Fighting for the U.S. Cattle Producer!

R-CALF USA

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

National Breakdown by Purchase Type

	2005	2006	2007	2008	2009	2010
Cash	52.1%	49.4%	47.3%	42.6%	38.8%	37.4%
Formula	33.2%	34.3%	37.4%	39.1%	43.7%	43.1%
Forward Contract	4.8%	7.2%	6.8%	11.2%	9.5%	11.9%
Negotiated Grid	9.9%	9.0%	8.5%	7.1%	8.0%	7.6%

TX-OK-NM Market Below 22%
Colorado Cash Market Below 20%

Texas-Oklahoma-New Mexico Breakdown of Volume by Purchase Type

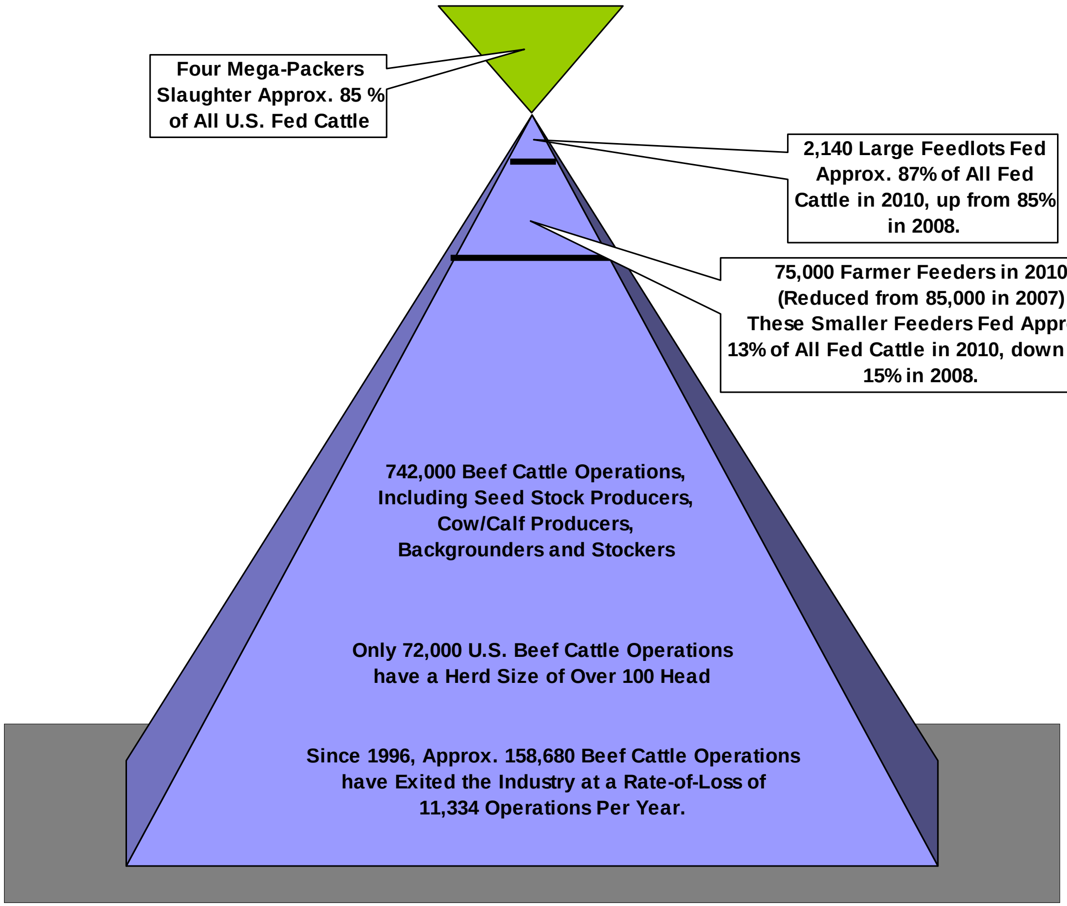
	2005	2006	2007	2008	2009	2010
Cash	47.2%	42.5%	36.7%	31.5%	26.1%	21.5%
Formula	42.2%	42.2%	48.4%	53.3%	60.7%	66.9%
Forward Contract	3.1%	5.0%	4.4%	5.8%	5.4%	4.9%
Negotiated Grid	7.5%	10.3%	10.5%	9.3%	7.8%	6.7%

Colorado Breakdown of Volume by Purchase Type

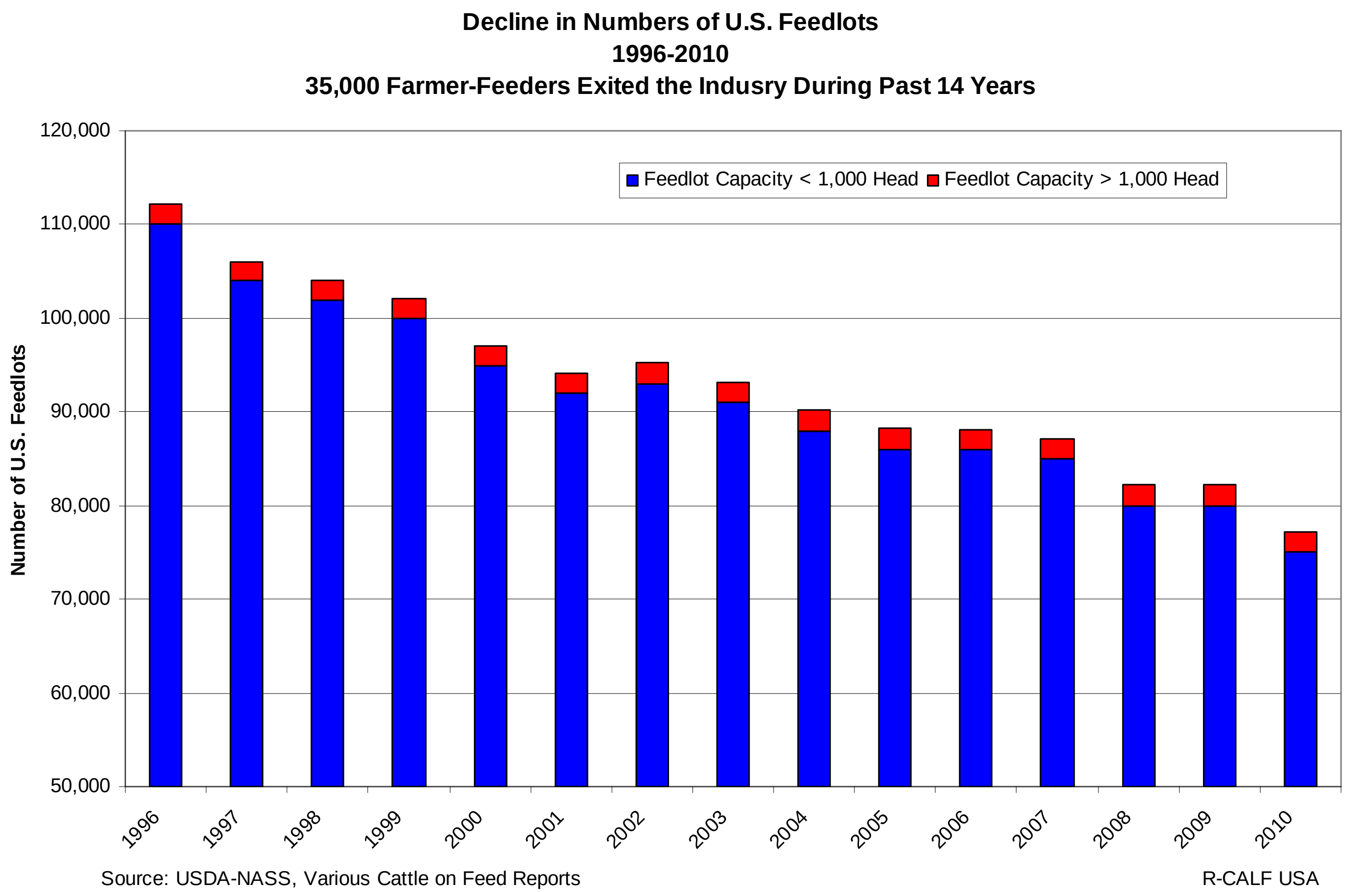
	2005	2006	2007	2008	2009	2010
Cash	51.7%	40.6%	39.5%	28.5%	28.8%	19.7%
Formula	30.1%	46.6%	46.2%	54.4%	57.8%	63.9%
Forward Contract	8.6%	7.3%	7.5%	13.3%	10.5%	14.4%
Negotiated Grid	9.5%	5.3%	6.6%	3.8%	2.7%	1.9%

