

*Fighting for the U.S. Cattle Producer!*



**R-CALF**

*USA*

**Presentation to the Honorable Kathleen Merrigan,  
Deputy Secretary**

**United States Department of Agriculture**

*State of the U.S. Cattle Industry:*

*An Industry in Immediate Need of Solutions*

June 2, 2009

**On February 25, 2009, R-CALF USA Asked Agriculture Secretary Vilsack to Take Three Initial Actions to Halt the Ongoing Contraction of the U.S. Cattle Industry:**

- 1. Restore previously weakened U.S. disease protections by reversing the over-30-month (OTM) rule.**
- 2. End the anticompetitive marketing practices of concentrated packers by initiating a rulemaking to end captive supply use.**
- 3. Restore APHIS' mission to prevent – rather than manage – foreign animal diseases by ceasing all agency efforts to implement the National Animal Identification System (NAIS).**

**The Following Presentation on the State of the U.S. Cattle Industry Will Explain Why These Actions are Urgently needed:**

# Today's U.S. Cattle Industry

4 Beef Packers Slaughter  
Approx. 88 % of All Fed  
Cattle in the U.S.

Slaughtered 34.4 Million  
Cattle in 2008, Including 1-2  
Million Imports

2,170 Feedlots Fed Approx. 90 %  
of All Fed Cattle in the U.S. in 2008

80,000 Farmer Feeders in 2008  
(Reduced from 85,000 in 2007)  
Fed Approx. 10 % of  
All Fed Cattle in the U.S

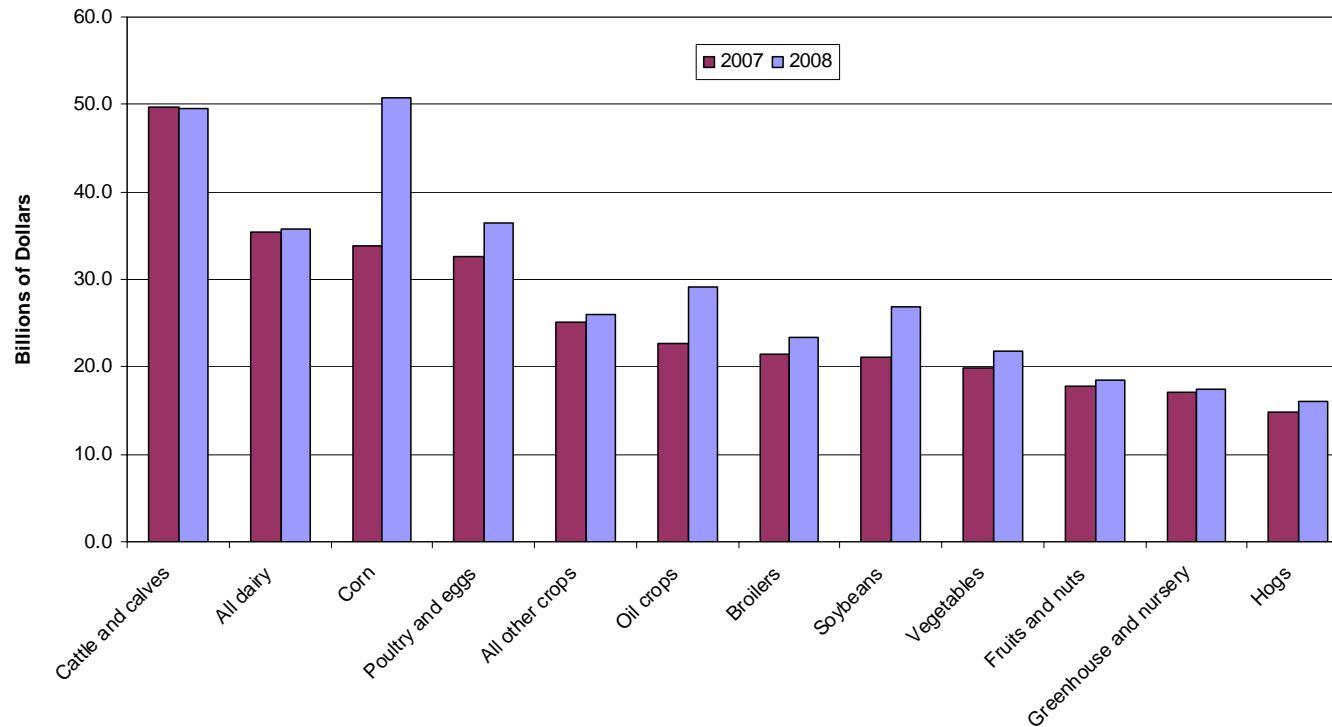
Produced 36 Million  
Cattle (calves) in 2008

