Before the

United States Senate Committee on the Judiciary

and the

United States House Agriculture Committee's

Subcommittee on Livestock and Foreign Agriculture

In the Matter of

Beefing up Competition: Examining America's Food Supply Chain

Wednesday, July 28, 2021

Statement for the Hearing Record

by

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Senate Committee on the Judiciary
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Dear Chairman Dick Durbin, Ranking Member Charles Grassley, and Members of the Committee:

The Ranchers Cattlemen Action Legal Fund United Stockgrowers of America (R-CALF USA) appreciates this opportunity to present this written statement to the U.S. Senate Committee on the Judiciary regarding its July 28, 2021 hearing on *Beefing up Competition: Examining America's Food Supply Chain.*

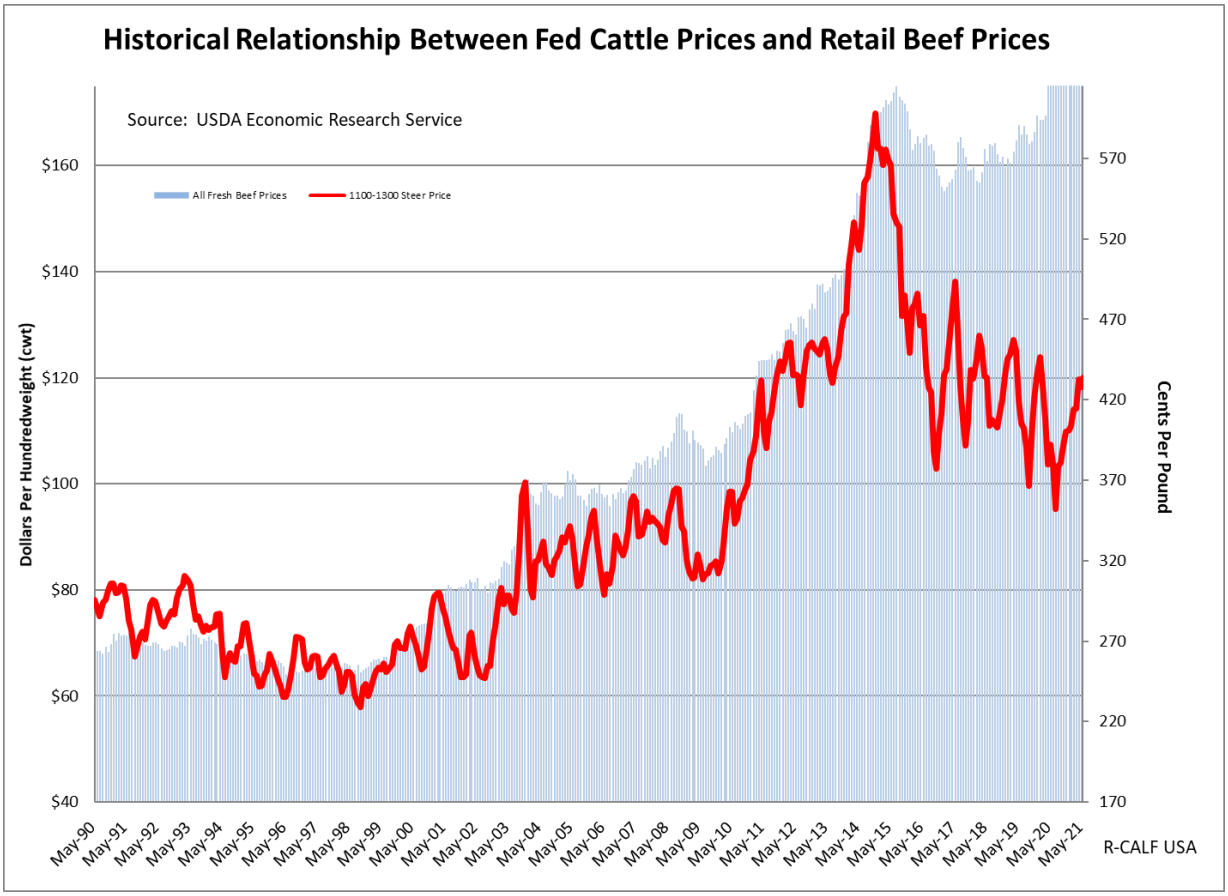
R-CALF USA is the largest U.S. trade association that exclusively represents United States cattle farmers and ranchers within the multi-segmented beef supply chain. Its thousands of members reside in 45 states and include cow-calf operators, cattle backgrounders and stockers, and feedlot owners. R-CALF USA also represents U.S. sheep producers.