The Meatpackers' Strategy Is Causing Severe Market Failure in the U.S. Cattle Industry

No. 1: Precarious Structure of U.S. Beef Cattle Industry

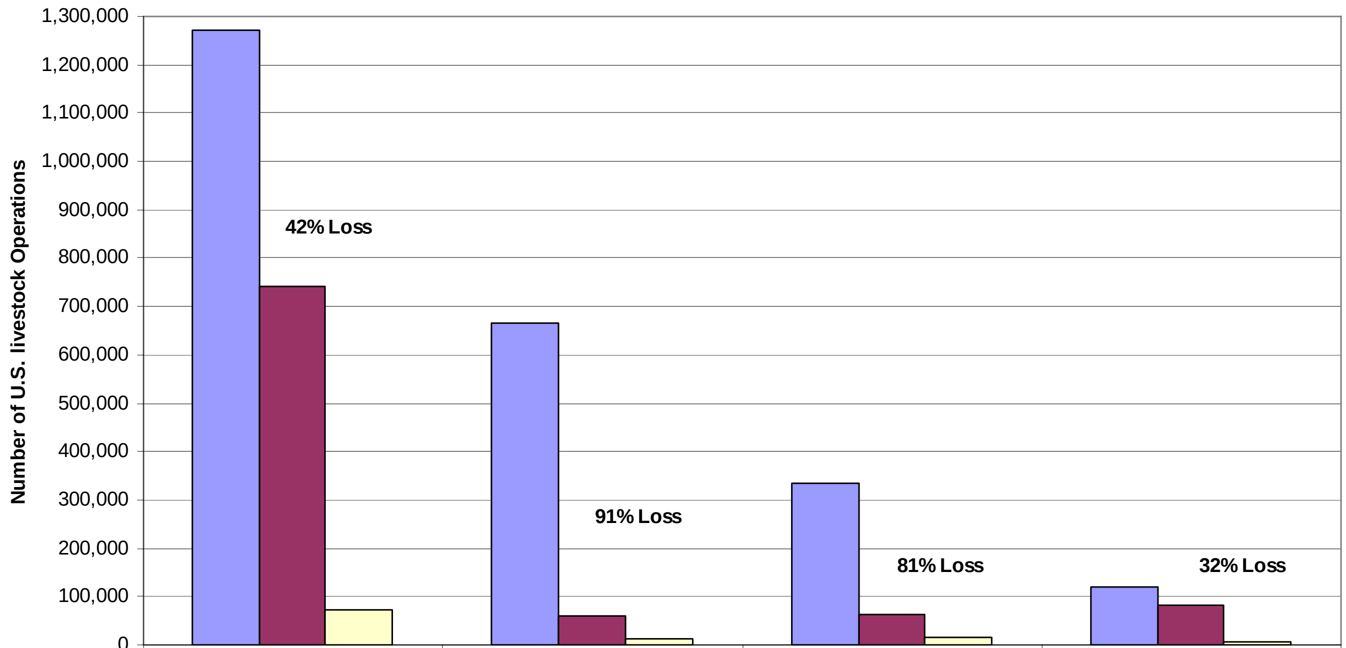


No. 2: Shrinking Number of Cattle Feeders



No. 3: Shrinking Number of Livestock Operations

Loss of U.S. Livestock Operations 1980-2010



	Beef Cattle	Swine	Diary	Sheep
1980	1,272,950	667,000	335,270	120,000
2010	742,000	60,460	62,500	81,000
>100 Hd	72,000	12,060	16,000	5,022

