Presentation to the Independent Cattlemen of Nebraska

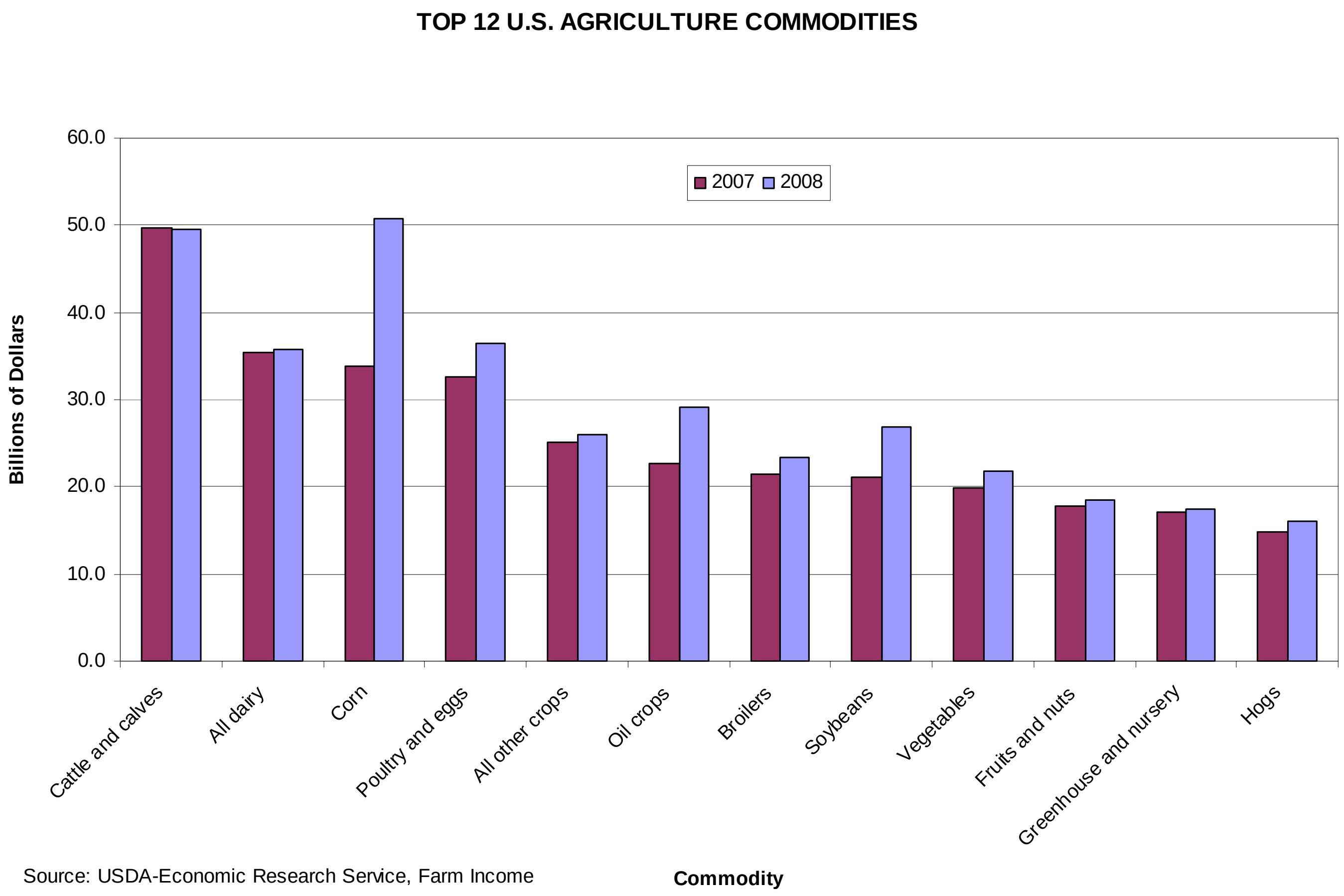
Market Failure in the U.S. Cattle Industry: An Overview of the Effect of Ongoing Antitrust Activities, Anticompetitive Practices, and Trade Policies

Presented by

Bill Bullard, CEO, R-CALF USA

October 03, 2009

Cattle Industry Was Largest Sector of U.S. Agriculture Until 2008



Source: USDA-Economic Research Service, Farm Income

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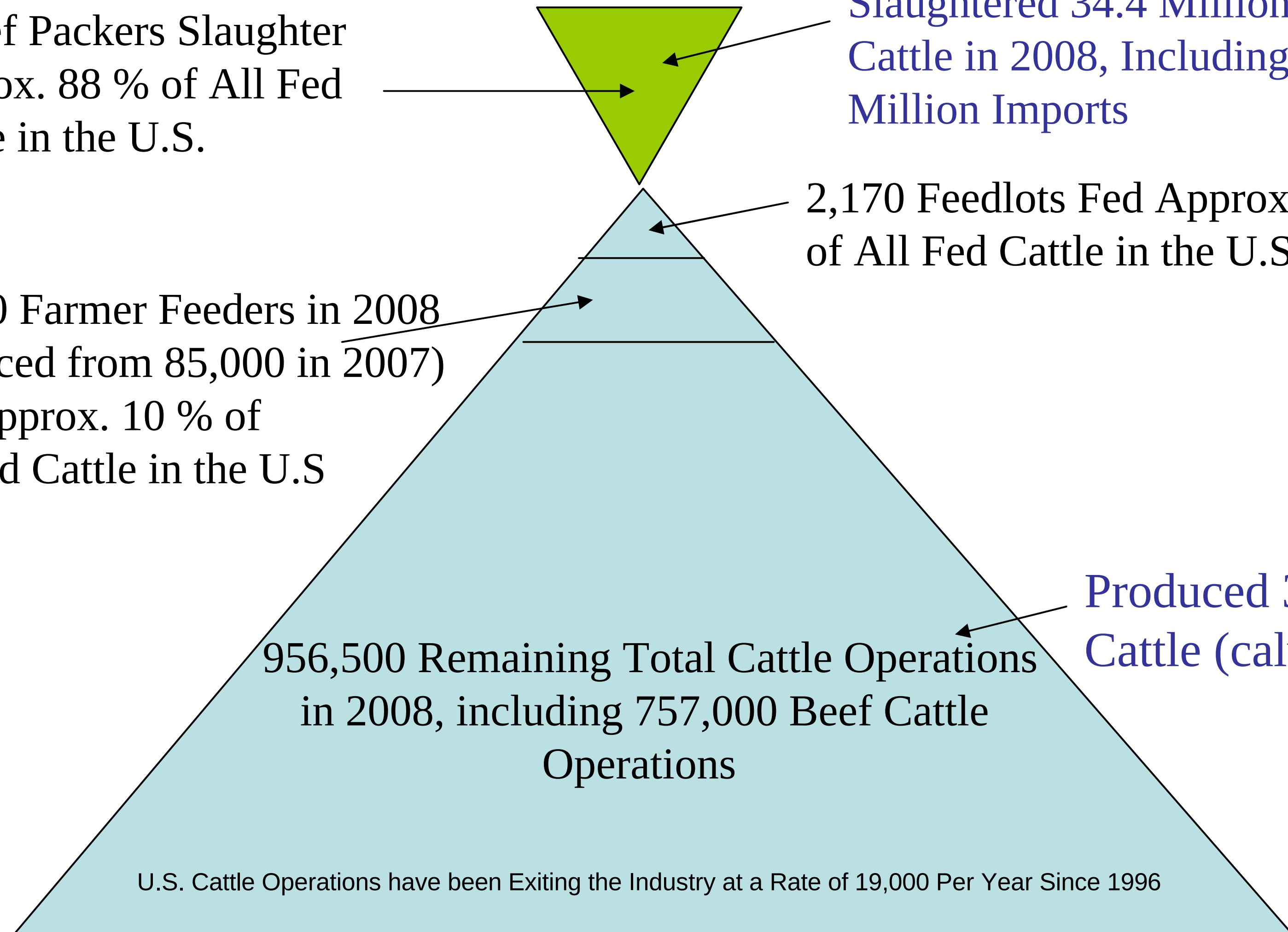
12 States Each Generate Over $1 Billion in Cattle and Calf Sales

- Nebraska $7.1
- Texas $6.9
- Kansas $6.2
- Colorado $3.0
- Iowa $2.9
- Oklahoma $2.4
- California $1.8
- S. Dakota $1.7
- Missouri $1.2
- Idaho $1.2
- Minnesota $1.1
- Montana $1.0

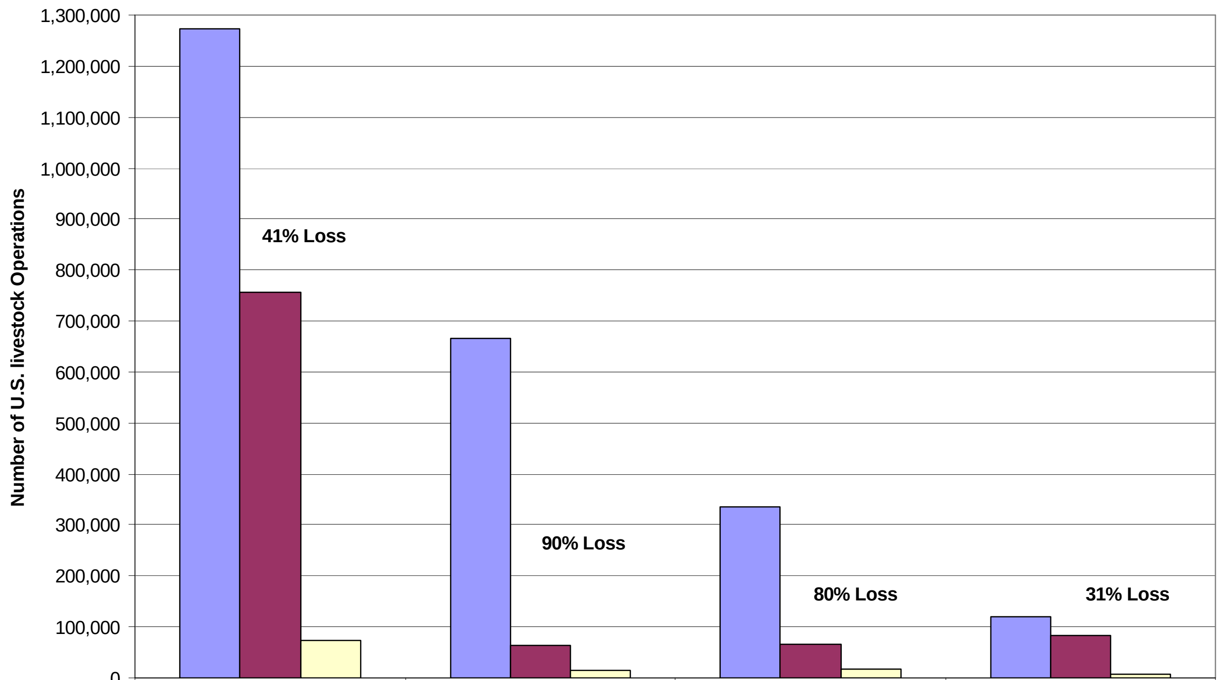
- 2008 Total: $36.5

Today's U.S. Cattle Industry



Market Failure No. 1: Livestock Industry Is in a State of Crisis!