As depicted below in Chart 1, for a quarter century (1990-2015) there was a strong synchronous relationship between monthly fed cattle prices and monthly retail beef prices. Something – a glue of sorts – held this strong price relationship together over this considerable period despite the occurrence of exogenous factors such as drought, changes in cattle inventories, changes in feed costs, changes in currency valuations, changes in beef demand, and changes in the price of protein substitutes.

But no more. Beginning around the first of 2015, cattle prices inexplicably collapsed. And when the dust settled, monthly fed cattle prices and monthly retail beef prices began moving in opposite directions. That something – that glue of sorts – that long held the historically strong synchronous price relationship together had been vanquished.

Longer than four years after the 2015 manifest disconnect between fed cattle prices and retail beef prices, the nation's beef supply chain encountered its first of three major market shocks – the August 2019 temporary closure of a major beef packing plant in Holcomb, Kansas. This event highlighted the fragility of the beef supply chain that now lacks the glue that once held the supply chain together. The onset of COVID-19 in early 2020 was the second major shock, and it served to exacerbate the disastrous symptoms associated with the first shock. The third major shock, a cyberattack impacting one of the four largest beef packers, served to further highlight the systemic weakness of America's beef supply chain.

Chart 1

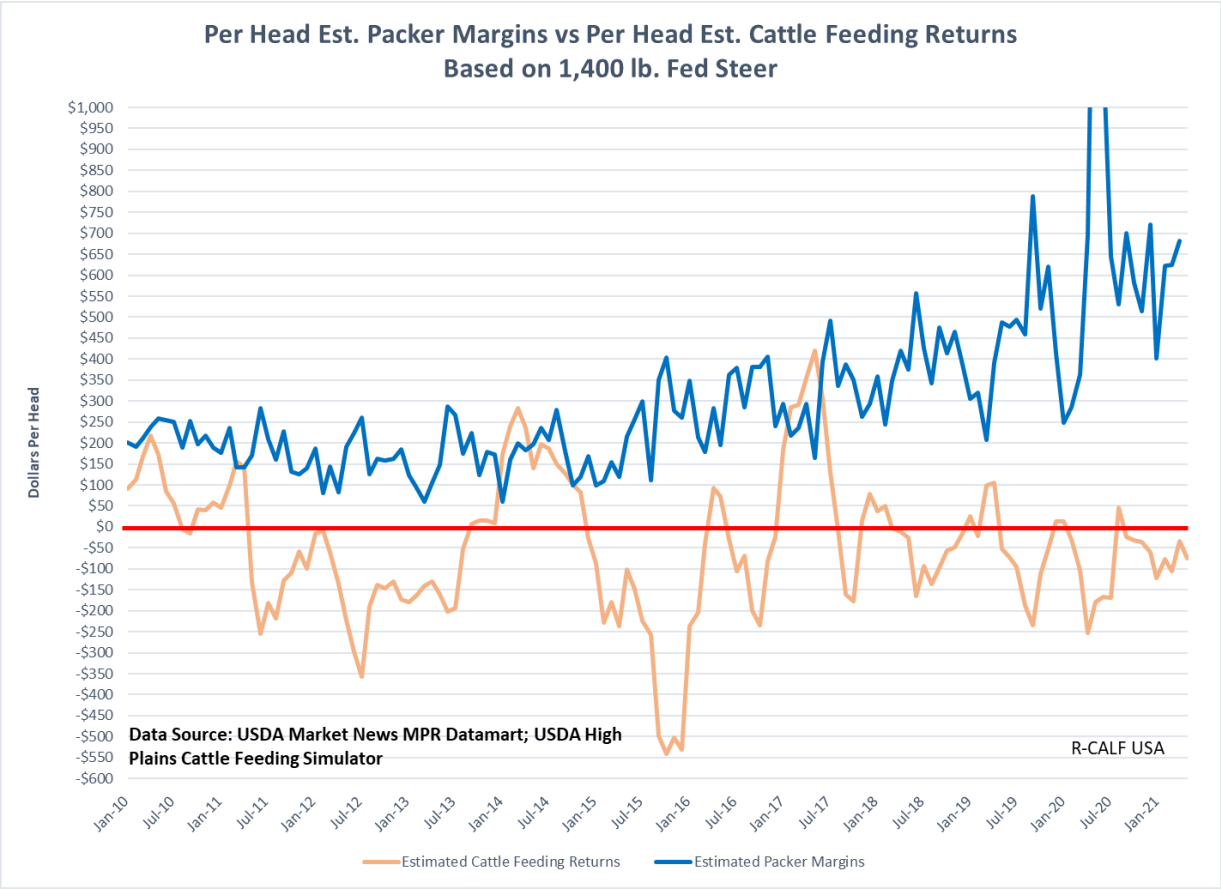


Everyone should now know that that something – that glue of sorts – that held the pricing relationship within the entire beef supply chain together was none other than competitive market forces. And since at least 2015, those competitive market forces have been purged from the beef supply chain.

This is now an elephant in the room crisis that Congress must tackle with swift and decisive action. If not, we will soon witness a further acceleration of the already fast-shrinking domestic cattle industry, and we will witness it in months, not years. Many cattle producers, already suffering severely depressed cattle prices, now face unprecedented drought conditions. The situation is critical and America's family farm and ranch system of cattle production hangs in the balance.

Chart 2 below illustrates the financial harm accruing to the live cattle sector of the beef supply chain in a marketplace now void of competition. It depicts ever rising and unprecedented weekly beef packer margins beginning in 2015 while cattle feeders continually struggle to achieve monthly returns that would allow them to just break even.

Chart 2



America's family farm and ranch system of cattle production cannot be sustained if the situation described above, *i.e.*, lack of competitive market forces resulting in systemic losses to the live cattle sector, is allowed to persist.

Congress has several options with which to address this acute problem: 1) It can address the core of the problem by taking decisive measures to reinsert competitive market forces where they have been purged from within the beef supply chain. 2) It can build, or cause to be built, an alternative beef processing infrastructure (e.g., new and expanded local and regional packing plants) to compete against the existing beef processing infrastructure. 3) It can, of course, pursue a combination of the first two options.