Type of Livestock Operations

Source: USDA-NASS

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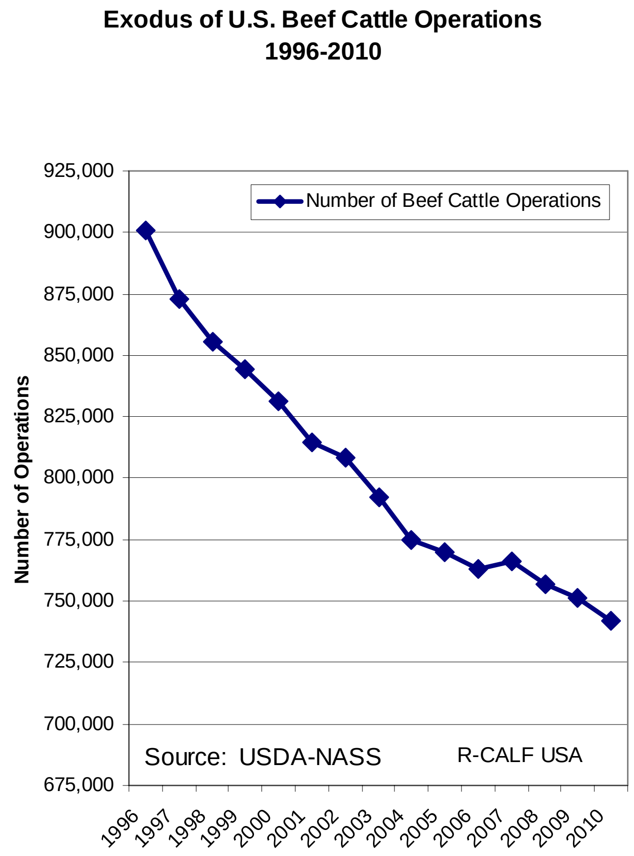
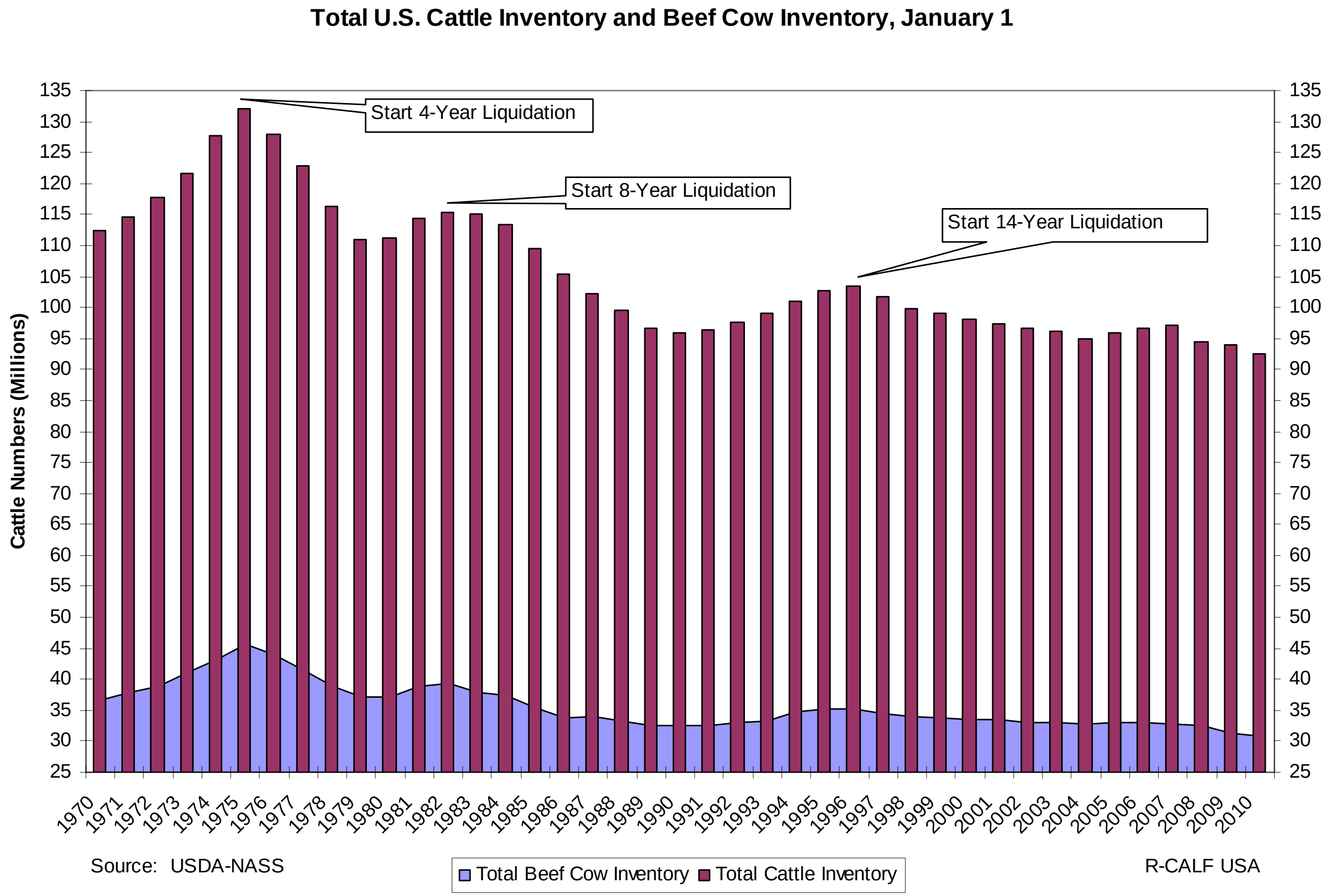
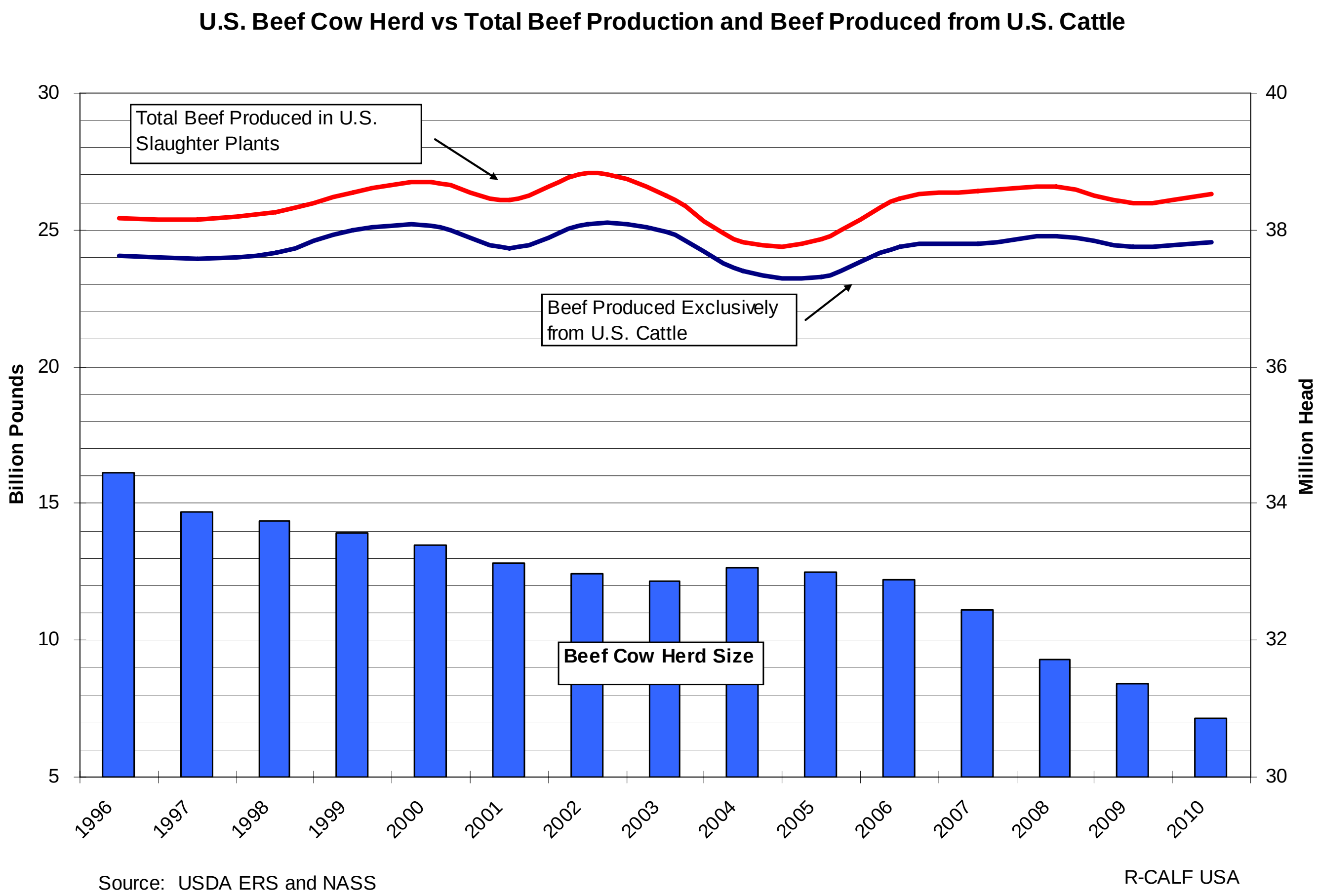
Beef Cattle Operations Exiting Cattle Industry at an Alarming Rate



