The Meatpackers’ Last Frontier: The U.S. Live Cattle Industry – An Industry Under Siege

Presentation to Representative Frank Lucas, Chairman, U.S. House Agriculture Committee
March 10, 2011
Meatpackers’ Winning Strategy for Controlling Livestock Supply Chains

**Step 1:** Create market access risk for producers who sell slaughter-ready livestock.

**Step 2:** Solve the market access risk problem by granting market access in return for producers’ commitment to enter marketing contracts.

**Step 3:** When livestock volumes shift from cash to contract, continue using the cash market to discover/set the base price for all contracts.

**Step 4:** Exploit the thinning cash market that produces below cost-of-production prices and forces producers to exit the livestock industry.

**Step 5:** Lead producers to believe the cash market is antiquated and start shifting livestock volumes from marketing agreements to production contracts.
Meatpackers’ Strategy Is Well Underway in the U.S. Cattle Industry

National Cash Cattle Market Shank Nearly 15% in 5 Years, Now Down to 37%

2005-2010 Fed Cattle Summary of Purchase Types
Source: USDA Market News

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>Cash</td>
<td>52.1%</td>
<td>49.4%</td>
<td>47.3%</td>
<td>42.6%</td>
<td>38.8%</td>
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<td>7.2%</td>
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<td>9.5%</td>
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### TX-OK-NM Market Below 22%
Colorado Cash Market Below 20%

<table>
<thead>
<tr>
<th>Texas-Oklahoma-New Mexico Breakdown of Volume by Purchase Type</th>
<th>2005</th>
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<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<td>Cash</td>
<td>47.2%</td>
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<td>36.7%</td>
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<table>
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<tr>
<th>Colorado Breakdown of Volume by Purchase Type</th>
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<th>2010</th>
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<td>51.7%</td>
<td>40.6%</td>
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<td>Formula</td>
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<tr>
<td>Forward Contract</td>
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<td>2.7%</td>
<td>1.9%</td>
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</table>
The Meatpackers’ Strategy Is Causing Severe Market Failure in the U.S. Cattle Industry
No. 1: Precarious Structure of U.S. Beef Cattle Industry

742,000 Beef Cattle Operations, including Seed Stock Producers, Cow/Calf Producers, Backgrounders and Stockers

Only 72,000 U.S. Beef Cattle Operations have a Herd Size of Over 100 Head

Since 1996, Approx. 158,680 Beef Cattle Operations have Exited the Industry at a Rate-of-Loss of 11,334 Operations Per Year.

Four Mega-Packers Slaughter Approx. 85% of All U.S. Fed Cattle

2,140 Large Feedlots Fed Approx. 87% of All Fed Cattle in 2010, up from 85% in 2008.

75,000 Farmer Feeders in 2010 (Reduced from 85,000 in 2007) These Smaller Feeders Fed Approx. 13% of All Fed Cattle in 2010, down from 15% in 2008.
No. 2: Shrinking Number of Cattle Feeders

Decline in Numbers of U.S. Feedlots
1996-2010
35,000 Farmer-Feeders Exited the Industry During Past 14 Years

Source: USDA-NASS, Various Cattle on Feed Reports

R-CALF USA
No. 3: Shrinking Number of Livestock Operations

Loss of U.S. Livestock Operations 1980-2010

<table>
<thead>
<tr>
<th>Type of Livestock Operations</th>
<th>1980</th>
<th>2010</th>
<th>&gt;100 Hd</th>
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<tr>
<td>Beef Cattle</td>
<td>1,272,950</td>
<td>742,000</td>
<td>72,000</td>
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<tr>
<td>Swine</td>
<td>667,000</td>
<td>60,460</td>
<td>12,060</td>
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<tr>
<td>Diary</td>
<td>335,270</td>
<td>62,500</td>
<td>16,000</td>
</tr>
<tr>
<td>Sheep</td>
<td>120,000</td>
<td>81,000</td>
<td>5,022</td>
</tr>
</tbody>
</table>

Source: USDA-NASS

42% Loss
91% Loss
81% Loss
32% Loss

R-CALF USA
Beef Cattle Operations Exiting Cattle Industry at an Alarming Rate

Exodus of U.S. Beef Cattle Operations 1996-2010

Source: USDA-NASS R-CALF USA
No. 4: Disrupted Cattle Cycle and Shrinking Herd

Total U.S. Cattle Inventory and Beef Cow Inventory, January 1

Source: USDA-NASS

- Start 4-Year Liquidation
- Start 8-Year Liquidation
- Start 14-Year Liquidation
No. 5: Domestic Production Remains Stagnant

U.S. Beef Cow Herd vs Total Beef Production and Beef Produced from U.S. Cattle

Source: USDA ERS and NASS

R-CALF USA
No. 6: Shrinking Industry & Stagnant Production in Face of Growing Beef Consumption

Domestic Consumption in Excess of Domestic Production
1962-2010

Beef Produced Exclusively from Cattle Born and Raised in the United States

Imported Beef and Beef from Imported Cattle

Consumption Increases after 1993

Widest spread in history of industry, 2004-2007

Total Domestic Beef Consumption

Source: USDA FAS, ERS

R-CALF USA
No. 7: Shrinking Industry Losing Its Share of Total Available Beef Supply