Loss of U.S. Livestock Operations 1980-2008



	Beef Cattle	Swine	Diary	Sheep
1980	1,272,960	667,000	335,270	120,000
2008	757,000	64,760	67,000	82,330
>100 Hd	73,000	14,150	16,000	6,175

Type of Livestock Operations

Source: USDA-NASS

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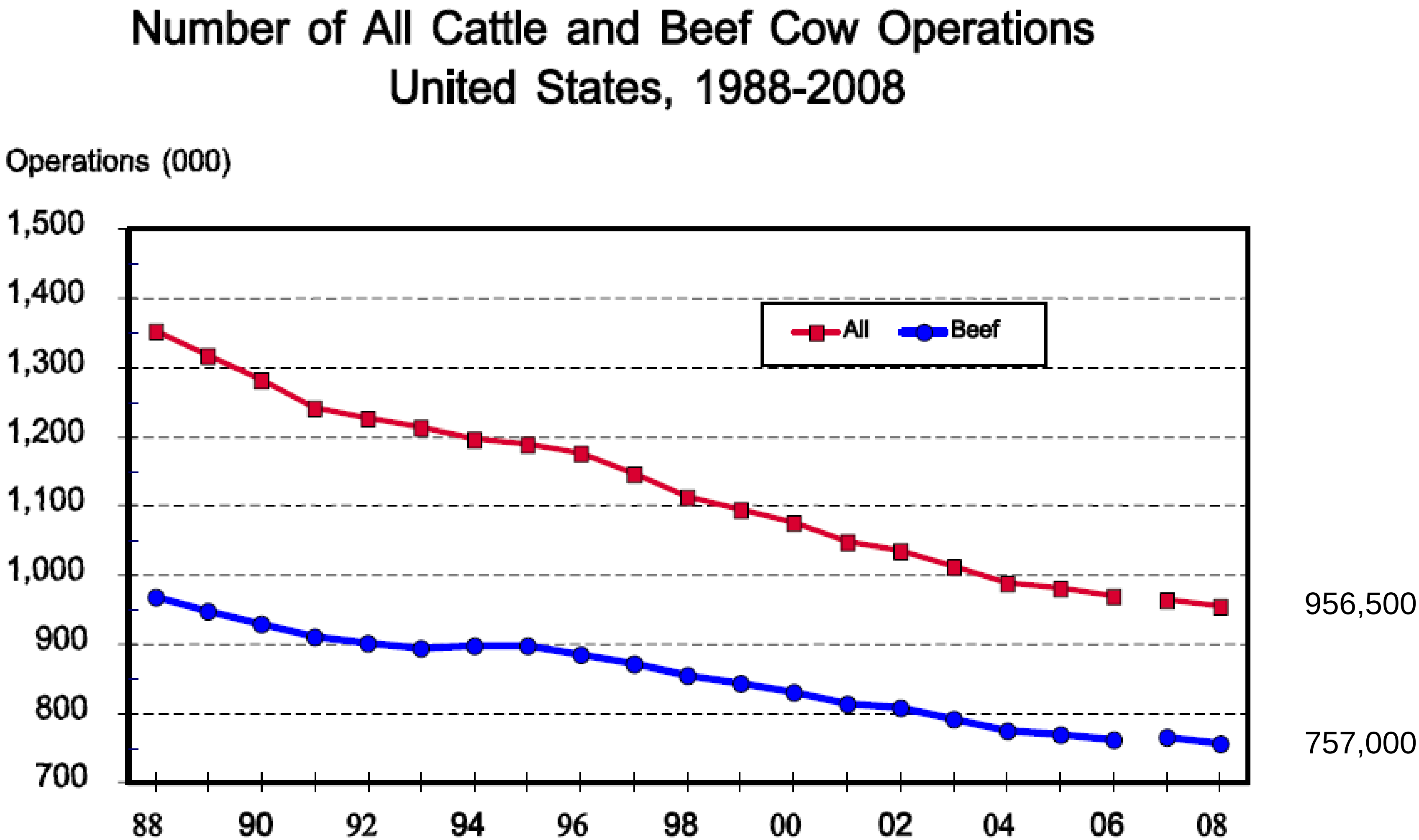
U.S. Cattle Industry is Shrinking: Industry Participants



Source: USDA-NASS

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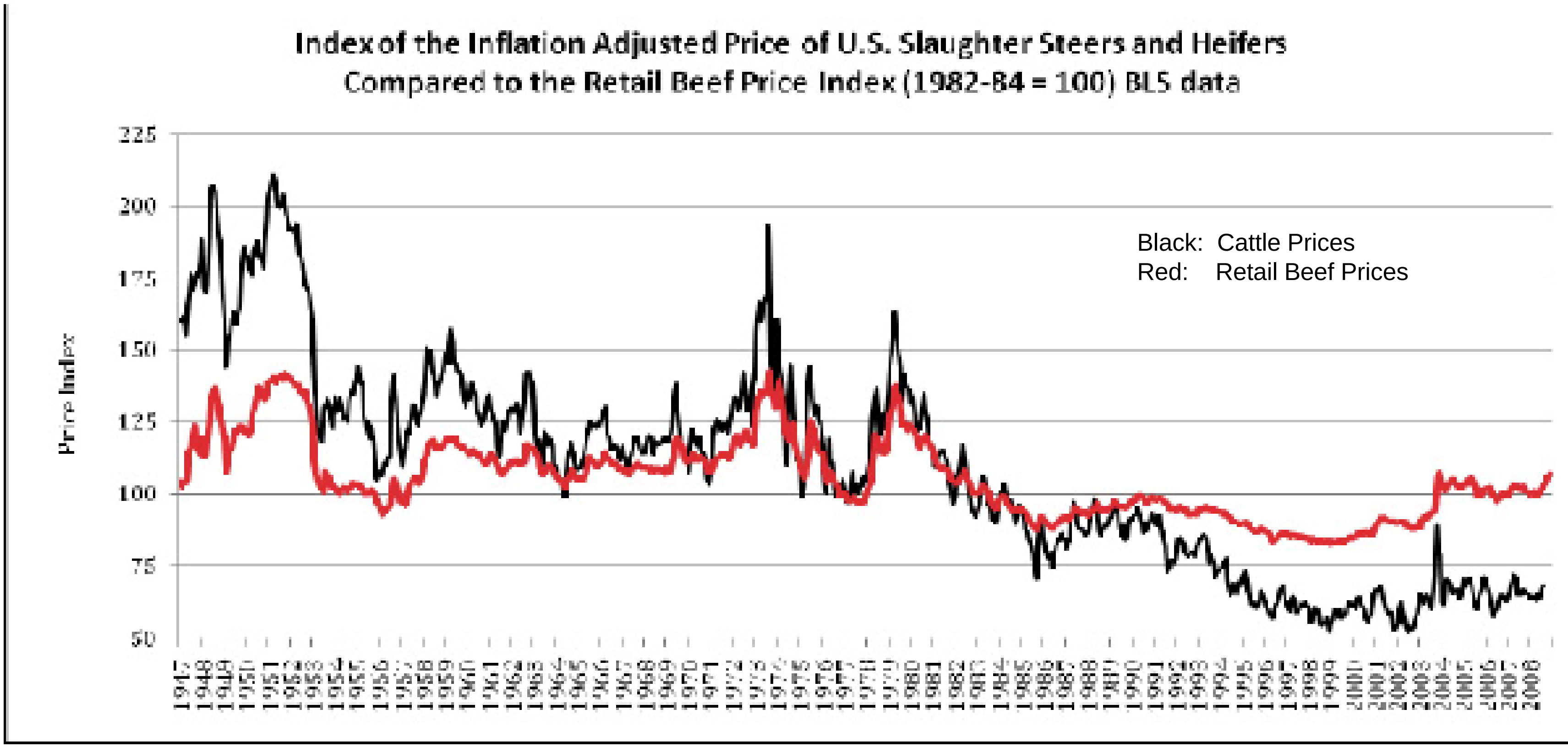
Market Failure No. 2: Disconnect Between Cattle Prices and Beef Prices



Source: Dr. Robert Taylor, Auburn University

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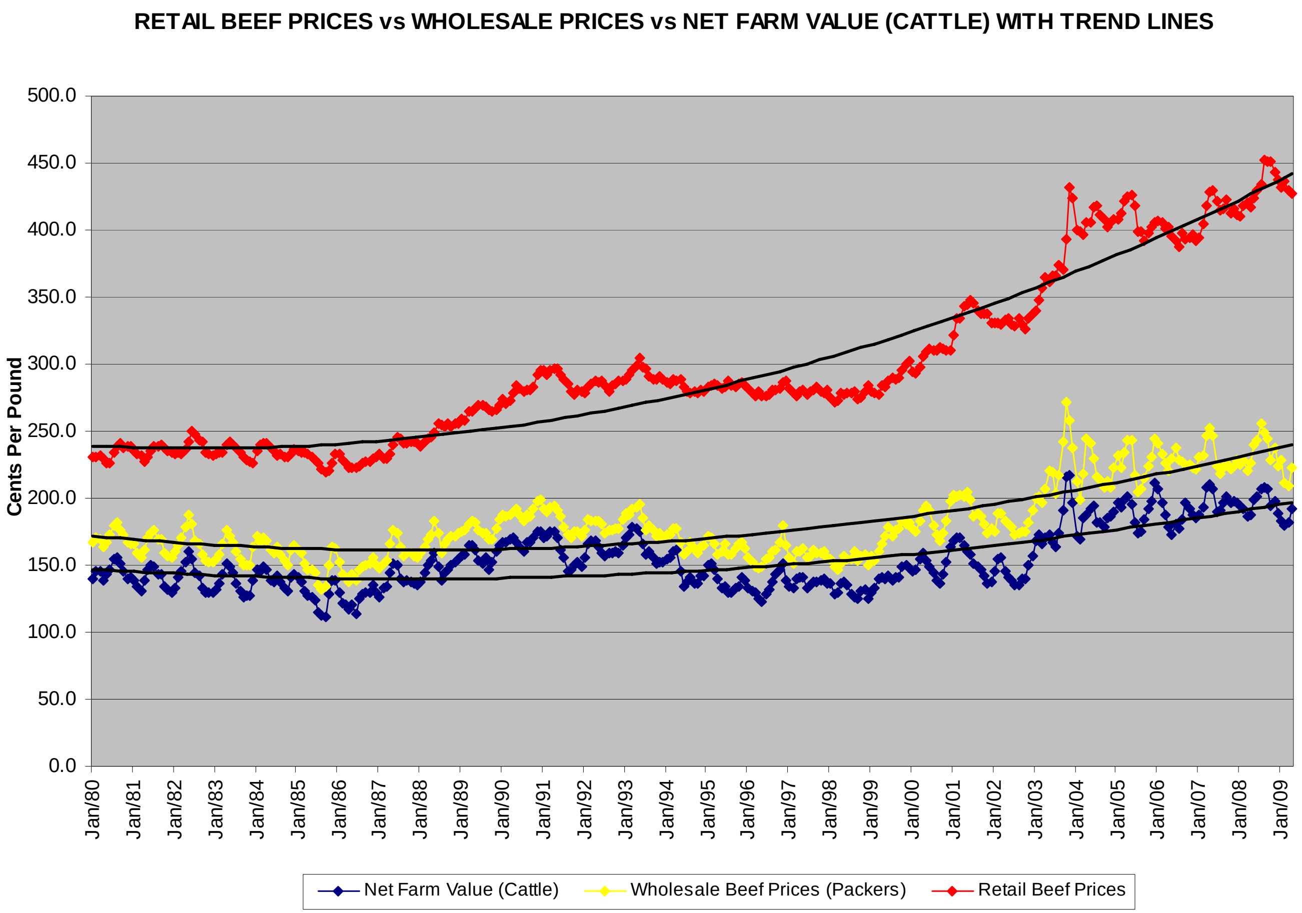
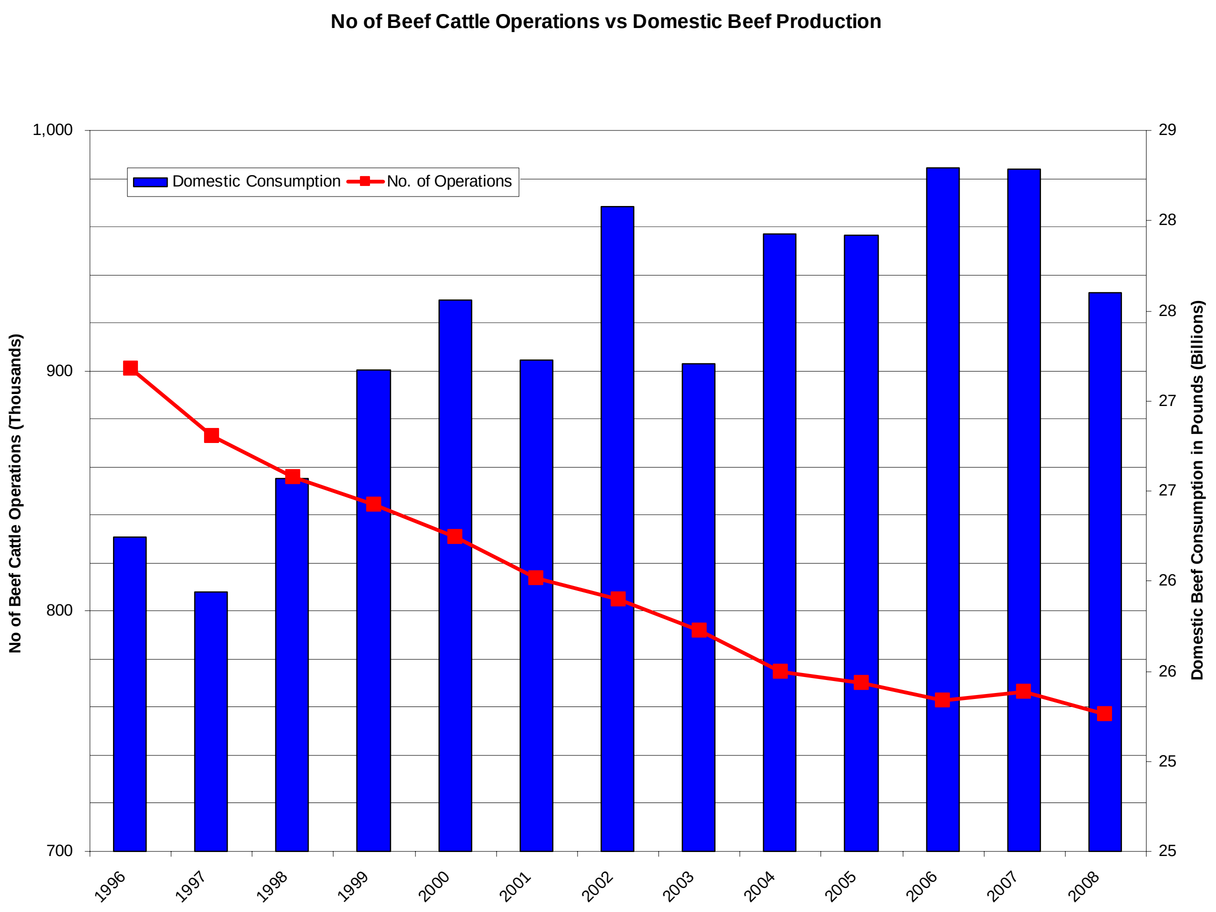
Market Failure No. 3: Increasing Price Spreads Between Ranch Gate and Wholesale, and Ranch Gate and Retail