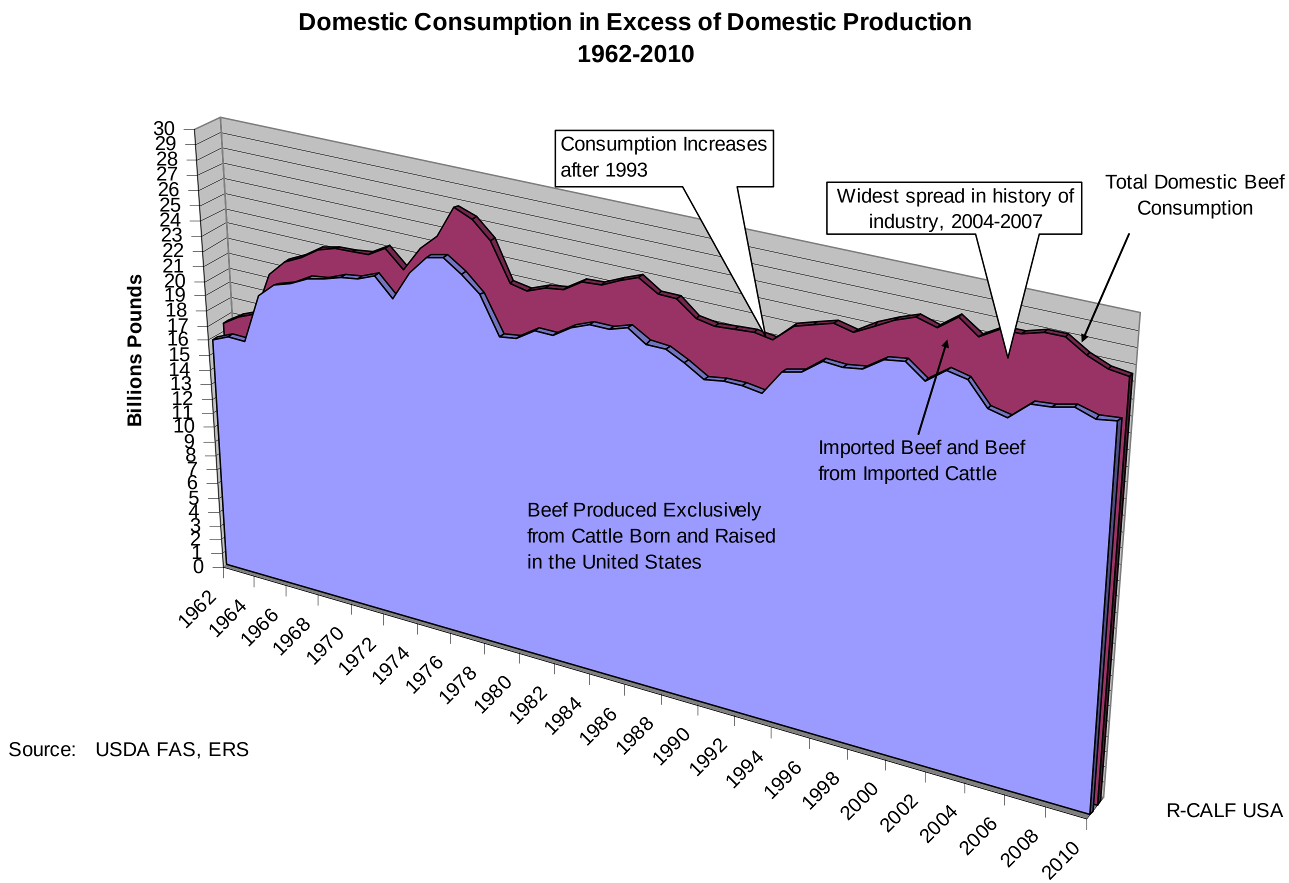
No. 4: Disrupted Cattle Cycle and Shrinking Herd



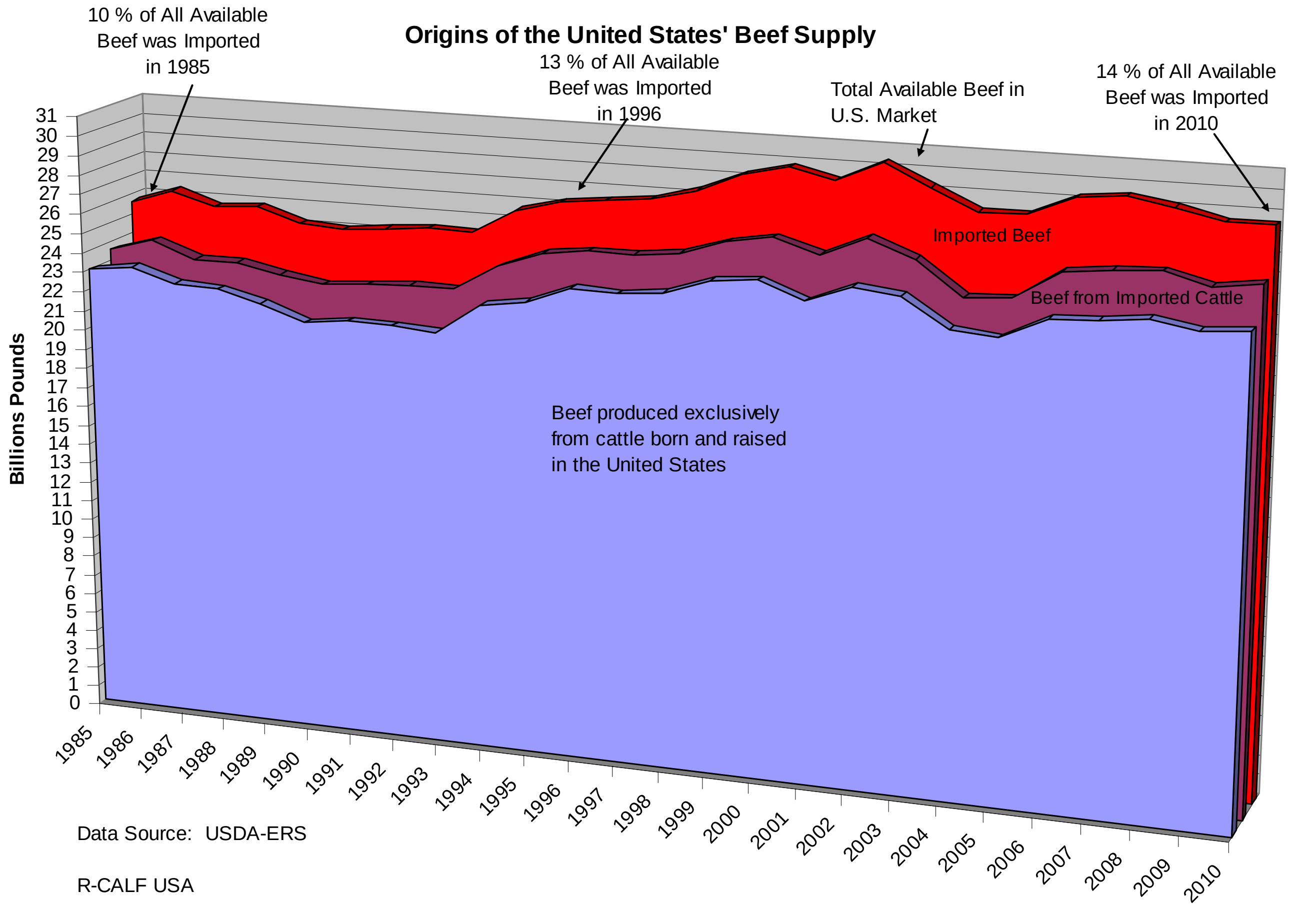
No. 5: Domestic Production Remains Stagnant



