previously, consumers are also impacted because meatpacker- and retailer-savings associated with deeply discounted input costs (*i.e.*, the discounted cost of cattle) are certainly not reflected in the record and near record retail beef prices.

Thank you for your consideration of our request.

Sincerely,



Bill Bullard, CEO

Attachment