

Congress Must Fix the Broken Cattle and Beef Market

Rebuttal to

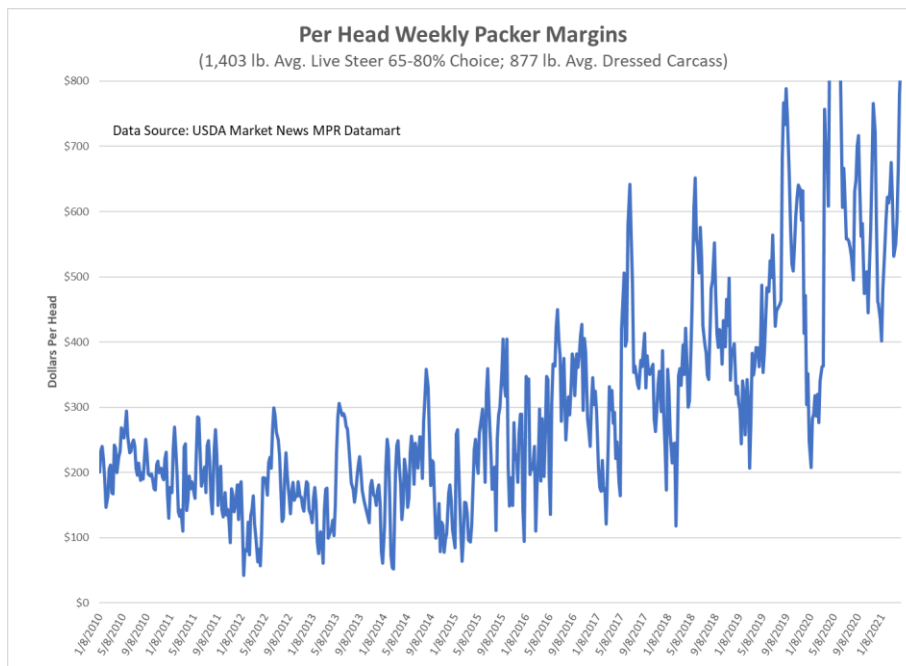
North American Meat Institute Provides Facts on Common Beef Market Myths

by

R-CALF USA

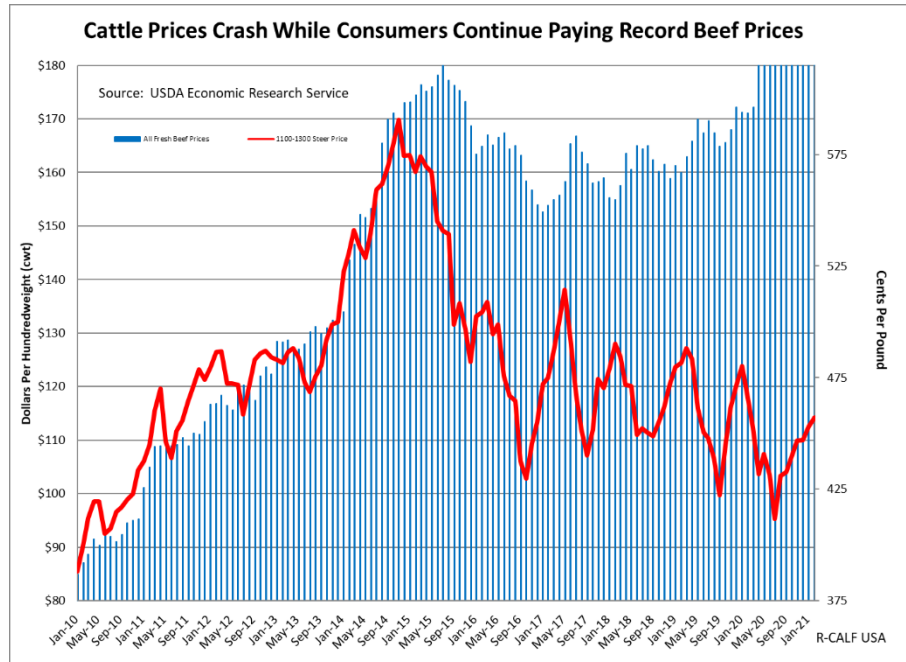
The North American Meat Institute (NAMI) is a trade association representing beef packers. Its members process the vast majority of U.S. beef in the United States.

For the past six years, beef packer margins (sale of beef minus cost of cattle) have increased to unprecedented levels as is shown in the chart below:



Packer margins increase when packers purchase cattle from America’s farmers and ranchers at a low price and then sell the resultant beef to consumers in the wholesale and retail market at a high price.