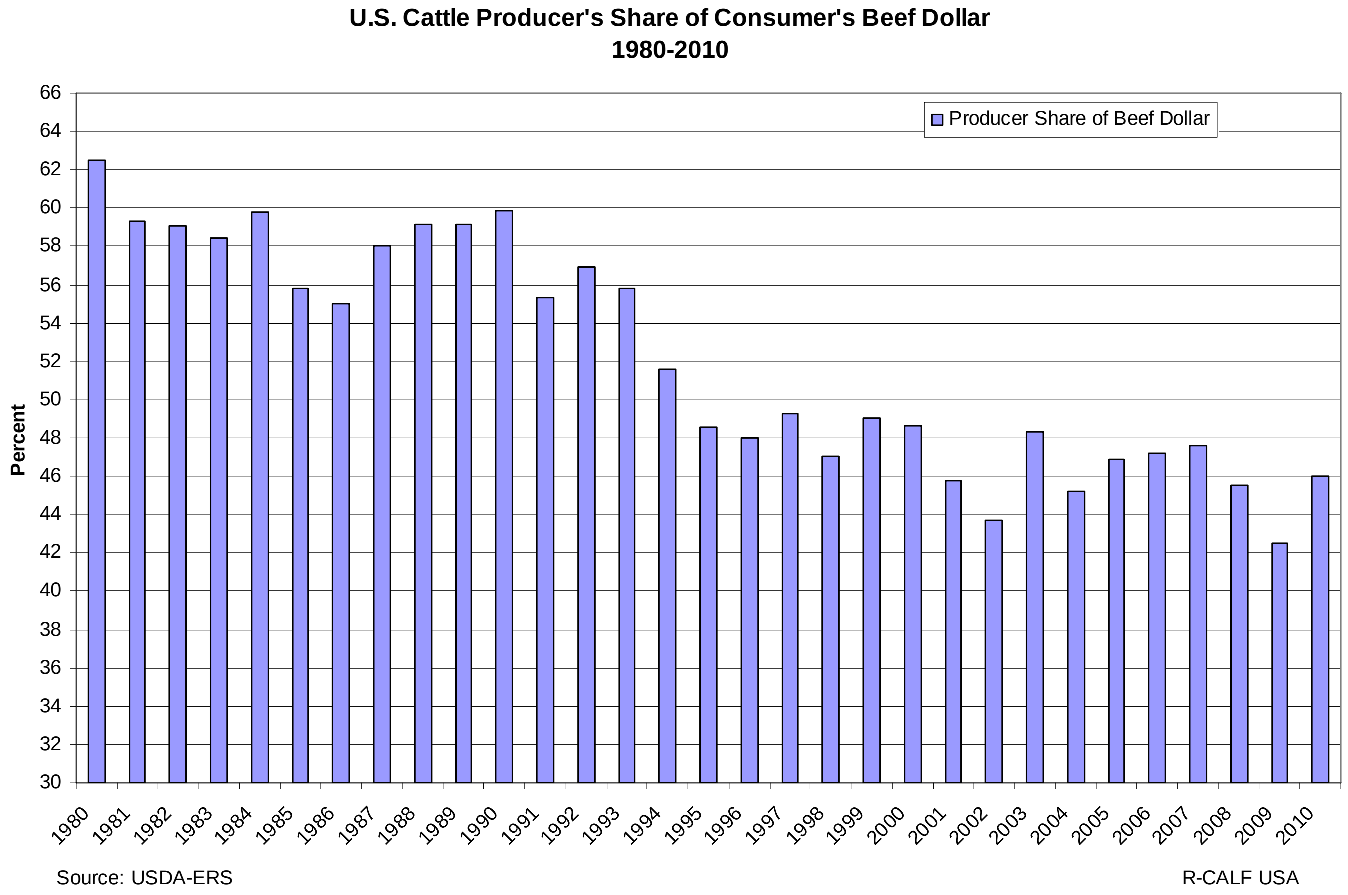
No. 6: Shrinking Industry & Stagnant Production in Face of Growing Beef Consumption



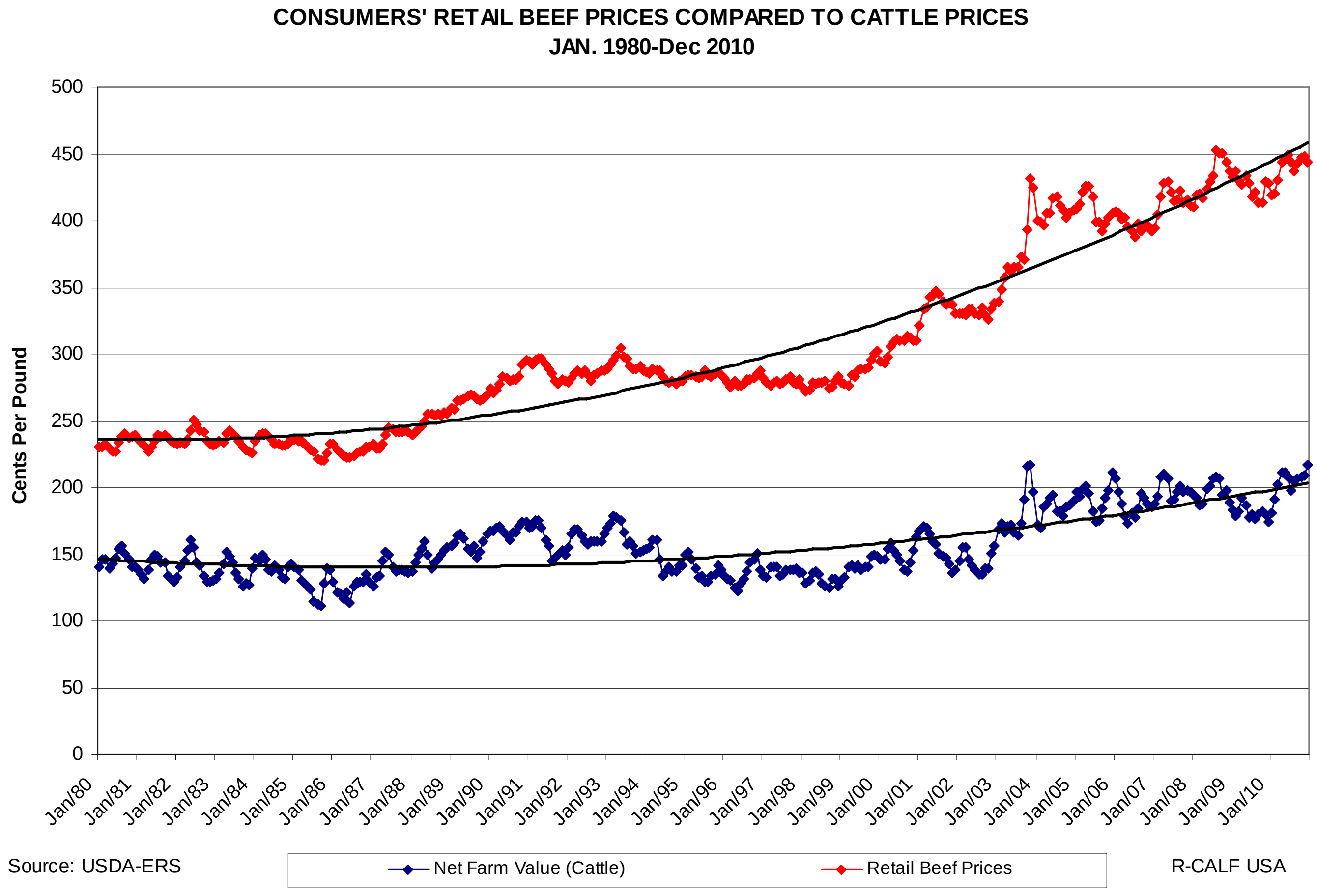
No. 7: Shrinking Industry Losing Its Share of Total Available Beef Supply