R-CALF USA urges Congress to immediately pursue the first option as it holds the greatest potential to provide both immediate and permanent results. This is because a robustly competitive industry is inherently more sustainable than one propped up with government subsidies, as would be required under the second option.

Importantly, Congress must recognize a critical fact that can be deduced from Chart 1 above. And that is that since 2015 consumers have demonstrated their willingness to pay more than enough for retail beef to have made everyone along the beef supply chain whole. The problem, therefore, is a supply-chain allocation of profits problem and it is competition itself that is best suited to correct it.

We recommend Congress implement two immediate triage measures for which to reinsert competitive market forces along and within the beef supply chain: 1) Force the concentrated beef packers to immediately begin competing for the available supply of cattle by requiring them to purchase at least half of their cattle needs in the negotiated cash market, which is the most important price discovery market for the entire live cattle industry. Bipartisan Senate Bill 949 sponsored by Senators Chuck Grassley and Jon Tester is the appropriate means with which to reinsert competition in the domestic cattle market. 2) Empower consumers to exercise choice in the retail marketplace by differentiating between beef produced exclusively from cattle born and raised by U.S. cattle farmers and ranchers and beef produced in whole or in part in foreign countries. New legislation to require all beef in U.S. commerce to be labeled as to where the animal was born, raised, and harvested – known as mandatory country-of-origin labeling (mCOOL), is the appropriate means with which to reinsert competition in the retail beef market.

Given the oligopolistic structure of the nation's beef packing industry, the forgoing recommendations must be viewed as merely the first step – the triage step – in restoring for consumers and cattle producers alike a more resilient and reliable domestic beef supply chain. The second step must address each transaction point along the entire beef supply chain where competition has been purged.

To accomplish this, Congress should enact legislation to reverse those non-competitive cattle procurement practices by the oligopolistic beef packers that have now become institutionalized under the misguided theory that efficiency trumps competition. Prohibiting packers from contracting for cattle without establishing a firm base price at the time of the agreement and banning packer ownership and control of cattle for more than seven days before slaughter are two such legislative reversals of institutionalized cattle procurement practices that contribute greatly to the loss of competitive market forces within the beef supply chain.

Thank you for this opportunity to submit our written statement in the hearing record. We would appreciate the opportunity to meet with you and your staff for purposes of further examining America's beef supply chain and formulating a more comprehensive plan to improve it.

Sincerely,

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