Fighting for the U.S. Cattle Producer!

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R-CALF USA Overview of International Trade and the U.S. Cattle and Beef Industries

Presented by
Bill Bullard
CEO, R-CALF USA
January 7, 2009

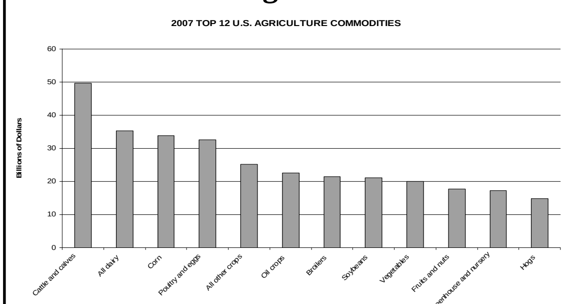
I. Trade Policy Must Distinguish the U.S. Cattle Industry From the U.S. Beef Industry

A. The U.S. Cattle Industry is Highly Sensitive to Imports

First, What is the U.S. Cattle Industry?

- Single Largest Segment of American Agriculture
- 11 states each generate over $1 billion annually in the sale of cattle and calves, with these 11 states generating over $36 billion.
- Only a portion of the $50 billion in annual cattle sales is sold to the U.S. beef industry.
- Consists of 967,000 cattle operations (including dairy) in all 50 states that raise and sell live cattle. 750,000 are beef cattle operations and fewer than 78,000 beef cattle operations have a herd size of over 100 head.
- Consists of seed stock producers who raise and sell breeding stock, cow/calf producers who raise and sell calves, backgrounders and feeders who grow calves until they are ready for feeding, and feedlot operators who feed cattle until ready for slaughter.
- The cattle industry is highly sensitive to supply increases.
- Fundamentally wrong to view the beef industry as a representative of the interests of the "cattle industry."

Cattle Industry is Largest Sector of U.S. Agriculture



Source: USDA-Economic Research Service, Farm Income

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

• Texas	$7.6	• S. Dakota	$1.8
• Nebraska	$7.1	• California	$1.8
• Kansas	$6.3	• Missouri	$1.2
• Colorado	$3.2	• Idaho	$1.1
• Oklahoma	$2.5	• Minnesota	$1.0
• Iowa	$2.7		
		• 2007 Total:	$36.3

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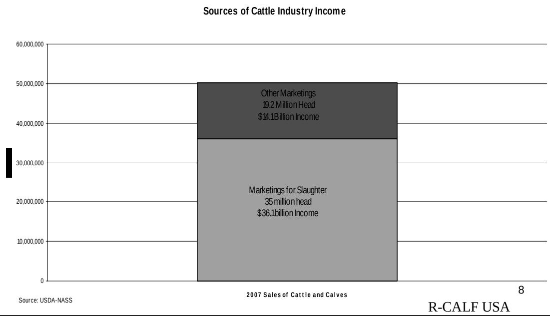
Beef Industry Purchases Only a Portion of Annual Cattle Marketings



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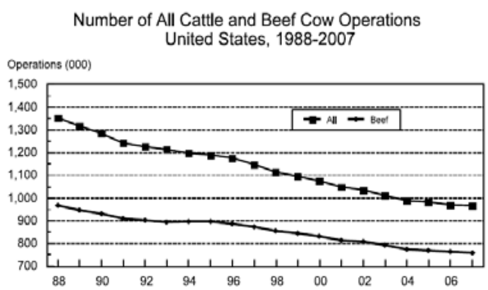
U.S. Cattle Industry is Shrinking



Source: USDA-NASS

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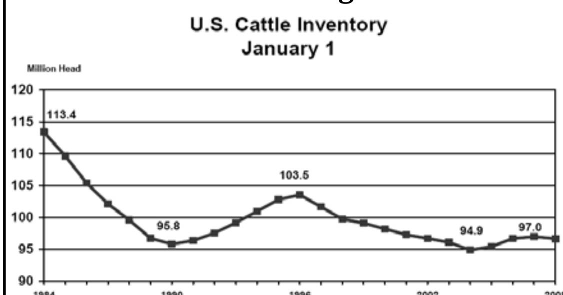
The Size of the U.S. Cattle Herd is Shrinking