No. 8: Producers Losing Their Share of Consumer's Beef Dollar

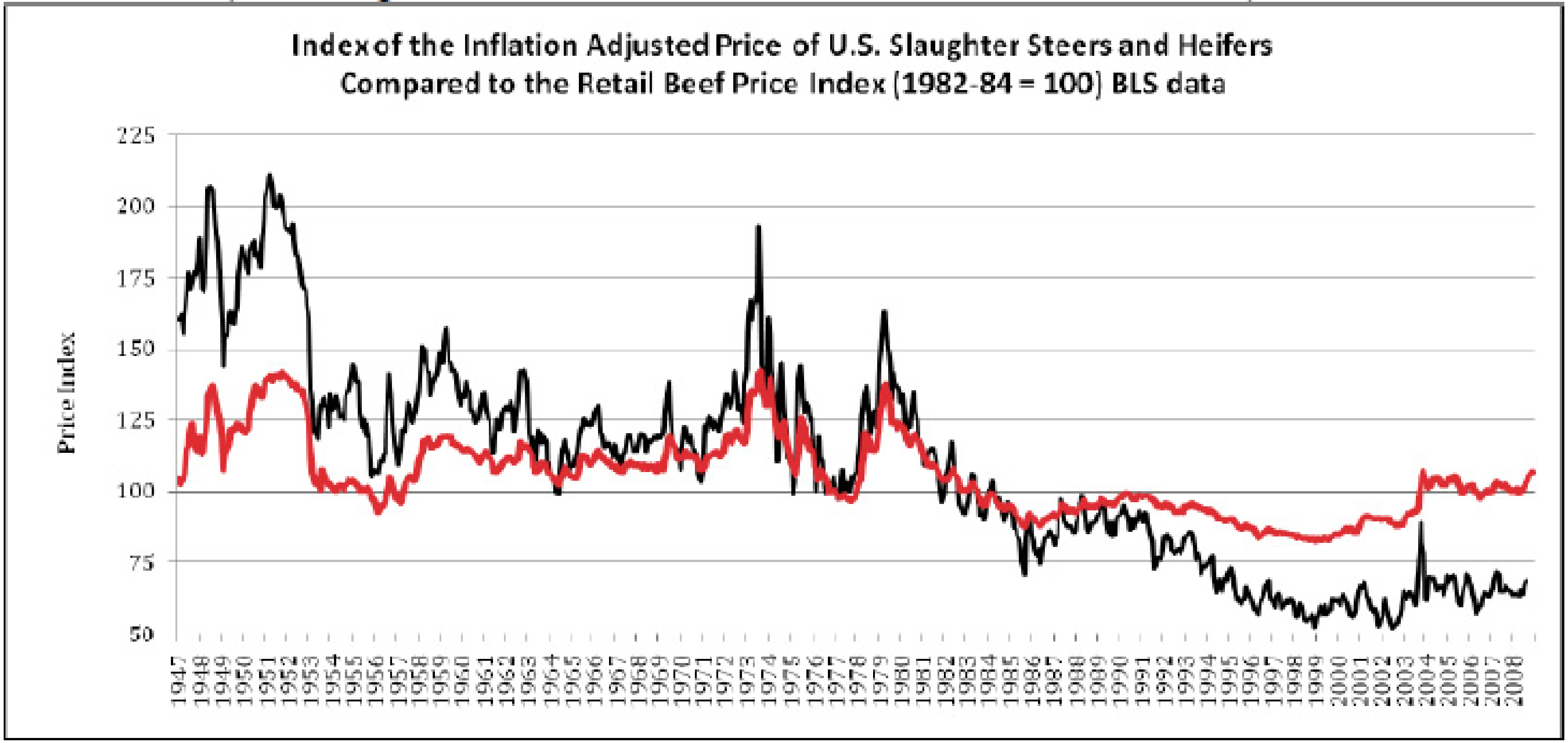


No. 9: Marketplace Exploiting Producers and Consumers

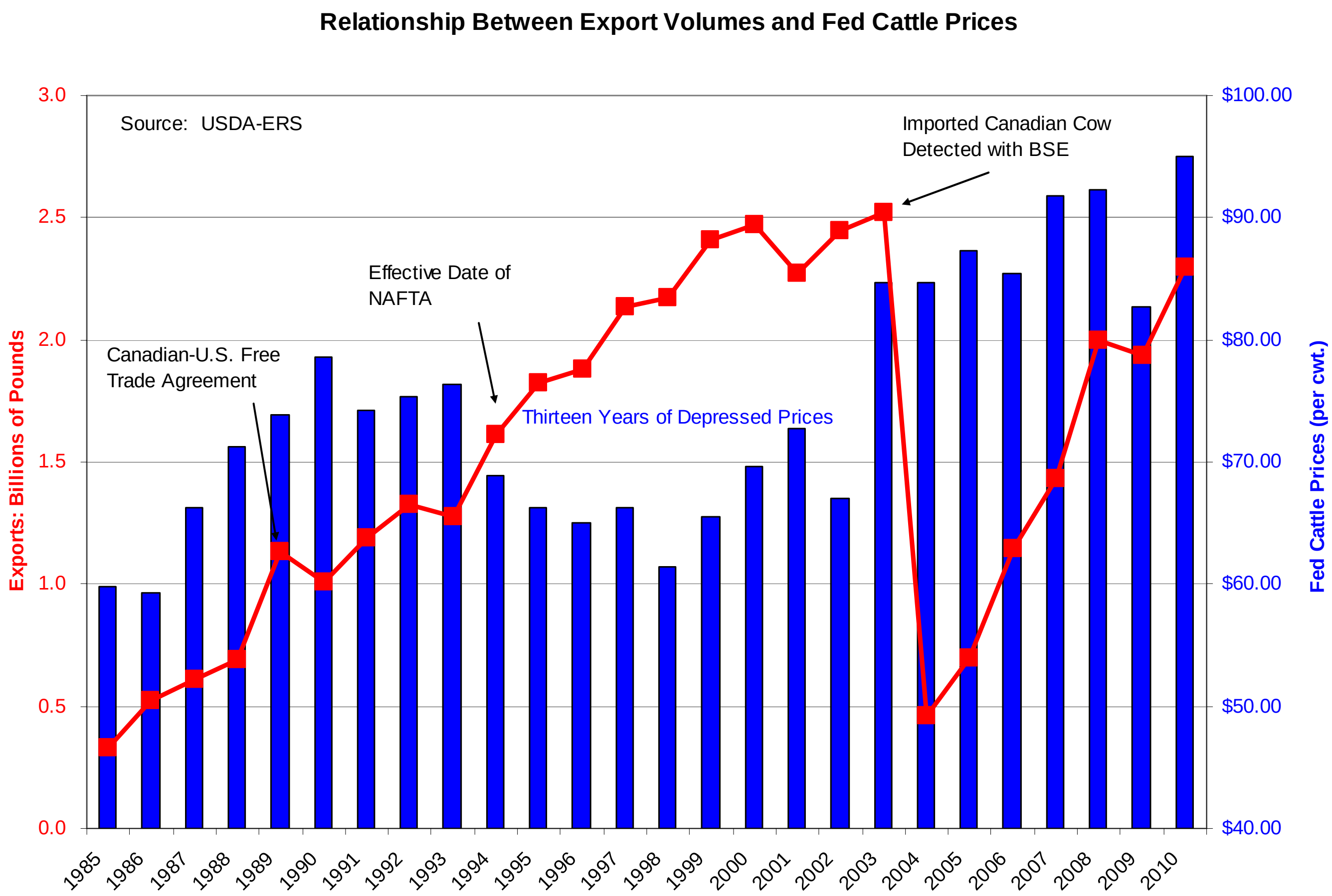