Origins of the United States' Beef Supply

- 10% of All Available Beef was Imported in 1985
- 13% of All Available Beef was Imported in 1996
- 14% of All Available Beef was Imported in 2010

Total Available Beef in U.S. Market

Beef produced exclusively from cattle born and raised in the United States

Data Source: USDA-ERS

R-CALF USA
No. 8: Producers Losing Their Share of Consumer’s Beef Dollar

U.S. Cattle Producer’s Share of Consumer’s Beef Dollar
1980-2010

Source: USDA-ERS

R-CALF USA
No. 9: Marketplace Exploiting Producers and Consumers

CONSUMERS’ RETAIL BEEF PRICES COMPARED TO CATTLE PRICES
JAN. 1980-Dec 2010

Source: USDA-ERS

Net Farm Value (Cattle)  Retail Beef Prices  R-CALF USA
No. 10: Disconnect Between Cattle Prices and Beef Prices
No. 11: Cattle Prices Fall When Exports Reach Record Levels
No. 12: Cattle Prices Disassociate with Beef Demand

Relationship Between Beef Demand and Fed Cattle Prices

Beef Demand Declined in 18 of Past 24 Years

Source for Cattle Prices: USDA-ERS
Source for Beef Demand: KSU

Choice Retail Beef Demand Index (1980=100)

Fed Cattle Prices (per cwt.)

R-CALF USA
No. 13: Systemic, Below Cost-of-Production Prices for U.S. Cow/Calf Industry

U.S. Cow-Calf Returns Per Bred Cow

- Returns based only on operating costs
- Returns based on total costs

Source: U.S. cow-calf production costs and returns per bred cow, USDA-ERS

Operating costs do not include: Hired labor, Opportunity cost of unpaid labor, Capitol recovery, costs of equipment, Opportunity costs of land, Taxes and insurance or General farm overhead

R-CALF USA
No. 14: Long-Run Negative Return On Equity for U.S. Cattle Industry

Past Six-Year Average Return on Equity

The New GIPSA Rule

- Prevents packers from engaging in unfair, unjustly discriminatory, or deceptive practices that can eliminate cattle feeders one cattle feeder at a time, or small groups of cattle feeders at a time.

- Ensures that GIPSA has the records needed to determine if packers are engaging in the unlawful practices enumerated in the Packers and Stockyards Act.

- Ensures packers are not engaged in giving undue or unreasonable preferences or advantages to some cattle feeders while imposing undue or unreasonable prejudice or disadvantages to other cattle producers.

- Improves transparency in the fed cattle market.

- Prohibits packers from obtaining their livestock supply needs from other packers and from reducing competitive bidding for cattle.
The GIPSA Competition Rule Addresses Four Affronts to Competition

• Lack of accountability on the part of dominant market participants (packers).

• Lack of documentation with which to enforce existing laws.

• Lack of transparency in cattle procurement methods.

• Inattention to ongoing anticompetitive practices.
The GIPSA Competition Rule:

- Ends the secret, sweetheart deals that packers give to select feedlots, such as agreeing to pay a cost-plus price for cattle, for example, rather than to negotiate an actual price.

- Holds packers accountable for their buying practices to ensure they are not breaking the law (the law in this case is the Packers and Stockyards Act of 1921).

- Requires packers to be transparent in their buying practices so cattle feeders can make informed choices regarding which of the packers is most likely to pay the best price for the type of cattle the feeder is selling.

- Responses to False Claims:
  - The Proposed Rule will not cause packers to abandon marketing alliances or marketing agreements.
  - The Proposed Rule will not result in the public disclosure of confidential information.
  - The Proposed Rule will not create a boon for trial lawyers unless packers choose to engage in unlawful practices prohibited under the Packers and Stockyards Act.
Regulatory Requirements

1. Packers “must maintain written records that provide justification for differential pricing or any deviation from standard price or contract terms offered to . . . livestock producers.”

2. Packers, when “[p]aying a premium or applying a discount on the . . . livestock purchase price received by the livestock producer from the sale of livestock . . .” must document the reason(s) and substantiate the revenue and cost justification associated with the premium or discount.

3. Packers must not grant any undue or unreasonable preferences or advantage (which is an express prohibition contained in the P&S Act. To determine compliance with this statutory prohibition, the Proposed GIPSA Rule provides that the Secretary of Agriculture may consider:
   i) “Whether contract terms based on number, volume or other condition, or contracts with price determined in whole or in part by the volume of livestock sold are made available to all . . . livestock producers . . . who individually or collectively meet the conditions set by the contract.”
   ii) “Whether price premiums based on standards for product quality, time of delivery and production methods are offered in a manner that does not discriminate against a producer or group of producers that can meet the same standards.”
   iii) “Whether information regarding acquiring, handling, processing, and quality of livestock is disclosed to all producers when it is disclosed to one or more producers.

4. Packers must submit a sample copy of each unique type of contract or agreement used to procure cattle (including forward contracts, formula contracts, production contracts or other marketing agreements) to GIPSA. GIPSA may post these sample contracts on the Web but sample contracts with “[p]rovisions containing trade secrets, confidential business information and personally identifiable information will not be made public.”