Source: USDA-ERS

Market Failure No. 4: Industry Shrinks as Consumption Increases



Source: USDA FAS, NASS

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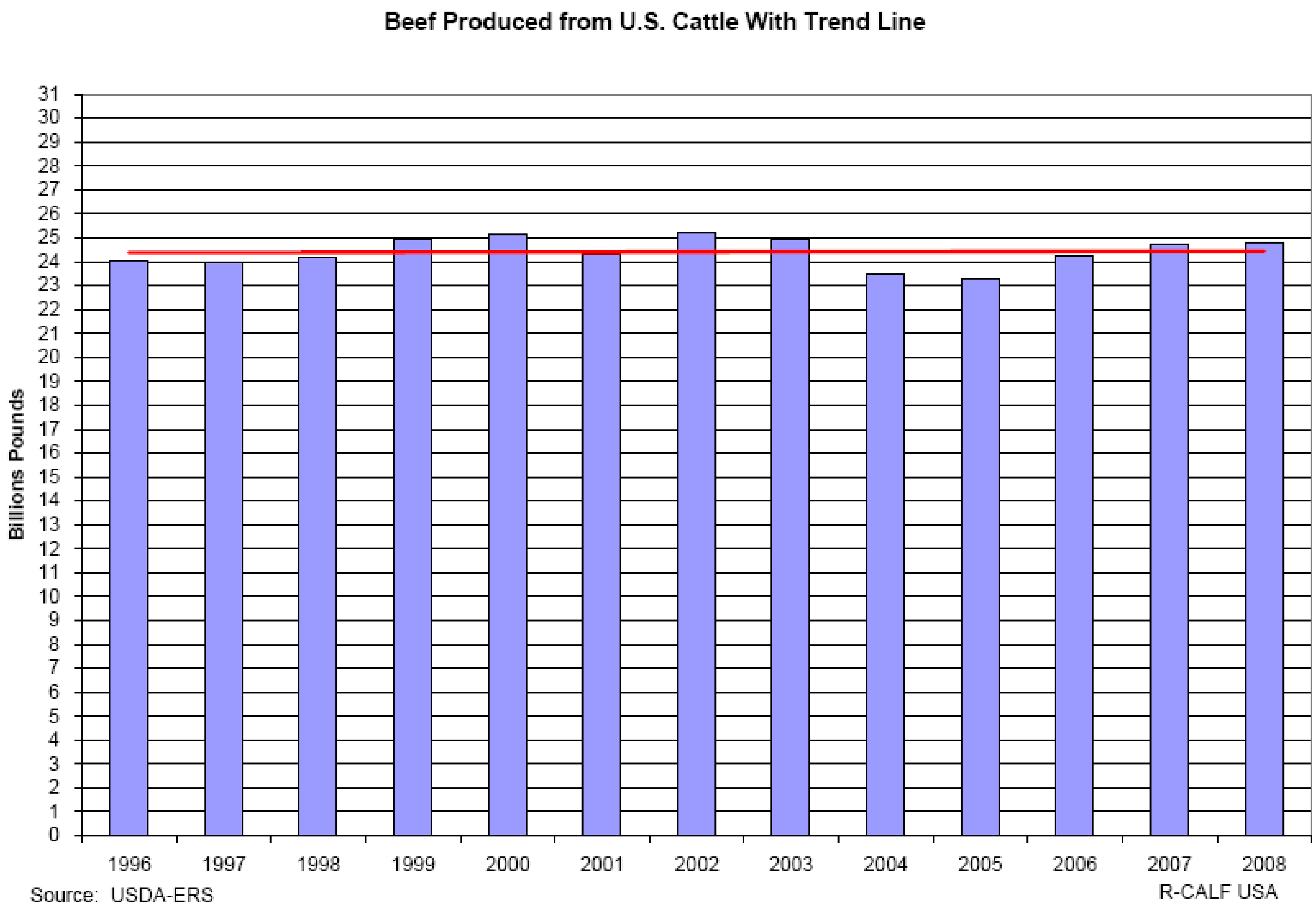
Domestic Beef Production v. Total U.S. Beef Production Explained

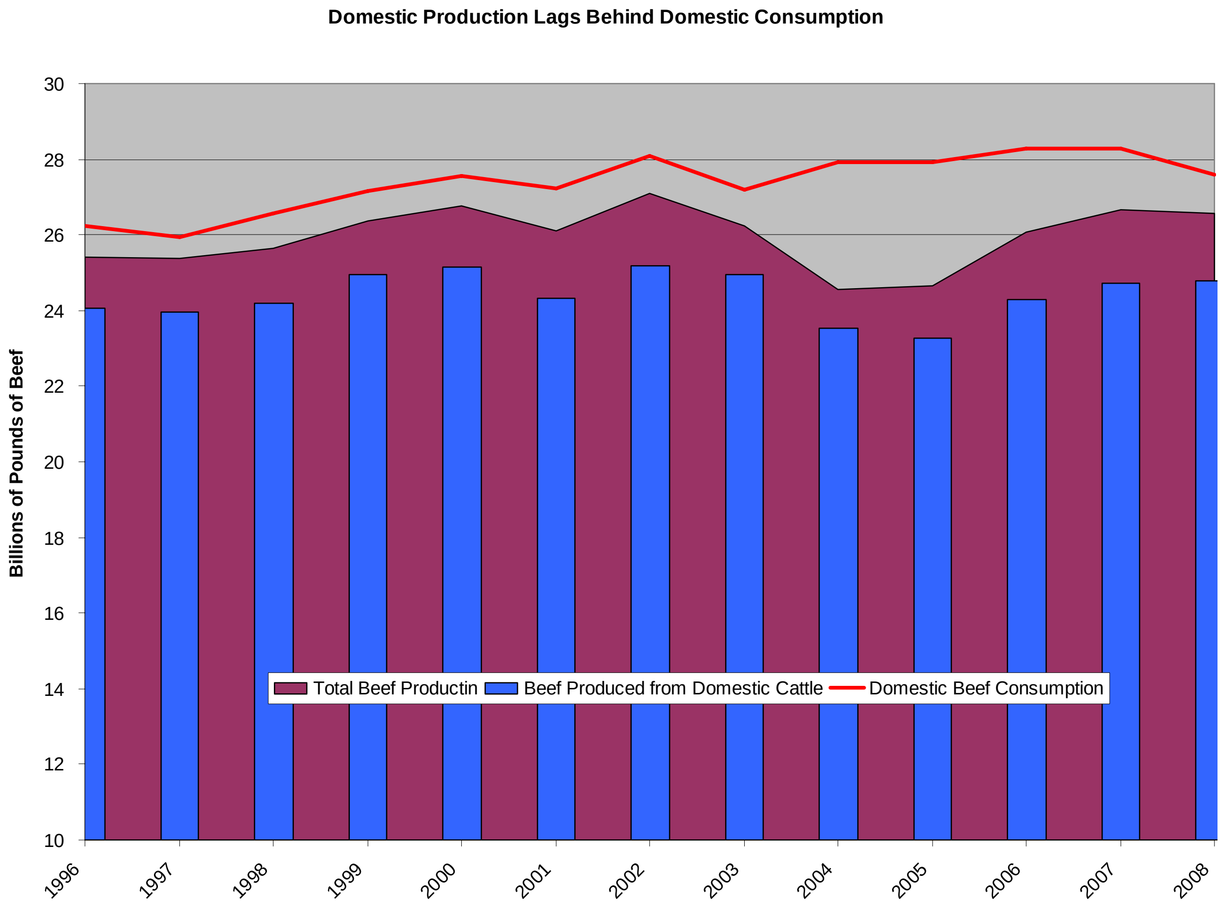
- USDA currently includes all beef produced at U.S.-based packing plants as domestic beef production.
- However, this is inaccurate because millions of imported cattle are slaughtered in U.S. packing plants each year, including animals imported for immediate slaughter.
- R-CALF USA subtracted the annual production of beef derived from imported cattle from USDA's annual production estimates to arrive at a more accurate estimate of "domestic beef production," i.e., beef produced from animals exclusively born, raised, and slaughtered in the USA. (R-CALF USA multiplied the number of annual cattle imports by the average annual carcass weight to determine the volume of beef produced annually from imported cattle, and then subtracted this amount from USDA's annual production estimates.)

Market Failure No. 5: Stagnate Domestic Beef 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.

Stagnant Domestic Beef Production Lags Behind Domestic Beef Consumption



Source: USDA ERS, FAS

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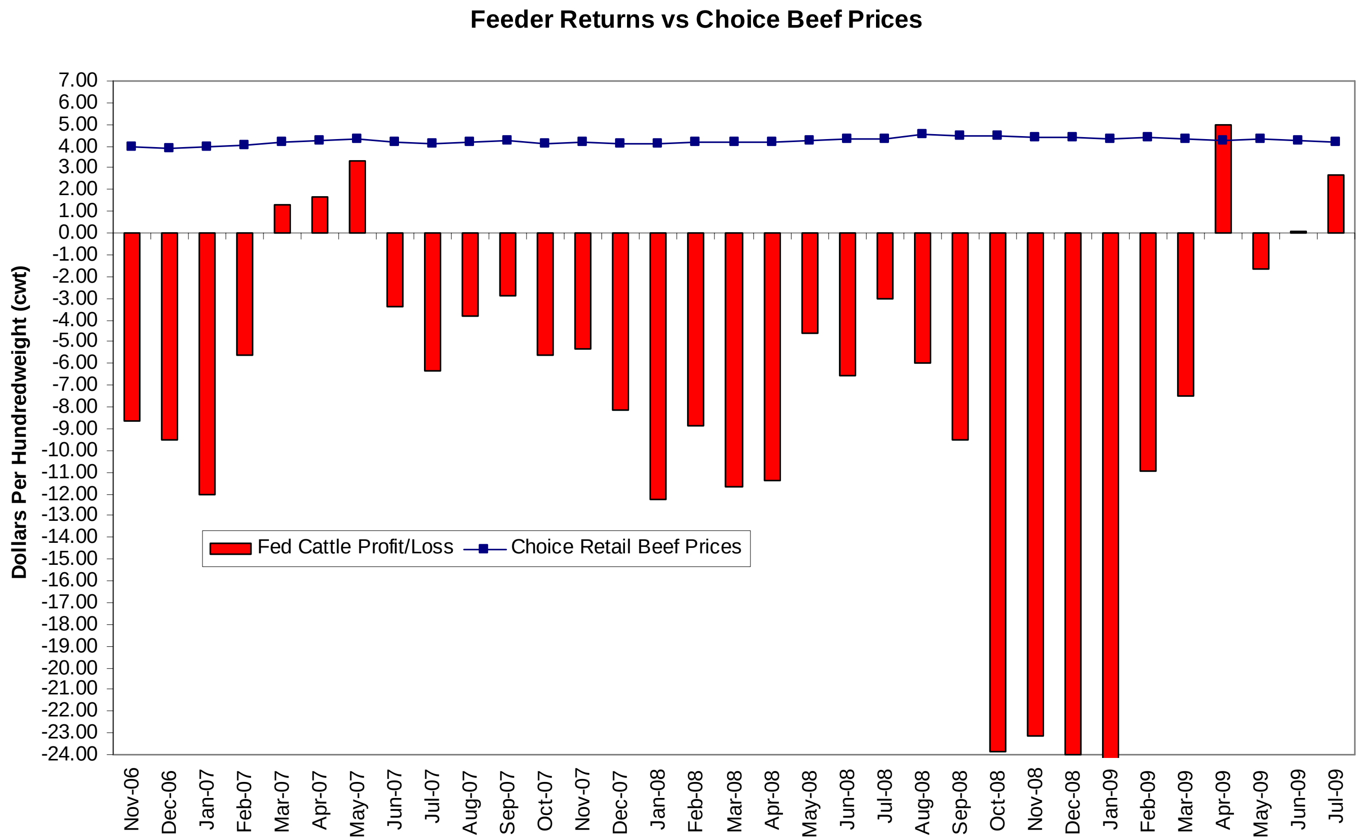
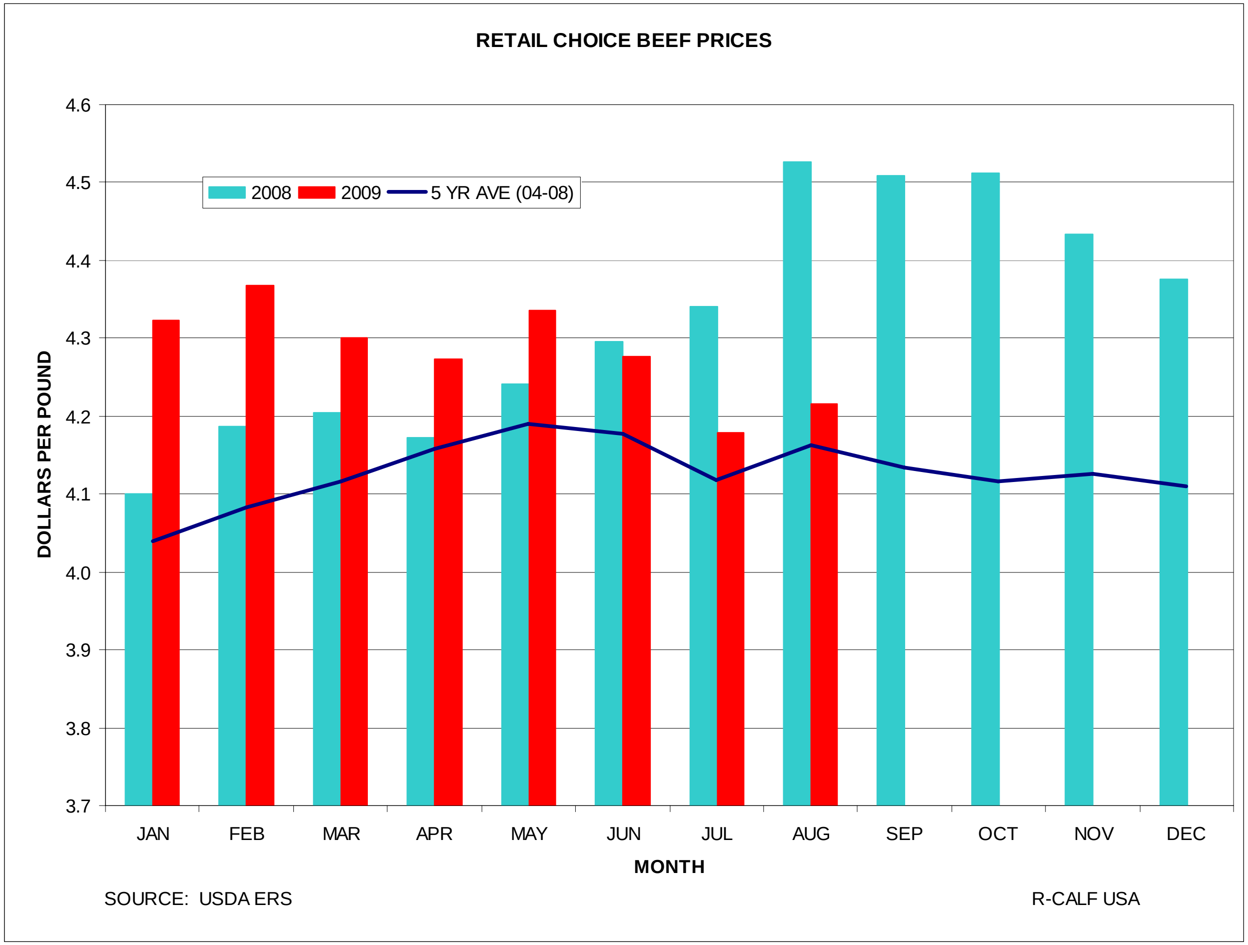
Market Failure No. 6: Cattle Feeders Suffer Long-Run Losses While Beef Prices Steadily Climb to Record Levels