Source: USDA-NASS

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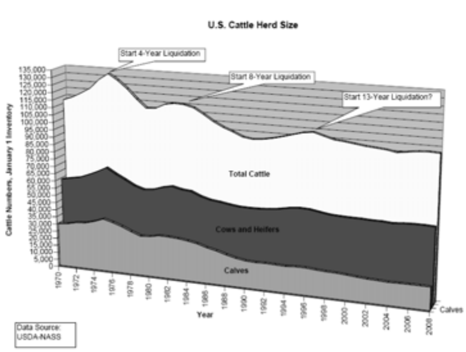

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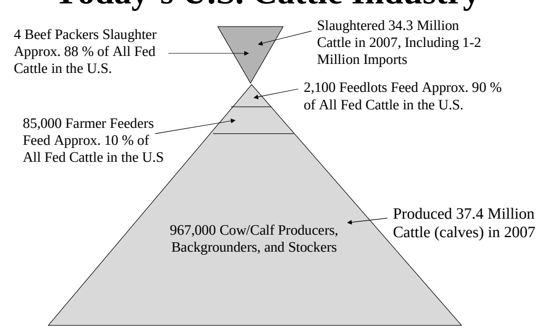
Today's U.S. Cattle Industry



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U.S. Cattle Industry is Highly Sensitive to Changes in Imported Cattle Supplies

- 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 imports of live cattle.
- 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."

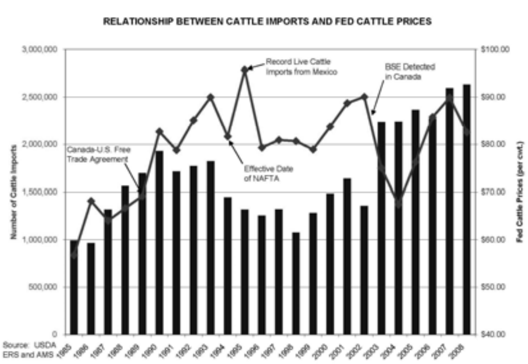
  U.S.-Australia Free Trade Agreement: Potential Economywide and Selected Sectoral Effects, United States International Trade Commission (Publication 3697; May 2004) at 44, fn 26, available at http://hotdocs.usitc.gov/docs/pubs/2104f/pub3697.pdf.

A 2 Percent Price Decrease Following a 1 Percent Supply Increase is Significant

For the 87,160 feedlots remaining in the U.S. in 2007 that market 26.2 million cattle in a hypothetical $90 cattle market, a 2 % price decrease would translates into a loss to the U.S. cattle industry of:

26.2 million hd. X 1,250 pounds X $.90 = $ 29.5 billion

Less: 2 % = $590 million



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B. The U.S. Beef Industry's Focus Is On Exports

What is the U.S. Beef Industry?

- The U.S. beef industry consists of beef packers and beef processors that are classified under the 2007 North American Industry Classification System (NAICS) as Food Manufacturers.
- As manufacturers, the economic interests of the beef industry are distinct from the economic interests of the U.S. cattle industry.
- The beef industry buys slaughter-ready cattle; the cattle industry sells slaughter-ready cattle.

The Beef Industry is Excessively Concentrated

- In 2001, Oklahoma State University Economist Clement Ward found that the concentration levels in the U.S. meatpacking industry were already among the highest of any industry in the United States, "and well above levels generally considered to elicit non-competitive behavior and result in adverse economic performance."[1] At that time, the four largest meatpackers controlled over 80 percent of U.S. steer and heifer slaughter.
- Notwithstanding the fact that this conclusion strongly suggests that no additional concentration should have been allowed, in October 2008 the U.S. Department of Justice allowed the 3rd largest U.S. beef packer – Brazilian-owned JBS, to acquire the nation's 5th largest beef packer – Smithfield Beef Group, which raised the four-firm concentration ratio to an unprecedented level of approximately 88 percent.
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[1] *A Review of Causes for and Consequences of Economic Concentration in the U.S. Meatpacking Industry, Clement E. Ward, Current Agriculture Food and Resource Issues, 2001, at 1.*