No. 10: Disconnect Between Cattle Prices and Beef Prices

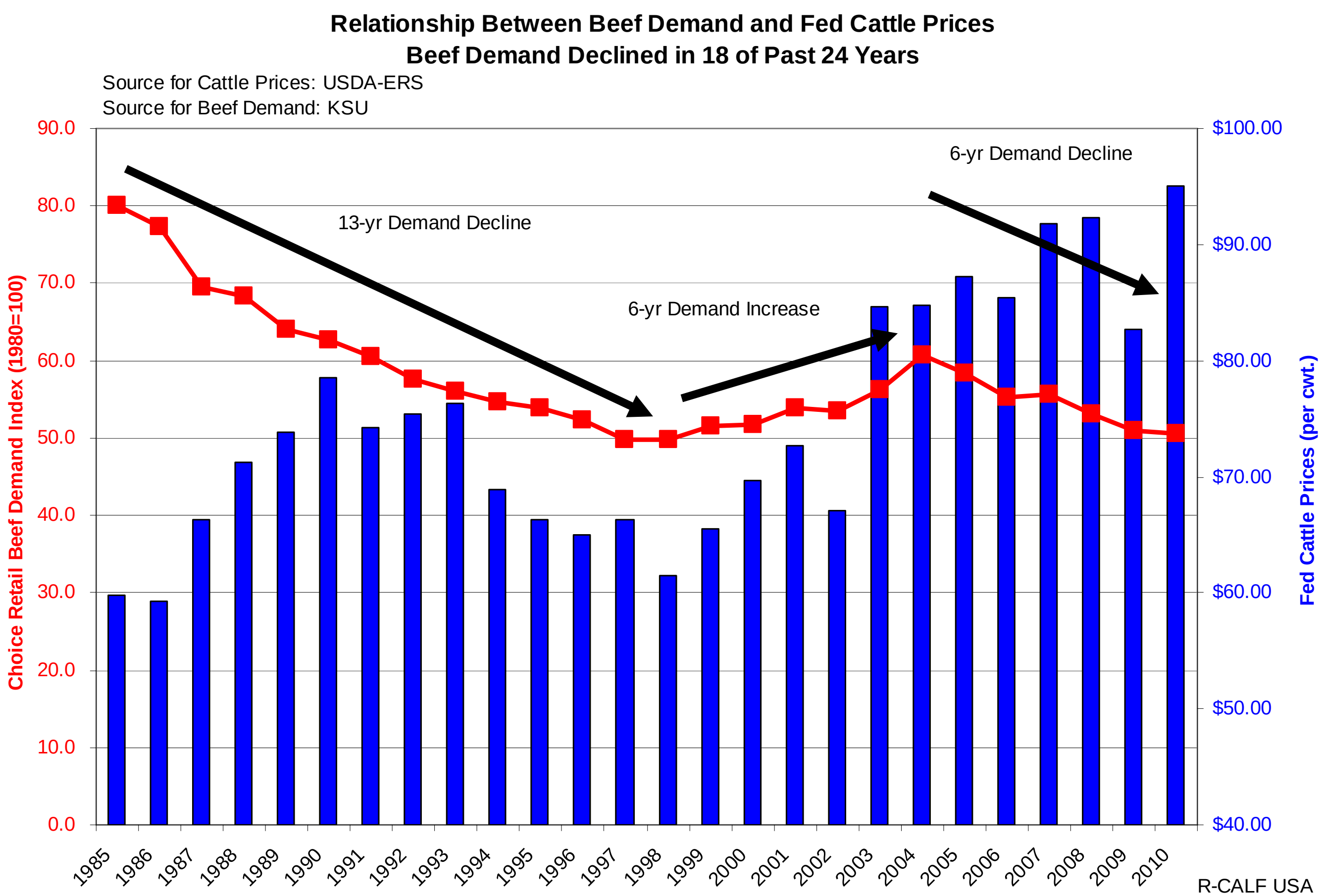
CHART 21: (Chart Legend: Black Line-Cattle Prices, Red Line-Beef Prices)