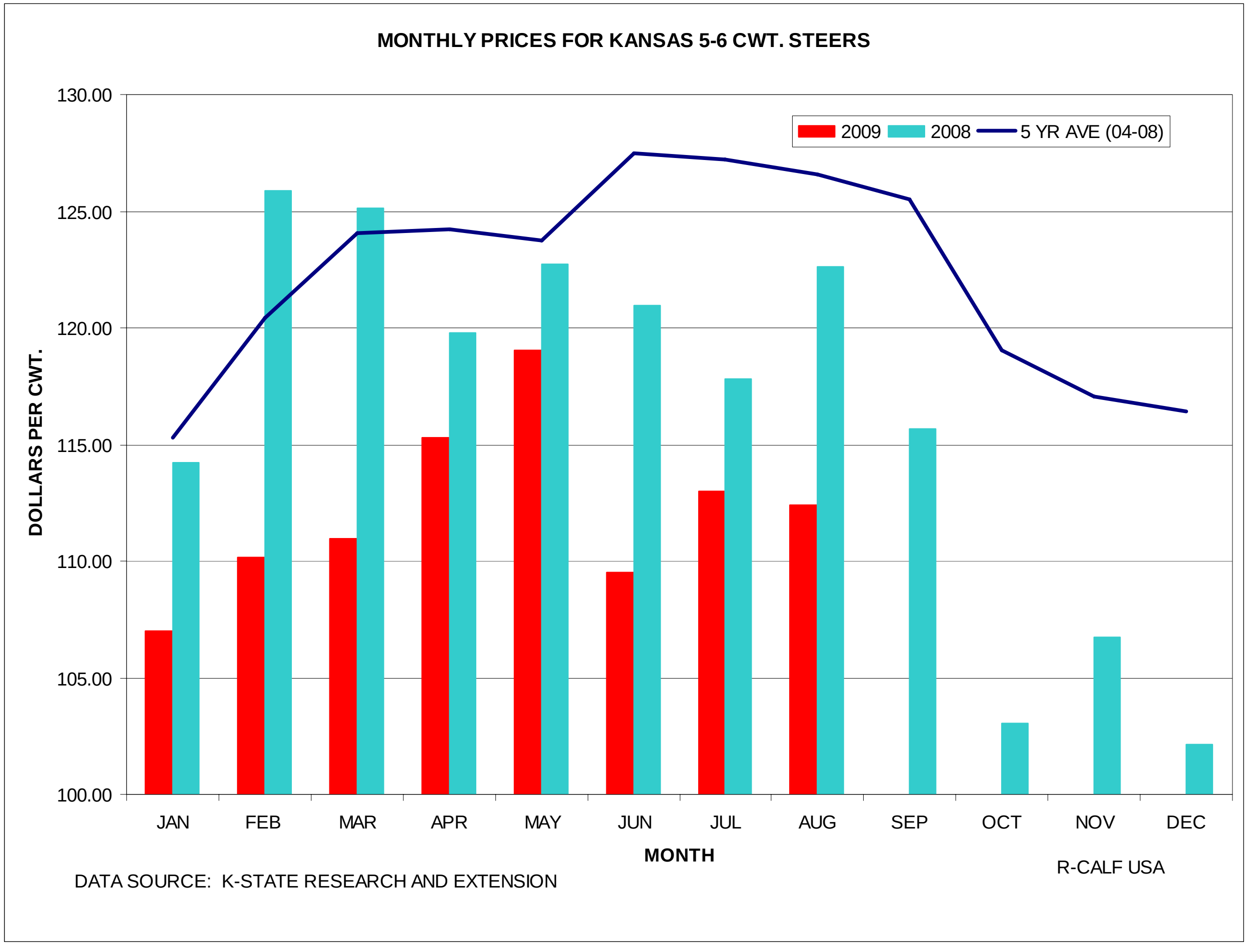


Source: USDA-ERS High Plains Cattle Feeding Simulator and Beef Price Spreads R-CALF USA

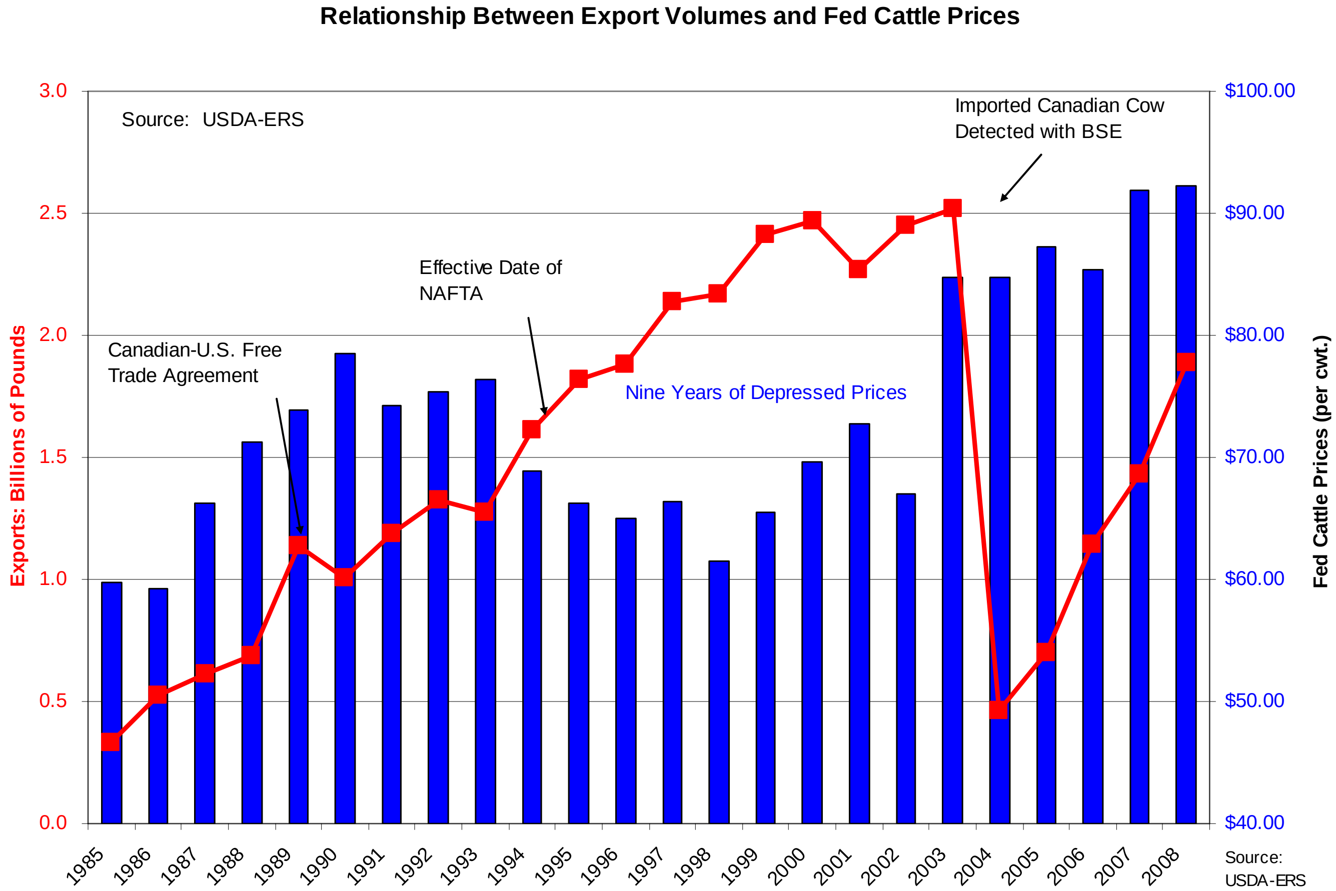
Market Failure No. 7: Consumers Paying Record Beef Prices While . . .