Current Trade Policies Reflect the Interests of the Beef Industry, Not the Cattle Industry

- No protections against import surges to reflect cattle industry's extreme sensitivity to increases in cattle imports.
- No quantity and price safeguards for both beef and live cattle.
- No acknowledgement that beef and cattle are like/kind products.
- No consideration for the perishable nature of both beef and cattle.
- No consideration for fact that beef is imported in two distinct forms: pre-slaughtered beef (live cattle) and post-slaughtered beef (beef).
- Foreign countries are granted access to the U.S. market before the U.S. is allowed access to foreign markets.
- Rules of Origin have not been reformed to require beef imports to be derived from cattle born raised and slaughtered in the participating country, resulting in transhipments of cattle from non-participating countries into participating countries.
- Rather than require importing countries to meet U.S. health and safety standards, the U.S. has systematically relaxed standards to facilitate more imports.
- Imported livestock are not required to be permanently marked with a mark of origin to aid in foreign animal disease trace-backs after importation (U.S. Department of Treasury's "J-List").
- No action to correct currency manipulation by trading partners that have taken action to under-value their currencies vis-à-vis the U.S. dollar to gain an unjust trading advantage.
- Cattle industry vulnerable to any country that decides to increase production to penetrate our U.S. market, and vulnerable to any beef packer that decides to import into the U.S. more cattle and beef to drive down domestic prices.

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II. The U.S. Cattle Industry Suffers From a Substantial, Long-Run Trade Deficit

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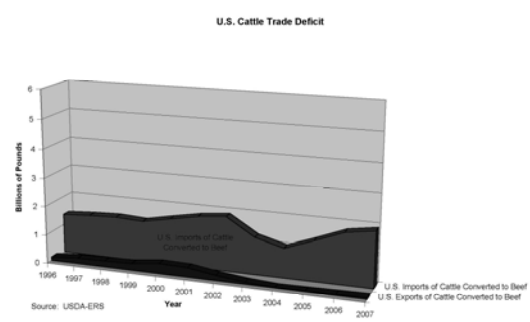

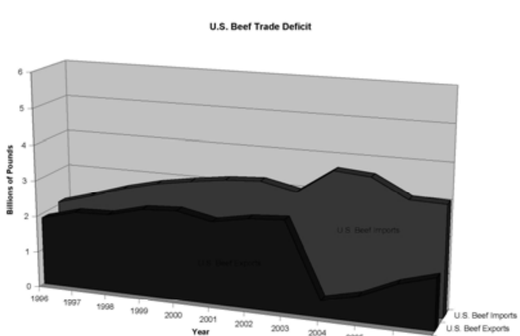

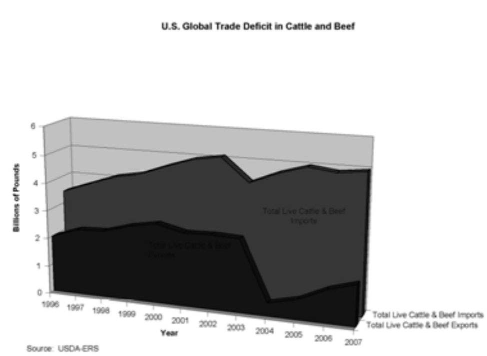

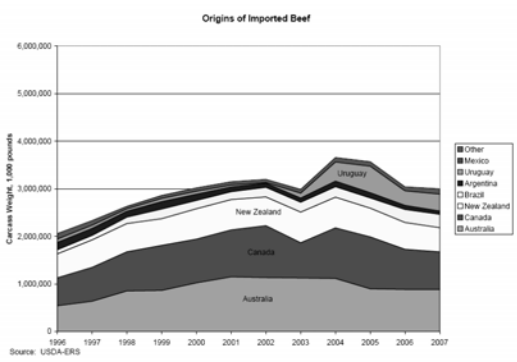

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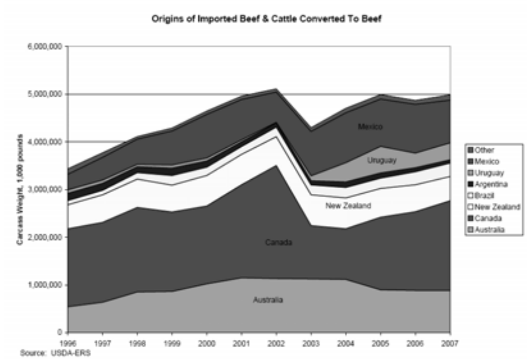