The chart below shows that is precisely what is happening in America today. The single largest segment of American agriculture – the U.S. cattle industry comprised of hundreds of thousands of independent cattle farmers and ranchers across America – is receiving depressed, downward spiraling prices for their cattle while consumers are forced to pay skyrocketing prices for beef.



These two charts reveal a systemically broken market marked by upward trending beef prices that harm consumers, downward trending cattle prices that harm cattle farmers and ranchers, and ever-increasing beef packer margins that greatly benefit a very small group of very large beef packers.

The reason beef packers do not want Congress to reform the broken cattle and beef market is obvious. Just four large beef packers control 85% of the fed cattle market. (Fed cattle are cattle raised specifically for beef production.)

To prevent Congress from taking meaningful steps to reform the broken marketplace, and to preserve the current economic and financial advantage for a small group of beef packers, the NAMI recently issued a document titled, *North American Meat Institute Provides Facts on Common Beef Market Myths* (NAMI document).

The NAMI document purports to debunk what it refers to as beef market myths. And further purports to offer facts with which to do so.

The most glaringly false “facts” offered in the NAMI document are those that claim the marketplace is functioning normally – that consumers and cattle farmers and ranchers are being well served by the current market structure. The NAMI document claims for example that cattle prices are “where they are because they follow supply and demand” and it attempts to convince Congress that the cattle market is functioning properly because “when supplies of cattle increase, prices decrease – and vice versa.”

But the foregoing two charts disprove the NAMI’s fundamental claim. Both cattle prices and beef prices would be expected to decline if cattle supplies were plentiful, and both cattle prices and beef prices would be expected to increase if cattle supplies were tight. But, the fundamentals

of supply and demand cannot explain what has occurred over the past six years – cattle prices and beef prices have moved decisively in opposite directions.

Congress must investigate why this systemic, inverse relationship between cattle prices and beef prices persists while beef packers continually earn record margins.

The most important price discovery market for the entire cattle industry is the fed cattle cash market where slaughter-ready cattle are sold directly to the beef packer. In recent years, that fed cattle cash market has shrunk to historically low volumes. The NAMI document addresses this shrinkage by asserting that as the fed cattle cash market shrank by 55%, consumer per capita expenditures on beef increased 56%. In other words, the NAMI claims that increased consumer spending on beef (i.e., higher beef prices) is associated with decreasing volumes of cattle sold in the industry's price discovery market. The above chart depicting escalating beef prices supports this relationship. And, this admission, by itself, should cause Congress pause.

The NAMI document also fails to disclose to Congress the 2019 merger/acquisition between the nation's fourth largest beef packer (National Beef Packing Company that is now majority owned by Brazilian-owned Marfrig) and Iowa Premium, a smaller regional beef packing plant in Iowa. Instead, the NAMI document claims, "The last proposed merger of two the [sic] 'big four' was in 2008." Presumably, the NAMI document attempted to narrow Congress' attention only on mergers among and between the 'big four' packers in order to deceive Congress into thinking the four-firm concentration ratio, already among the highest of any industry segment, has not changed. But, the NAMI document's typographical error reveals the deception and Congress now knows that the 'big four' continue to increase their respective market shares.

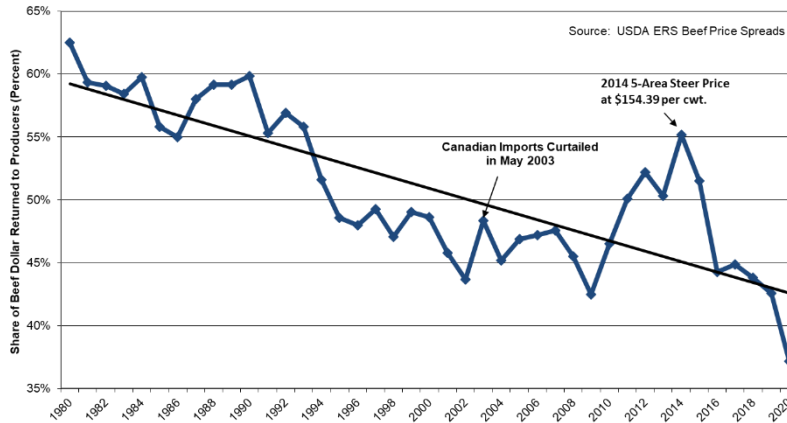
The NAMI document offers as "fact" that cattle prices are driven by the market with an example showing that the average Choice beef cutout (wholesale) value in 2020 was \$1.40 per cwt lower than in 2014. However, the NAMI document omits the fact that while the wholesale value of beef was only \$1.40 per cwt lower in 2020 compared to 2014, cattle prices were an alarming \$45.74 per cwt lower in 2020 than they were in 2014. Thus, the NAMI document reinforces the fact that cattle prices have lost their relationship with beef prices as evidenced by the drastic decline in cattle prices in response to only a minor decline in wholesale beef prices.