. . . Cow/Calf Producers Receive Depressed Prices



Market Failure No. 8: Increased Exports Do Not Always Equate to Higher Cattle Prices



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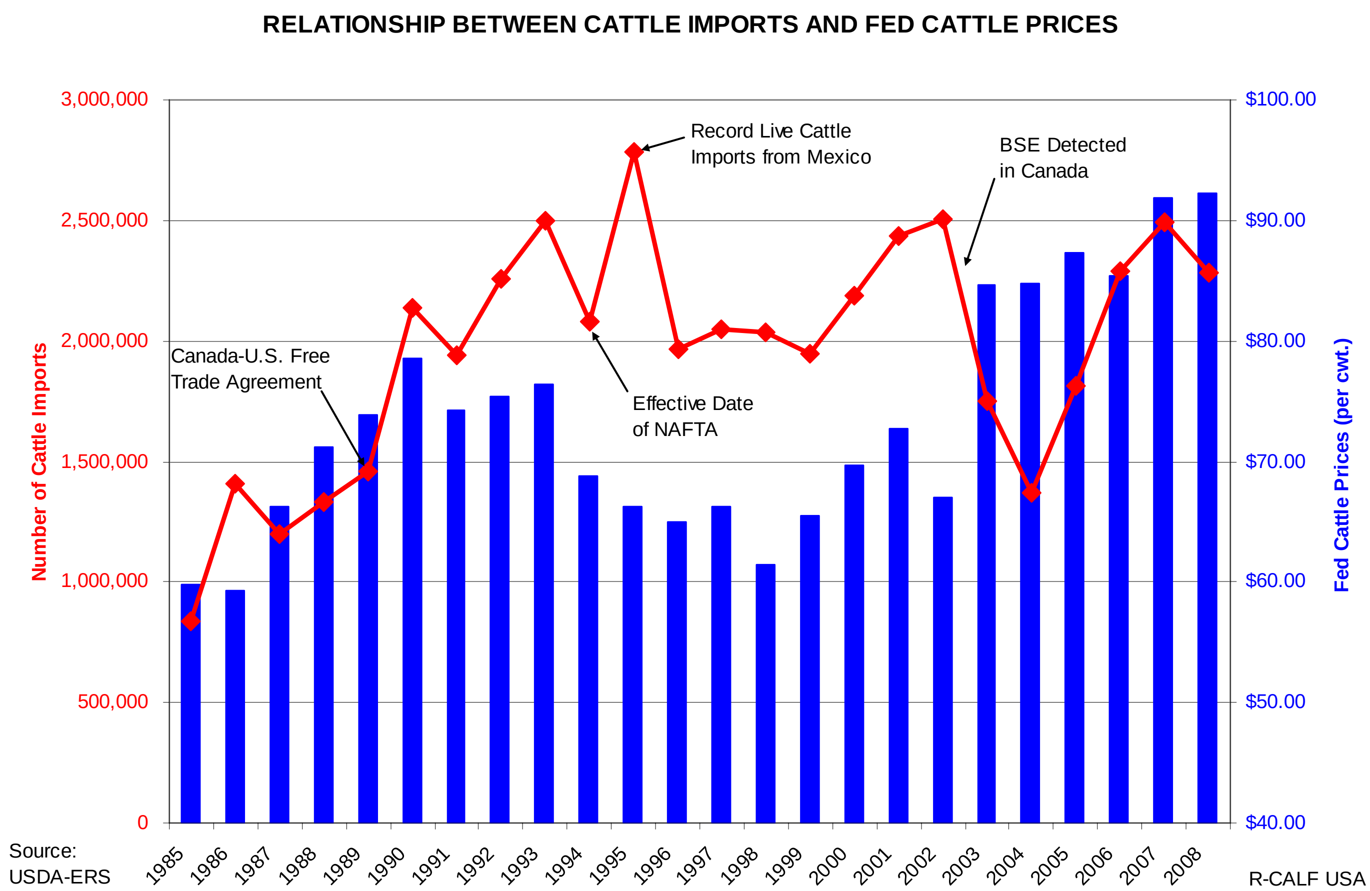
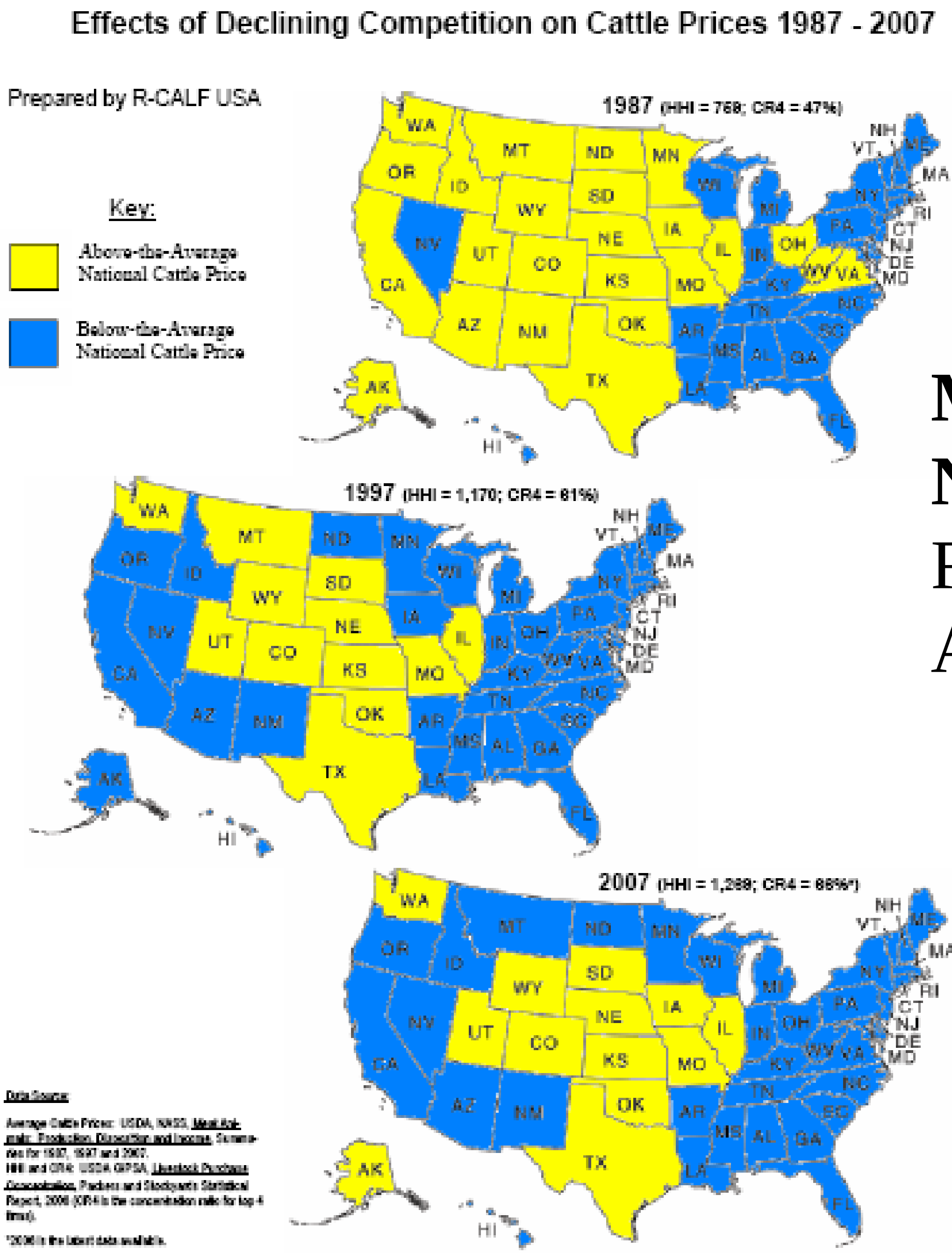
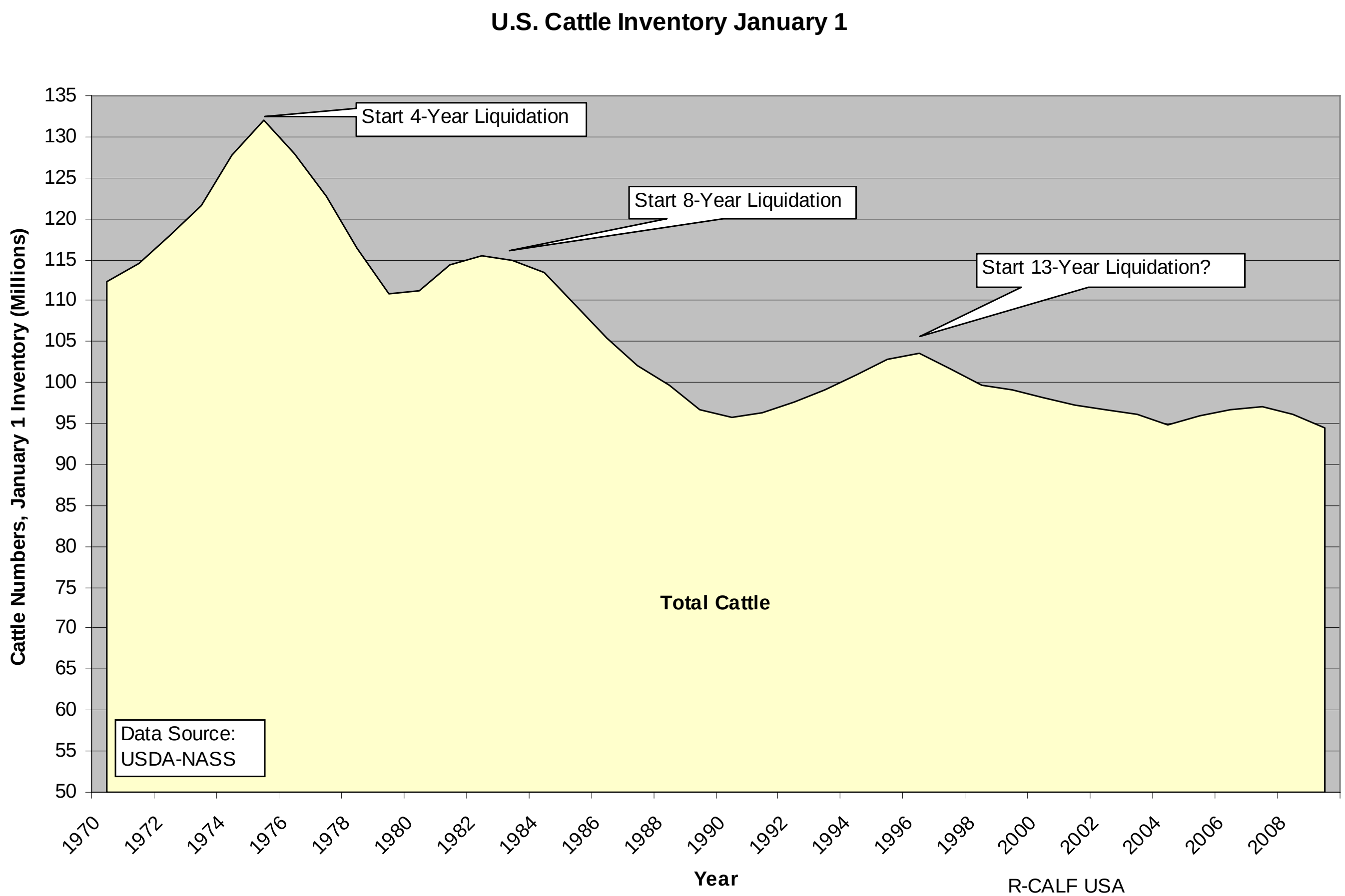
Long-Run Price Depression Coincides with Increased Cattle Imports





Market Failure No. 9: Fewer States Receive Above-The-Average Cattle Prices

Market Failure No. 10: The U.S. Cattle Cycle Has Been Disrupted



USDA NASS, Agricultural Statistics Board

U.S. Cattle Industry is Highly Sensitive to Changes in Supply

- The U.S. International Trade Commission (USITC) has confirmed that the U.S. live cattle industry is highly sensitive to even slight changes in increased live cattle numbers.

- The staff at the ITC 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."

  "[i]f quantity increased one percent from q1 to q2, and if demand remained constant, then price would be expected to decrease 1.4 to 2.5 percent." University of Nebraska – Lincoln, 2002.

  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.

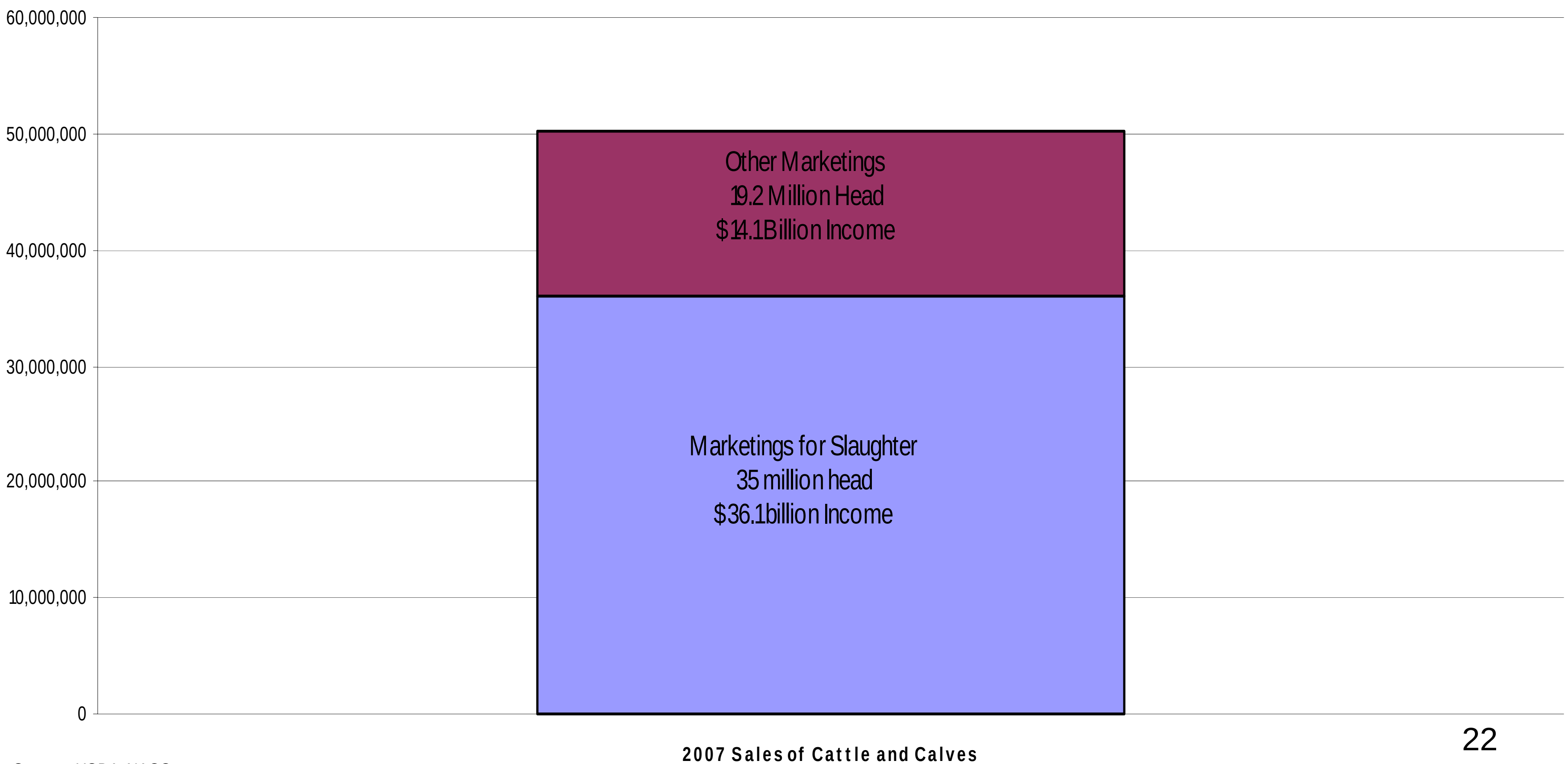
Why Cattle Industry is Highly Susceptible to Manipulation

- Longest biological cycle of any farmed animal – inelastic supply.
- Finished cattle are highly perishable.
- Demand for cattle bounded on weekly basis – Packers set weekly limits by choice and by capacity constraints.
- Transportation costs limit marketing options.
- Packing industry exceeds concentration levels considered to elicit noncompetitive behavior.
- Competition for raw products, e.g., cattle, is inherently less intense than is competition for processed food products.
- Cattle market highly sensitive to even slight changes in supplies.
- Marginal transparency in cattle markets.
- Packers have superior marketing information, particularly those with substantial captive supply arrangements, which include imported cattle.