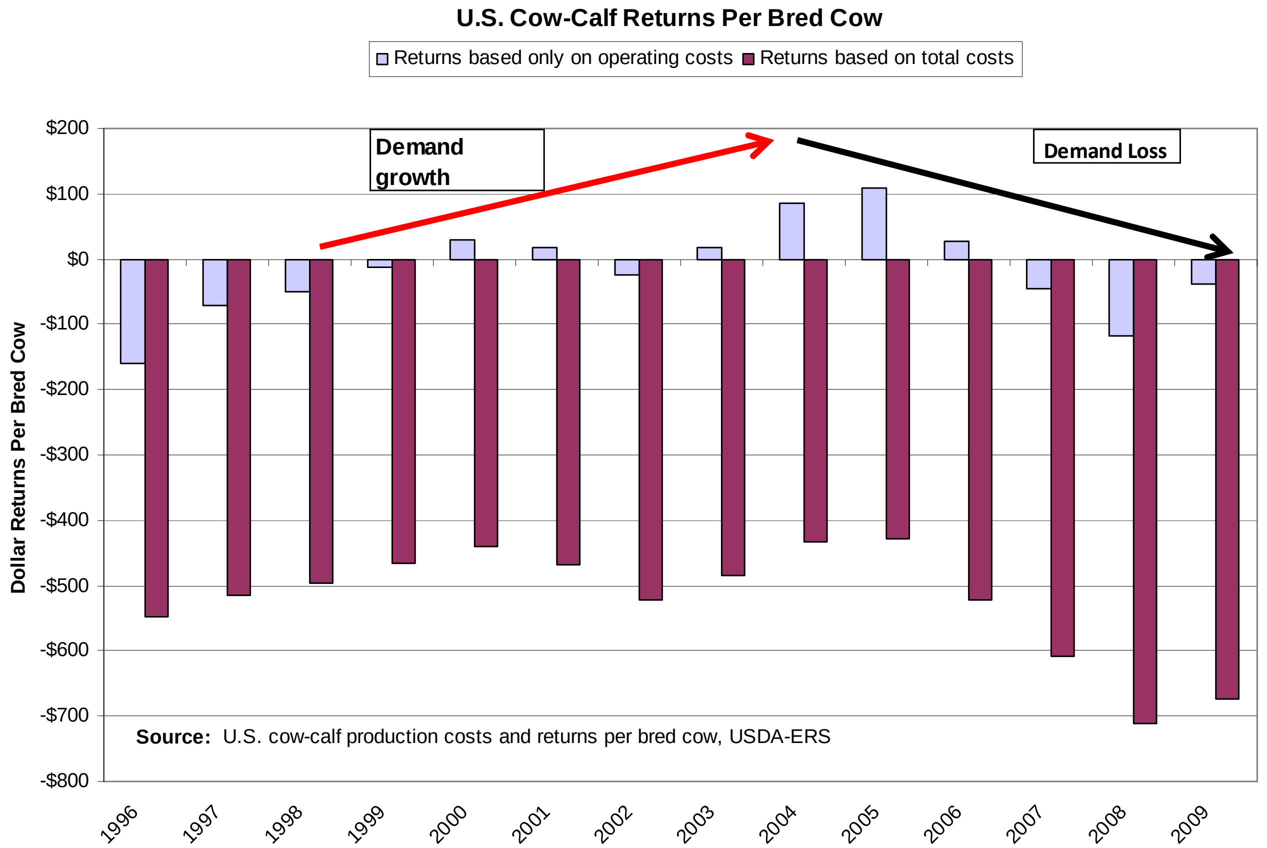
No. 11: Cattle Prices Fall When Exports Reach Record Levels



No. 12: Cattle Prices Disassociate with Beef Demand



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



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

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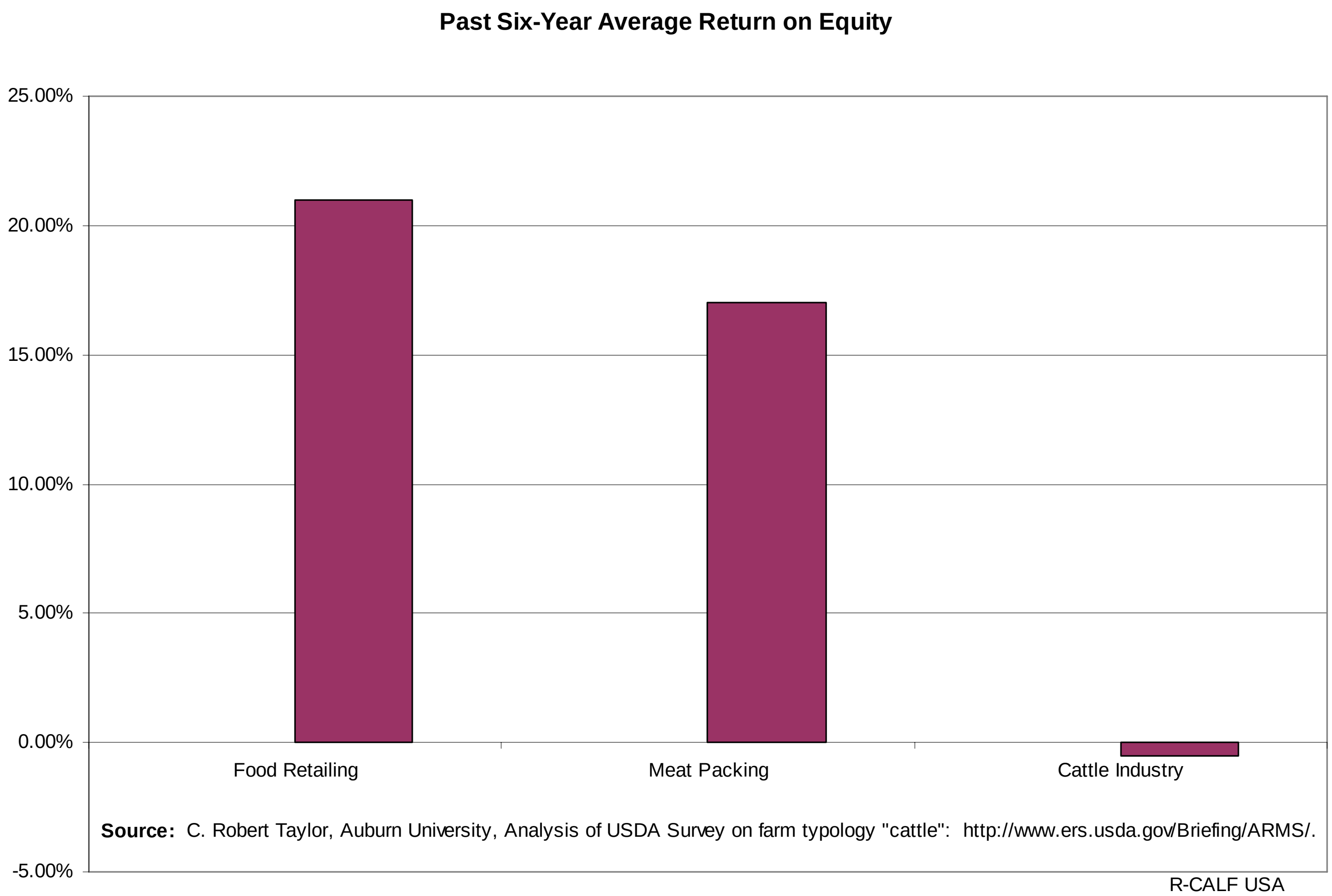
No. 14: Long-Run Negative Return On Equity for U.S. Cattle Industry



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."