The NAMI document claims that the income earned by America's farmers and ranchers was higher in 2020 than in any year since 2016. The retail-to-cattle chart above reveals that cattle prices collapsed after 2014 through most of 2016 and have been trending downward since 2017. Consequently, cattle producers' incomes have been depressed from 2014 through today. But the NAMI asserts that COVID-19 subsidies from the government offset the producers' income losses in 2020. Unfortunately, the government subsidies did not come close to restoring the income lost from the dysfunctional cattle market. Cattle producers lost in excess of \$600 per head of cattle in 2020 compared to 2014, yet retail beef prices paid by consumers increased 79 cents per pound during that same period. Consumers in 2020 were paying more than enough for their beef to make America's cattle producers whole, but the dysfunctional market was returning to the cattle producer the smallest share of the consumer beef dollar in history – only 37 cents of each dollar. And, the COVID payments were insufficient to make up the larger loss caused by

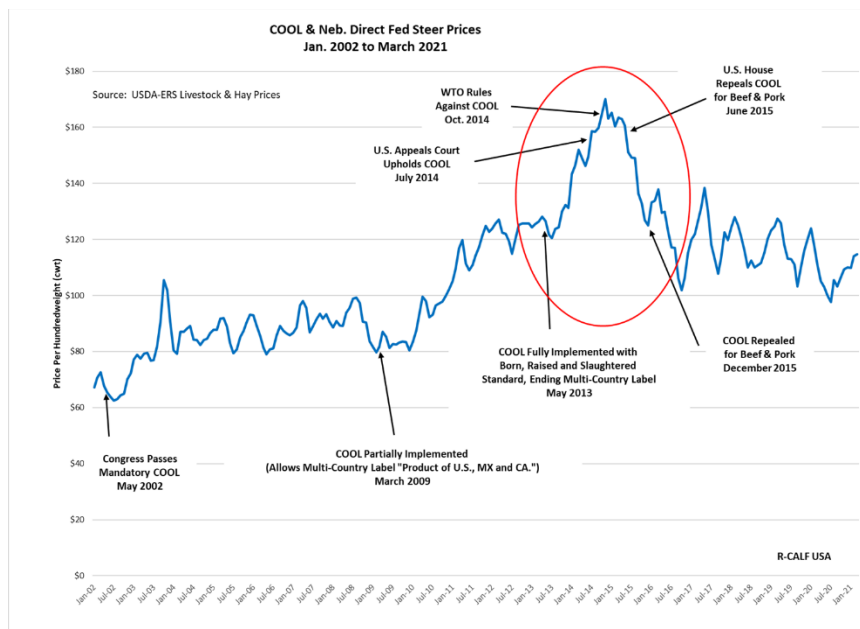
the dysfunctional market. The chart below, replete with a trendline, shows the drastic decline of the cattle producers' share of the consumer beef dollar.

Producers' Share of Consumer Beef Dollar

Prepared by R-CALF USA



The NAMI document claims that cattle prices were not higher under mandatory country of origin labeling (COOL), but it failed to include any cattle price data to support its claim. COOL was partially implemented in 2009 (when the “Product of Canada, Mexico, and the USA” label was used on most domestic beef). COOL was fully implemented in May 2013 (when beef was labeled as to where the animal was born, raised, and harvested). COOL was effectively repealed in late 2015. The chart below provides cattle prices before and after COOL implementation. There is no question that cattle prices were generally higher when COOL was fully implemented than either before its implementation or after its repeal.



The NAMI document is long on misleading propaganda but short on facts. Congress must not allow the NAMI document to dissuade it from taking decisive action to fix what is plainly wrong with the cattle and beef market as it is relied upon by millions of consumers and hundreds of thousands of independent cattle farmers and ranchers located all across America.

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R-CALF USA (Ranchers-Cattlemen Action Legal Fund United Stockgrowers of America) is the largest producer-only lobbying and trade association representing U.S. cattle producers. It is a national, nonprofit organization dedicated to ensuring the continued profitability and viability of the U.S. cattle industry. Visit www.r-calfusa.com or, call 406-252-2516 for more information.