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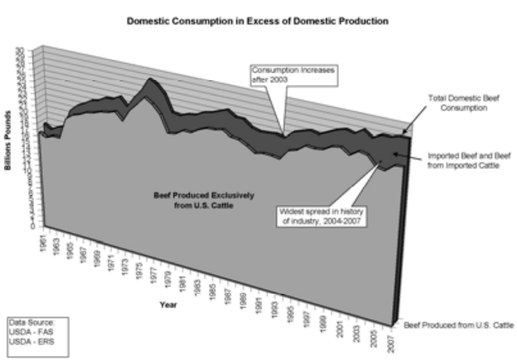

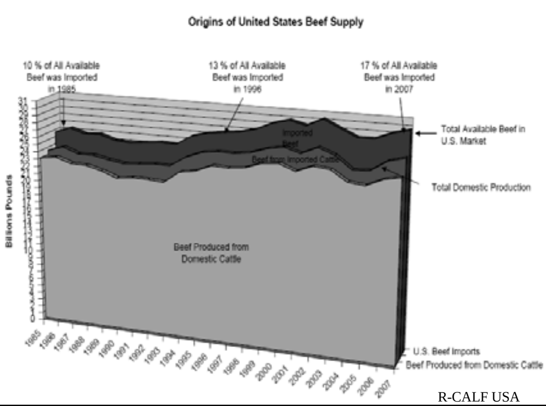

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Changes in Trade Flows that Cause Small Impacts on Prices Have a Profound Effect on the Profitability and Viability of U.S. Cattle Producers

- "[E]ven seemingly small impacts on a $/cwt. basis may make substantial difference to livestock producers and rival meatpacking firms operating at the margin of remaining viable or being forced to exit an industry." [1]

[1] *A Review of Causes for and Consequences of Economic Concentration in the U.S. Meatpacking Industry, Clement E. Ward, Current Agriculture Food and Resource Issues, 2001, at 2.*

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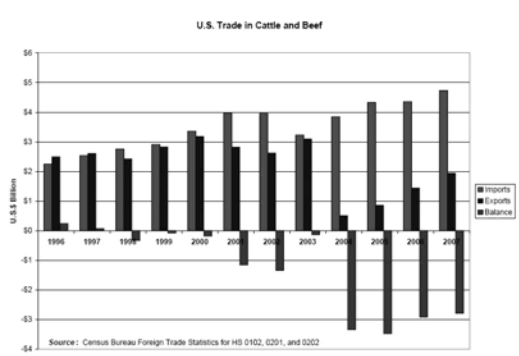

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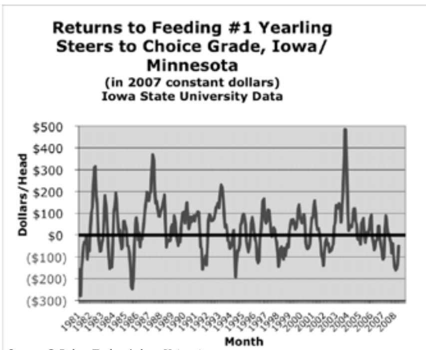

Source: C. Robert Taylor, Auburn University

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Why Cattle Industry is Highly Sensitive to Price Changes

- 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.
- Competition for raw products, e.g., cattle, is inherently less intense than is competition for processed food products.
- Marginal transparency in cattle markets.
- Packers have superior marketing information, particularly those with substantial captive supply arrangements, which include imported cattle.

