U.S. Senate Committee on the Judiciary and U.S. House Committee on Agriculture

Proposed Cattle Industry Questions
R-CALF USA

1. Just a few years back, in 2015, over half (51.5%) of each dollar consumers spent on beef was returned to cattle producers. But the cattle producer's share has shrunk since then to just over 37% in 2020, the lowest annual percentage in history. Can you explain why the cattle producer's share of the consumer's beef dollar is shrinking? *See* Choice beef values and spreads and the all-fresh retail value, at https://www.ers.usda.gov/data-products/meat-price-spreads/.

2. Since January of 2017, retail beef prices have marched steadily higher, with the all-fresh retail beef price increasing from $5.49 per pound to a reported $7.11 per pound last month (June). *See id*. But after rallying to a price of $138 per cwt in May of 2017, fed cattle prices have been stair stepping downward and were only $120 per cwt last month (June). *See id.* Can you explain why beef prices and cattle prices have moved in opposite directions since 2017?

3. The USDA estimates monthly returns to cattle feeding in its High Plains Cattle Feeding Simulator (https://www.ers.usda.gov/data-products/livestock-meat-domestic-data/livestock-meat-domestic-data/#High%20Plains%20Cattle%20Feeding%20Simulator). USDA's data show the monthly returns to cattle feeding during the past two decades has been a loss of over $25 per head per month for each animal fed. Can you explain why, with this average monthly loss, the number of the largest feedlots in the U.S. – those with capacities of over 50K head, have increased by 71% (from 45 in 1996 to 77 in 2020) while independent cattle feedlots (those with capacities of less than 1K) head have shrunk by 75% during the same period (from 110K in 1996 to 27K in 2020)? *See* e.g., Cattle on Feed, Feb. 2021, at 15, available at https://downloads.usda.library.cornell.edu/usda-esmis/files/m326m174z/s1785f032/2f75s338w/cofd0221.pdf.

4. The beef industry boasted all-time record beef exports in 2018. *See* 2018 Beef Exports Record Large, U.S. Meat Export Federation, available at https://www.usmef.org/news-statistics/press-releases/2018-beef-exports-record-large-pork-export-volume-just-short-of-2017-record/. Can you explain why 2018 fed cattle prices fell 4% from 2017 to 2018 when exports were so strong? *See* Choice beef values and spreads and the all-fresh retail value (showing 2018 fed cattle prices were $4.34 per cwt less than in 2017), available at https://www.ers.usda.gov/data-products/meat-price-spreads/.

    a. Simpler Question: If increased exports are associated with increased cattle prices, why didn't cattle prices increase when beef exports hit record levels in 2018?

5. The USDA reports that during 2020, about 77% of all fed cattle were procured through Alternative Marketing Arrangements (AMAs) while about 23% were procured in the negotiated cash market. *See* USDA National Weekly Cattle And Beef Summary, Jan. 25, 2021, available at file:///C:/Users/14066/Downloads/LSWWCBS%20(19).PDF. Can you tell me what percentage of those total AMA's require specific cattle production standards, such as non-hormone treated cattle (NHTC) or other presumed quality-related production standards? In other words, what percentage of the AMA's are intended to control the production and feeding of cattle (*i.e.*, quality characteristics) rather than simply control the delivery of cattle to a packer?

    a. Simpler Question: AMAs are promoted as a tool to ensure certain quality-related production practices are followed. But what percentage of AMAs actually specify the production steps that must be followed and what percentage of AMA's are simply contracts that commit cattle to a packer?

6. Many industry analysts attributed the higher cattle prices in 2014 in part to low cattle supplies following the late 2010 – 2013 drought. In other words, they say there was low cattle supplies (as measured by the number of cattle ready for slaughter), which drove cattle prices higher. They then say that the increased cattle supply in 2015 contributed to the collapse in cattle prices, suggesting there were more cattle slaughtered in 2015, which helped drive cattle prices lower. However, the USDA reports that the number of cattle slaughtered in 2015 was less than in 2014 (Livestock Slaughter 2015 Annual Summary, at 15 (in 2014 there were 29.7 million cattle slaughtered under federal inspection; in 2015 there were only 28.3 million cattle slaughtered under federal inspection) available at https://downloads.usda.library.cornell.edu/usda-esmis/files/r207tp32d/3n204169f/vx021h831/LiveSlauSu-04-20-2016.pdf), which means that in 2015 there were both lower cattle supplies and lower cattle prices. Can you explain this phenomenon?

    a. Simpler Question: If it is true that cattle prices collapsed in 2015 because cattle supplies increased, why did packers reduce federally inspected cattle slaughter by 1.4 million head in 2015 compared to 2014?

7. Despite the fire at a major packing plant in Holcomb, Kansas, in 2019 packers slaughtered 33.1 million cattle, which was a 6-year slaughter volume record. In fact, federally inspected packers slaughtered 4.8 million more cattle in 2019 than they did in 2015. Then in 2020, the year of the COVID outbreak, those packers slaughtered 32.2 million cattle. In 2020 those packers slaughtered 3.9 million more cattle than they did in 2015. So, two questions: 1) If there is insufficient slaughter capacity today, how did the packers increase the slaughter of 4.8 million cattle during the 4-year period 2015 to 2019 even when a major plant went offline for several months in 2019? And, 2) Why in 2020 did cattle prices fall roughly $90 per head year-to-year ($6.74 per cwt), hitting a 7-year low, when packers slaughtered only about 3% fewer cattle in 2020 than they did in 2019.

See various years NASS Livestock Slaughter Summaries, available at https://usda.library.cornell.edu/concern/publications/r207tp32d.

a. Simpler Question: If packing capacity has been lacking since 2015, how did packers increase slaughter volume by 4.8 million head from 2015 to 2019?

8. From January to June this year (2021) the monthly volume of cattle slaughtered varied from a low of 2.47 million in February to a high of 2.95 million in March, representing an increase of about 480K. It then decreased to 2.65 million in May and increased to 2.9 million in June. Can you explain why there is such month-to-month variability in slaughter volumes in the face of incredible beef demand, high wholesale prices and high retail beef prices? See monthly NASS Livestock Slaughter Reports, available at https://usda.library.cornell.edu/concern/publications/rx913p88g.

a. Simpler Question: Are packers fully utilizing their available slaughter capacity or are they managing slaughter volumes somewhere below their full capacity? And, if they are managing slaughter volumes below their full capacity, what factors do packers consider when making their slaughter volume adjustments?

9. There are two legislative reforms under consideration today to increase the volume of cattle sold on a negotiated cash basis. One takes a national approach and requires each plant to purchase at least 50% of their cattle in the negotiated cash market and the other proposes to vary the minimal volume requirements from region-to-region. Can you explain why in a marketplace that relies on a nationwide cattle futures price to help with price discovery would it be prudent to allow some regions to maintain lower volumes of negotiated cash cattle purchases than other regions?

10. Domestic beef consumption has increased year-over-year for the past 7 years (since 2014). And even when the beef from the approximately 2 million head of cattle imported from Canada and Mexico is included in domestic production, the U.S. cattle industry still underproduced for the domestic market every year except 2018. Why is it that the U.S. cattle industry appears incapable of capitalizing on such long-term increased consumption, as well as strong beef demand, strong exports and record beef prices over the same period and, instead, is relegated to selling cattle for the same prices they did over a decade ago? *See* USDA All Supply and Disappearances, available at https://usda.library.cornell.edu/concern/publications/rx913p88g.