See R-CALF USA's May 8, 2008 Submission to the Dept. of Justice, at 7-10.

Anticompetitive Practices at the Packer Level Affect More than Just the Fed Cattle Market

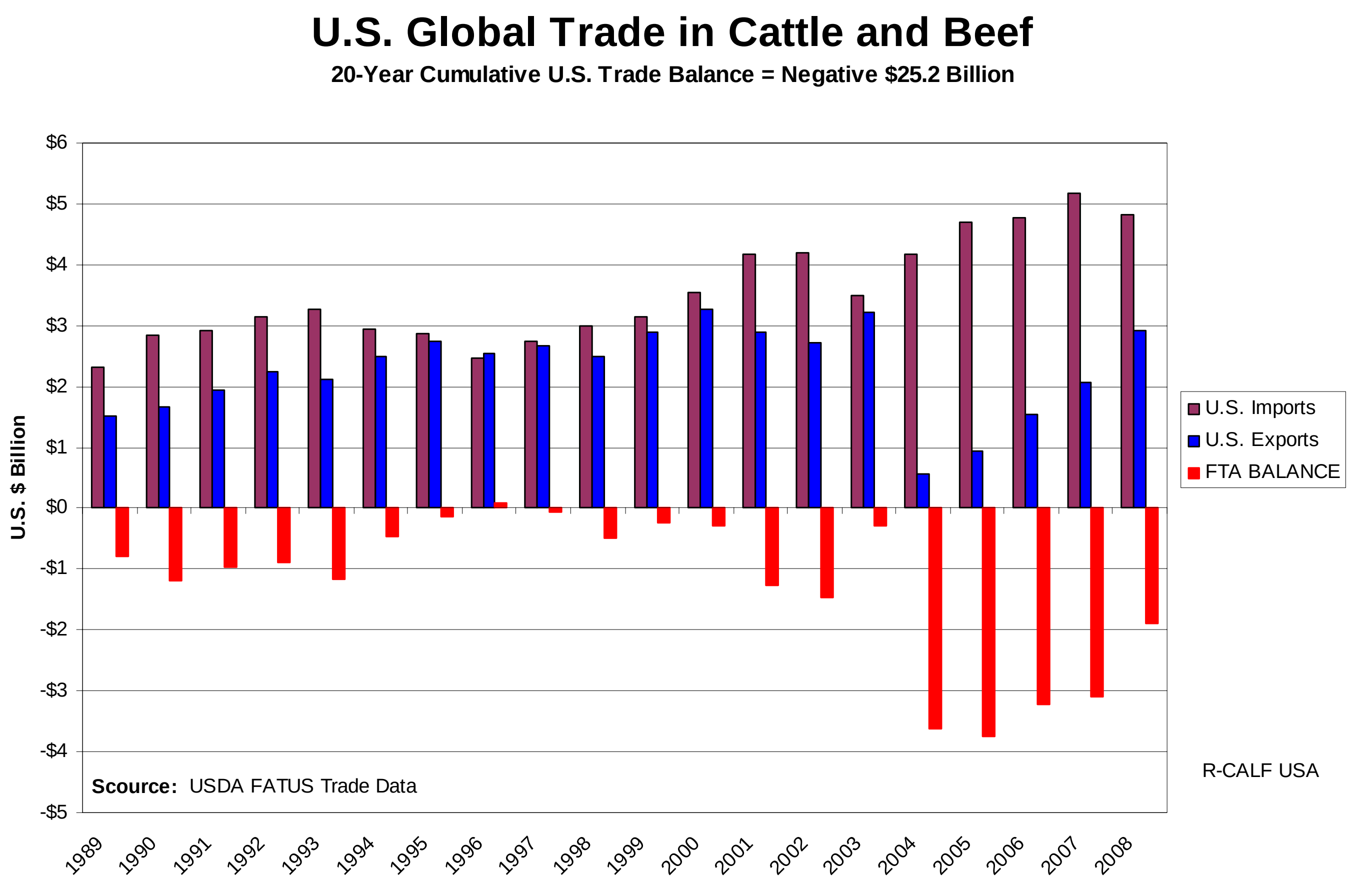
Sources of Cattle Industry Income



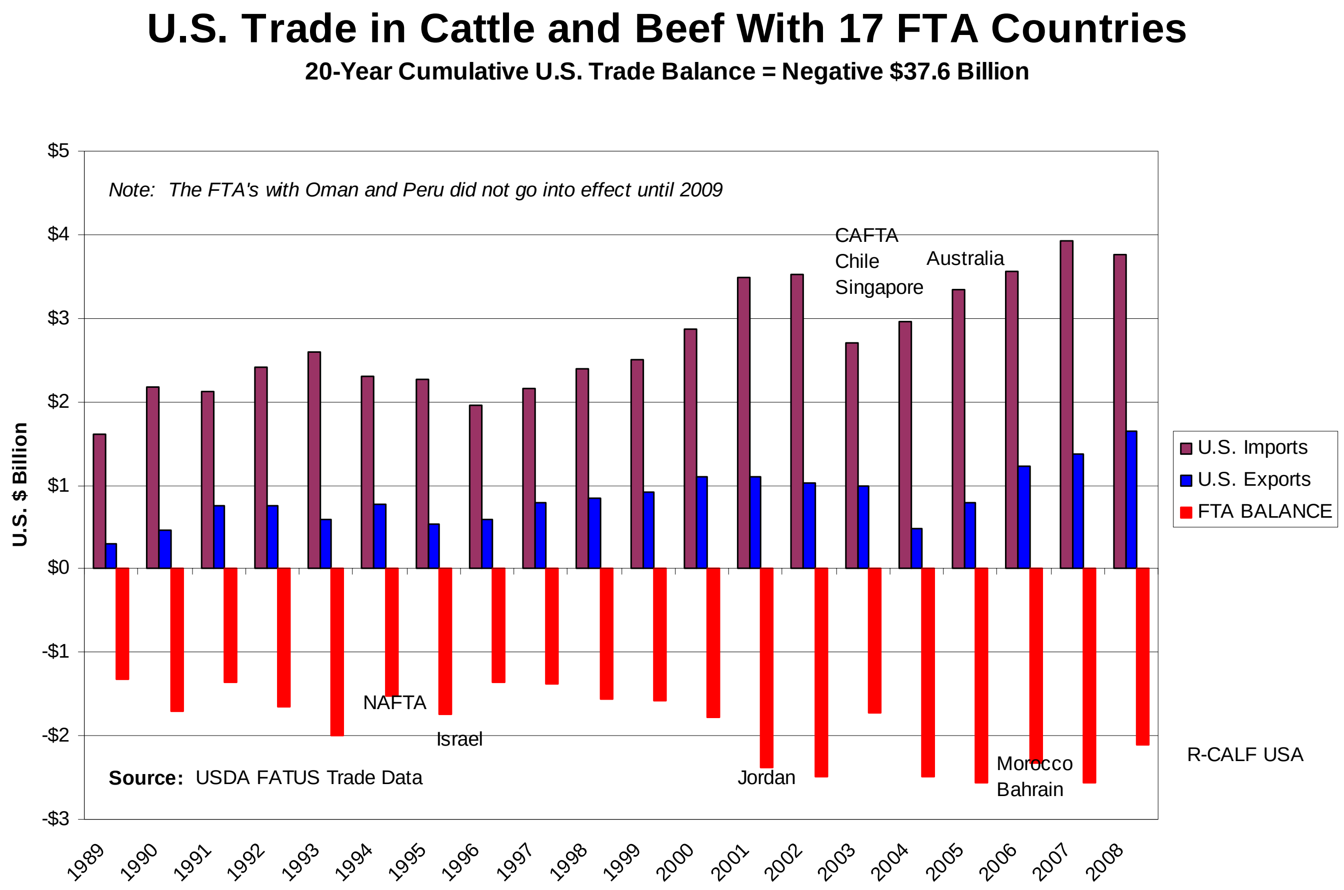
Source: USDA-NASS

Impacts From Trade

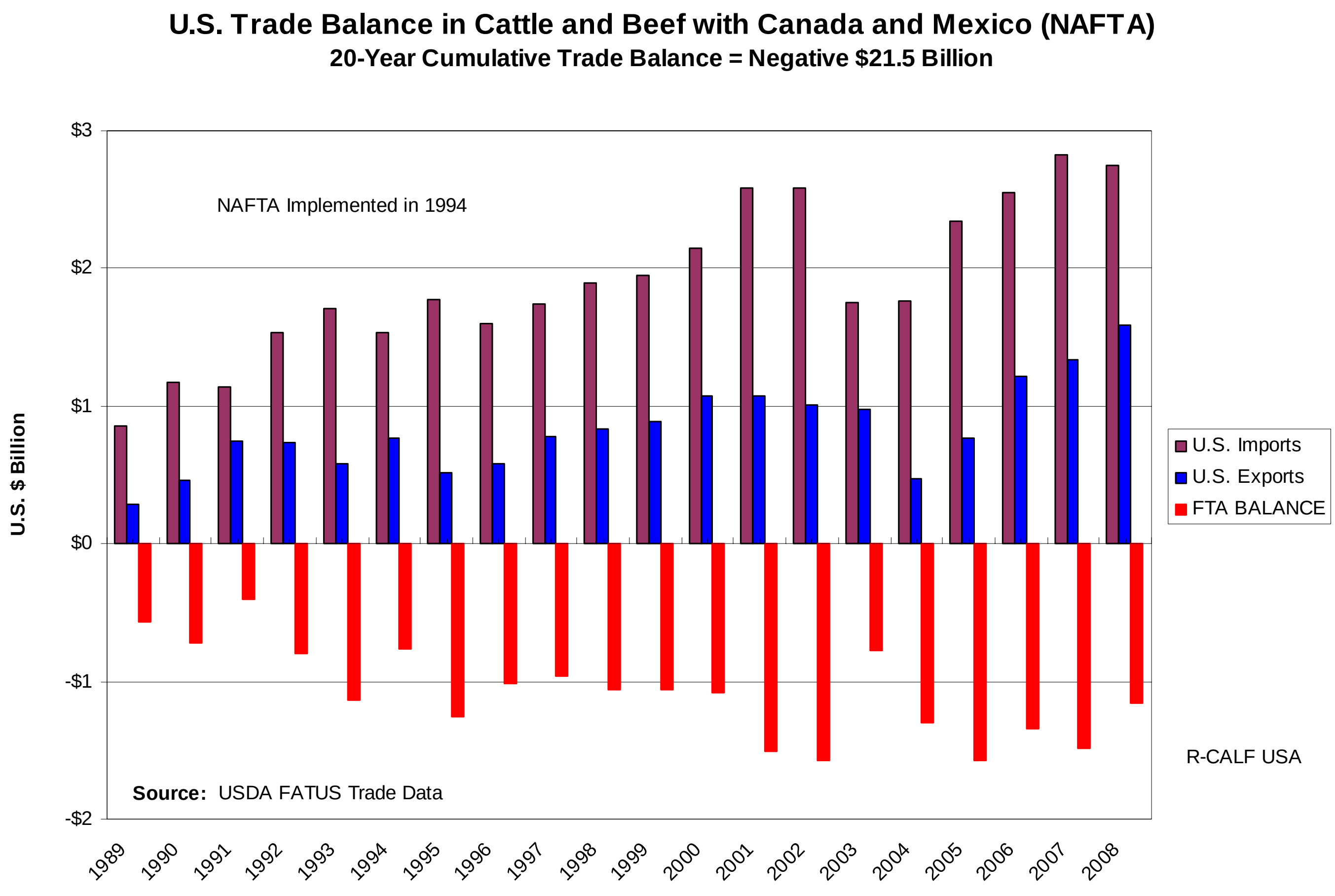
Long Run Value Deficit in Cattle and Beef Trade Exacerbates Broken Market Problems