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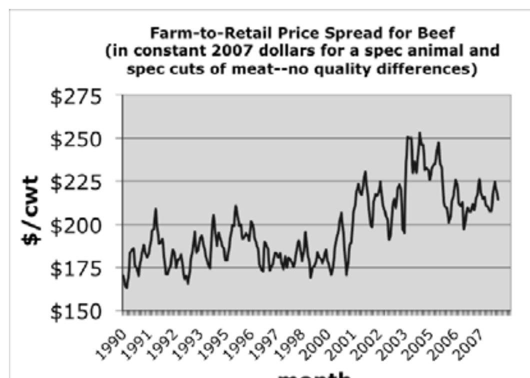

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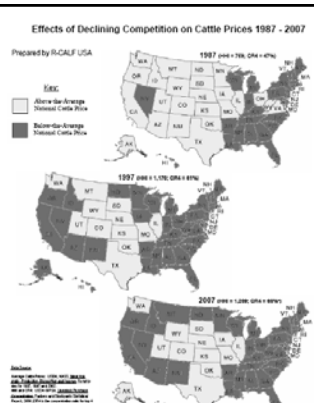

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III. Trade Policies of Past 15 Years Have Failed the U.S. Cattle Industry and Must be Fundamentally Reformed

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GOAL FOR FUTURE TRADE POLICY

- **International Trade Policy Must Facilitate the Restoration and Rebuilding of the Contracted U.S. Cattle Industry.**

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Trade Strategy for Rebuilding the U.S. Cattle Industry

- **Achieve an Equitable Balance Between the Interests of the Cattle Industry and the Interests of the Beef Industry.**

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Specific Trade Policy Reforms Needed

1. Specifically Assess Trade Impacts on the Cattle Industry:

- Cattle producers are the sector most likely to experience income, output and employment losses due to ongoing liberalization of U.S. beef imports.
- The U.S. should employ a partial equilibrium model, explicitly evaluate the likely impact of beef trade liberalization on upstream cattle producers, and take into account the market concentration and contracting practices in the meat packing industry, as well as the perishable nature of live cattle, in making its assessment.

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Specific Trade Policy Reforms Needed

2. Address Global Market Distortions that Disadvantage U.S. Cattle Producers:

- Tariffs in the rest of the world on beef average 85%; on actual imports, those in the U.S. just 2.5% (26% on above quota imports).
- Massive subsidies by the EU and large subsidies by Brazil, Australia and Canada vs. essentially none from the U.S.
- State trading enterprises in grains which distort competition by making grains available to foreign cattle producers at prices not market driven.

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Specific Trade Policy Reforms Needed

3. As required in the Trade Act of 2002, special rules must be included in all trade agreements to recognize the perishable nature of cattle and beef, be applicable to both cattle and beef, and be automatic in application.

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Specific Trade Policy Reforms Needed

4. Designate Cattle and Beef as Like/Kind Products Including:

- Recognize that beef is imported in two distinct forms: pre-slaughtered beef (live cattle) and post-slaughtered beef (beef).

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Specific Trade Policy Reforms Needed

5. Prevent Transhipment of Foreign Cattle in the Production of Beef in Exporting Countries:

- Rules of Origin must be modified to require that beef be derived from animals born, raised, and slaughtered in the country of export.

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Specific Trade Policy Reforms Needed

6. Cease Practice of Ratcheting Down U.S. Health and Safety Import Standards to Accommodate More Imports:

- Importing countries must be required to meet U.S. health and safety standards, which standards must now be strengthened following recent actions that have effectively weakened restrictions against the importation of livestock diseases and pests.

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Specific Trade Policy Reforms Needed

7. Require All Imported livestock to be Permanently Marked with a Mark of Origin to Aid in Foreign Animal Disease Trace-backs After Importation (Remove Livestock from the U.S. Department of Treasury's "J-List").

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Specific Trade Policy Reforms Needed

8. Correct Currency Manipulation by Trading Partners that have Taken Action to Under-Value their Currencies Vis-à-vis the U.S. Dollar to Gain an Unjust Trading Advantage.

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Specific Trade Policy Reforms Needed

9. Cease Practice of Allowing Foreign Countries Access to the U.S. Market Before the U.S. is Allowed Access to Foreign Markets.

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Specific Trade Policy Reforms Needed

10. Amend NAFTA to Provide U.S. Cattle Producers Relief from Price-Depressing Live Cattle Imports.

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R-CALF USA

P.O. Box 30715

Billings, MT 59107

406-252-2516

r-calfusa@r-calfusa.com

www.r-calfusa.com

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