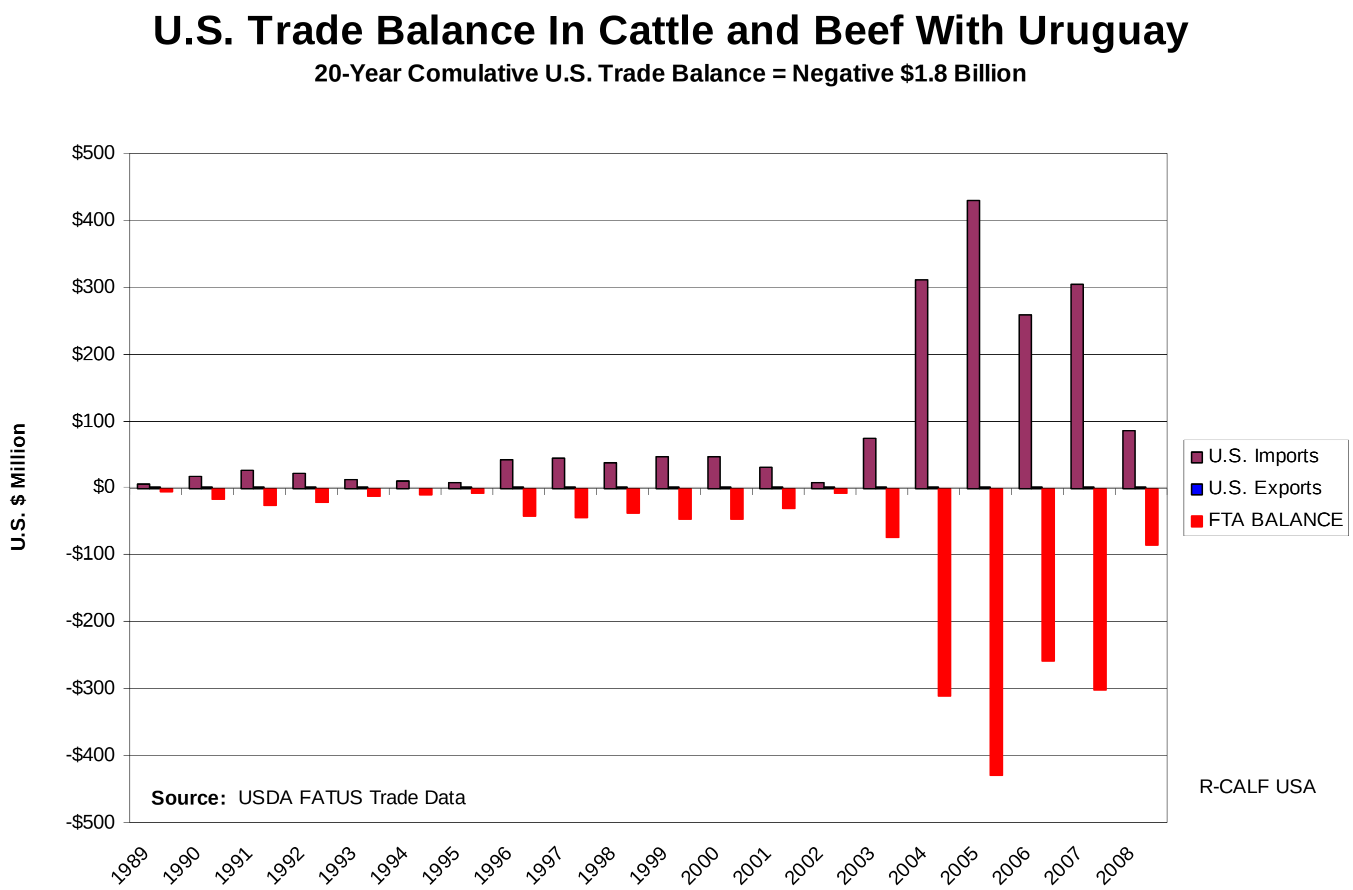
Trade Balance with 17 FTA Countries is Worse



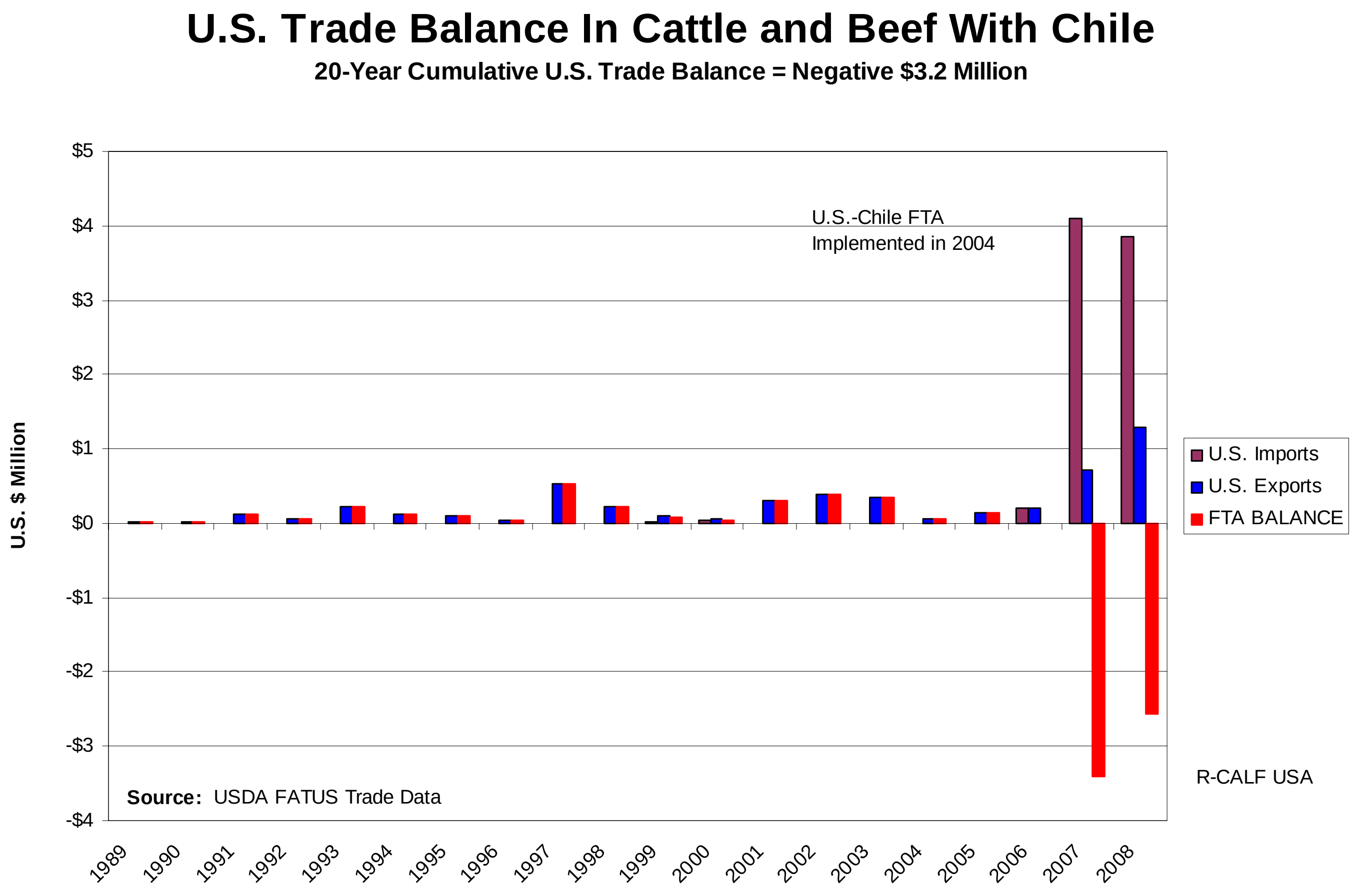
NAFTA Trade Balance



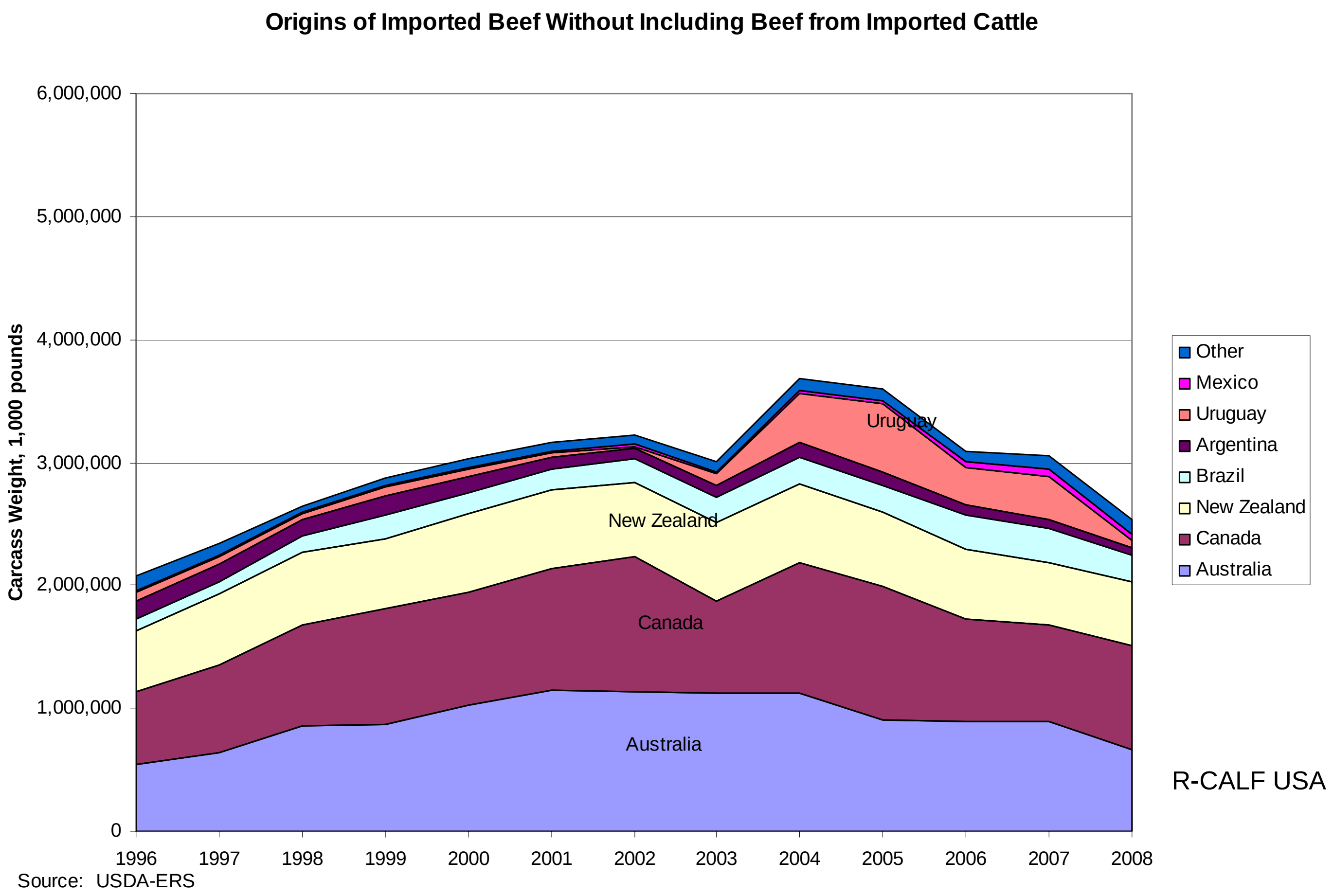
Example of Post FMD



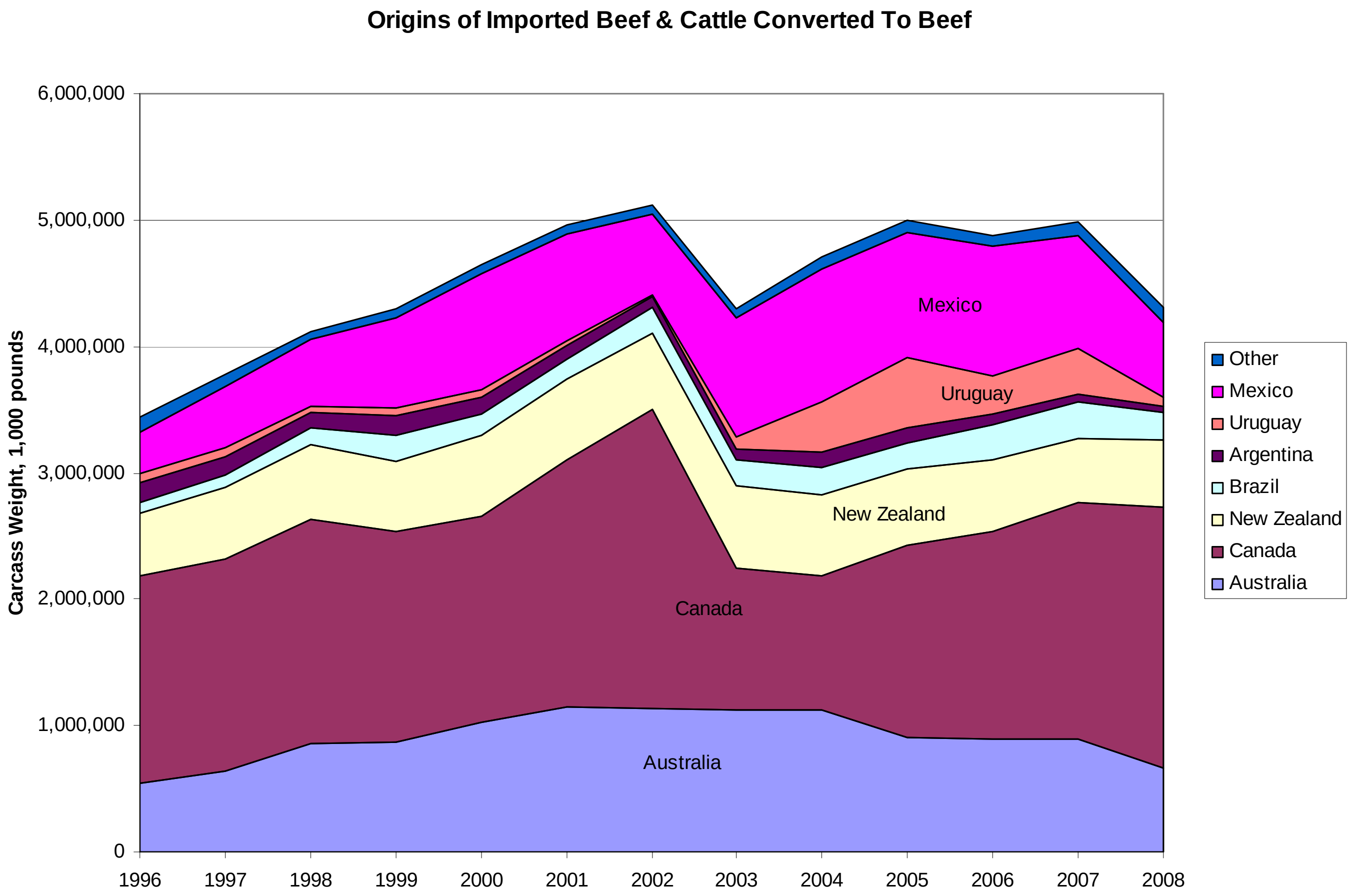
Example of Post FTA



Origins of Imported Beef When Only Imported Beef Product is Included

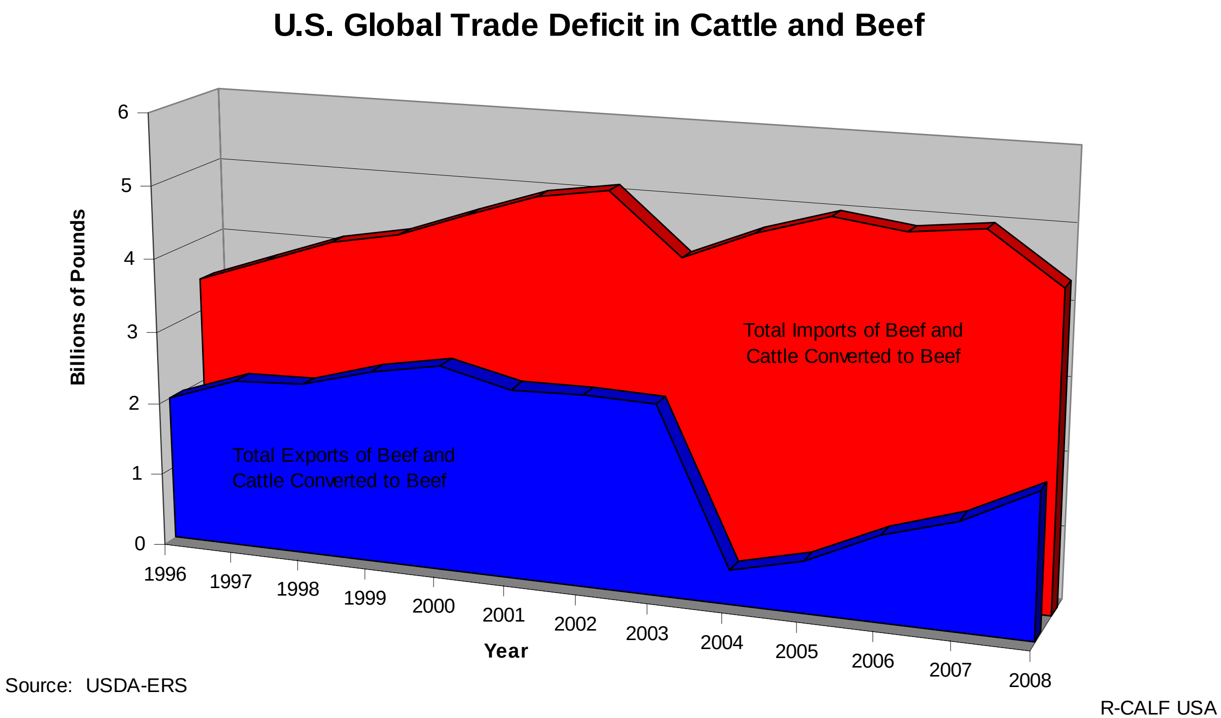


Canada is Largest Beef Source When Imported Cattle are Slaughtered and Mexico Rivals Australia for Second Place



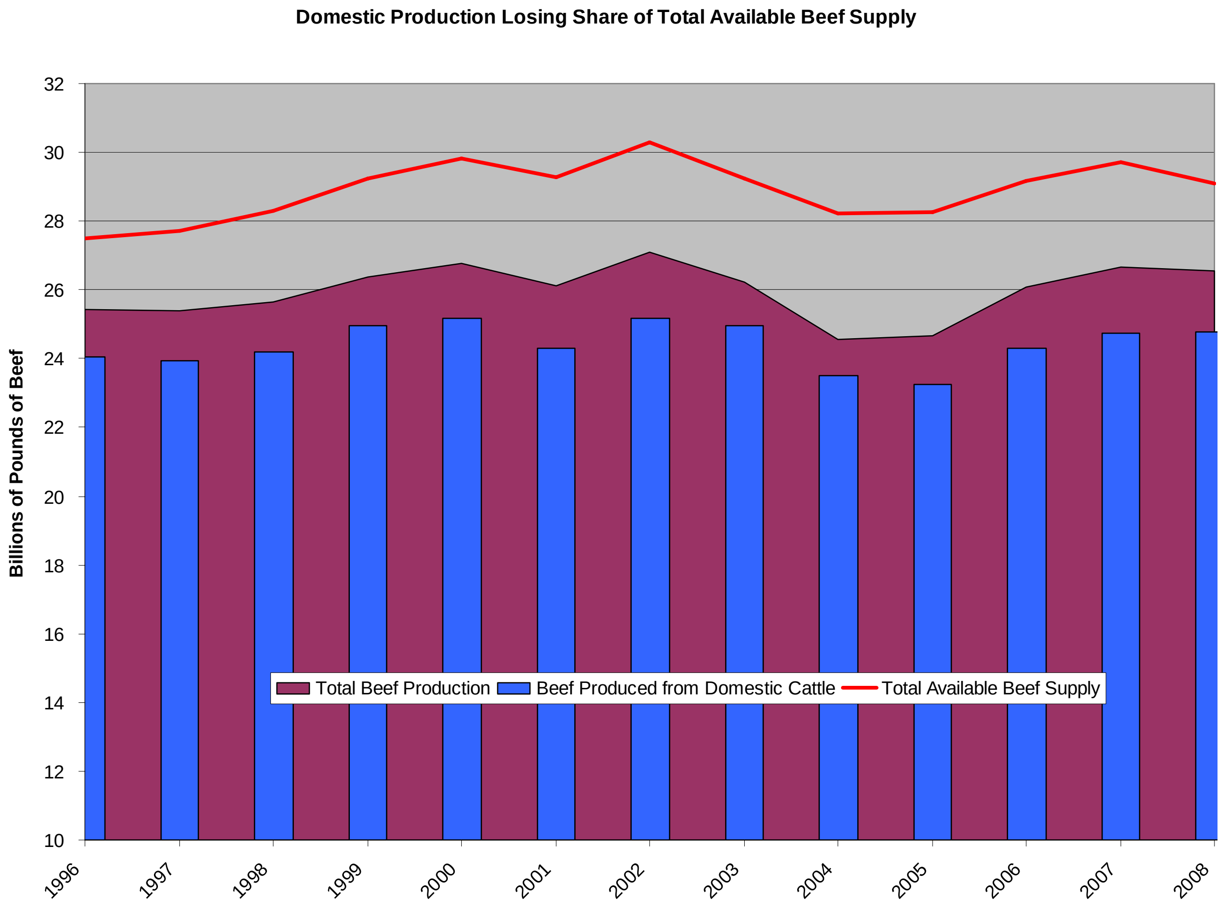
Source: USDA-ERS

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.

Impact of Volume Based Deficit: Domestic Beef Production Losing Share of Total Available Beef Supply



Source: USDA ERS

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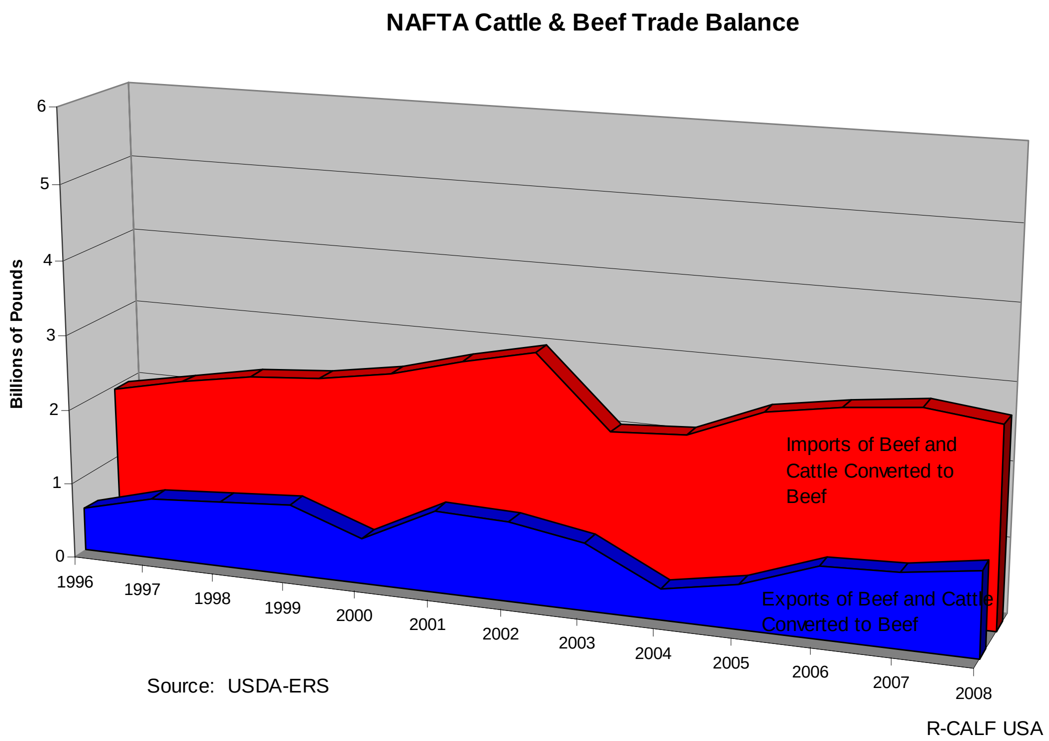
NAFTA Trade Deficit Represents Over Half of U.S. Global Trade Deficit in Cattle & Beef



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

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.

R-CALF USA’s Critical Cattle Industry Issues

- COOL
- Animal Health
  - BSE, TB
  - Plum Island
- NAIS
- Food Safety
- Futures Market
- Market Concentration and Consolidation
  - JBS/National Beef
  - JBS/Pilgrim’s Pride
  - USDA/DOJ Workshops
- Trade
- Beef Check-off
- Private Property Rights

R-CALF USA's Winning Strategy

- Put in the Hands of Producers the Tools They Need To Compete.
- Take From the Hands of the Packers the Tools They Use to Disrupt Competition.
- Impart Fairness and Equity in Trade Agreements.
- Maintain the Highest Herd Health and Herd Safety Standards in the World.

Fighting for the U.S. Cattle Producer!

R-CALF USA

Your Industry Needs Your Support.
Join and Support R-CALF USA Today!

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