956,500 Remaining Total Cattle Operations  
in 2008, including 757,000 Beef Cattle  
Operations

U.S. Cattle Operations have been Exiting the Industry at a Rate of 19,000 Per Year Since 1996

# USDA Predicts Corn had Surpassed Cattle to Become the Largest Segment of U.S. Agriculture in 2008

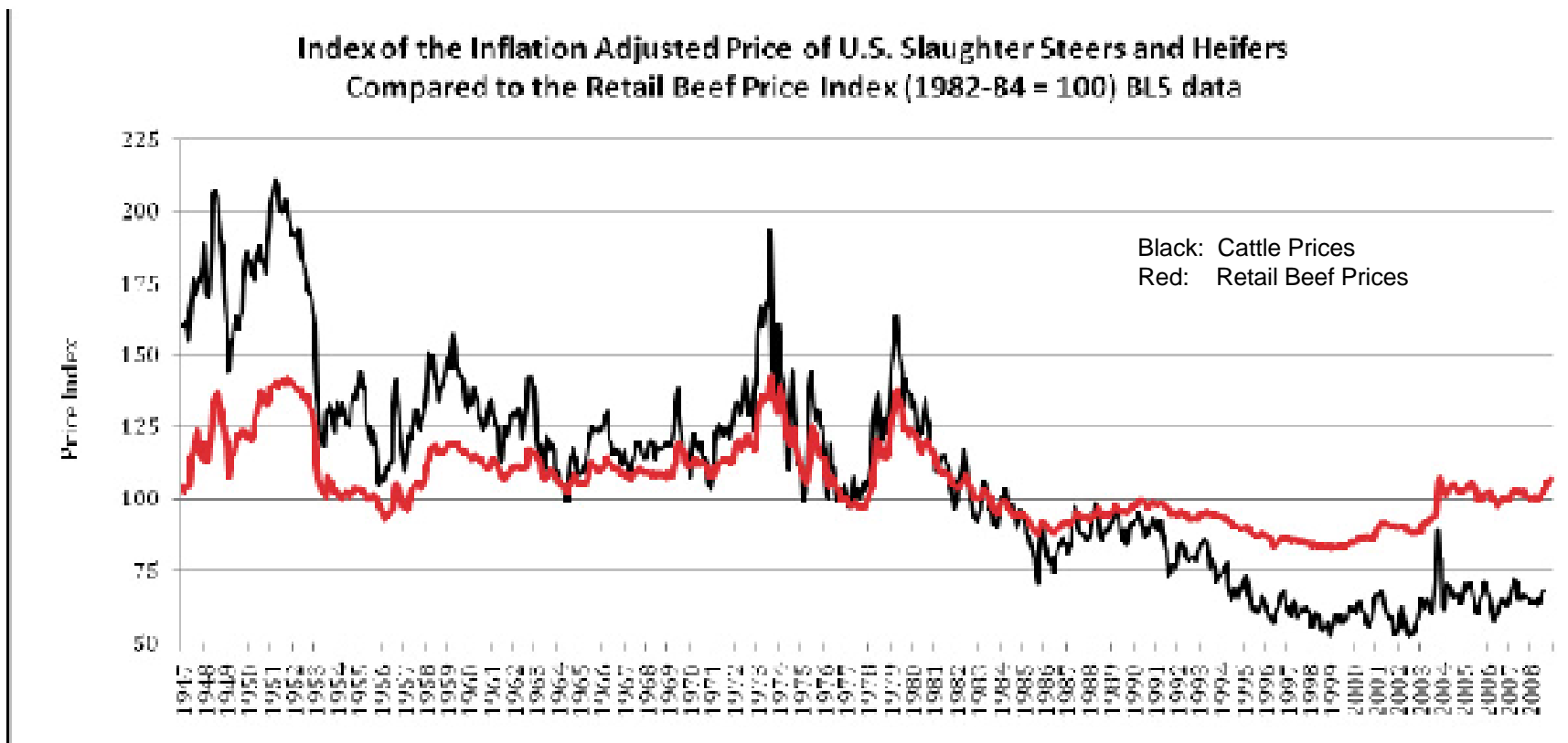
TOP 12 U.S. AGRICULTURE COMMODITIES



Source: USDA-Economic Research Service, Farm Income

Commodity

# U.S. Cattle Markets Have Been Broken for Past Two Decades

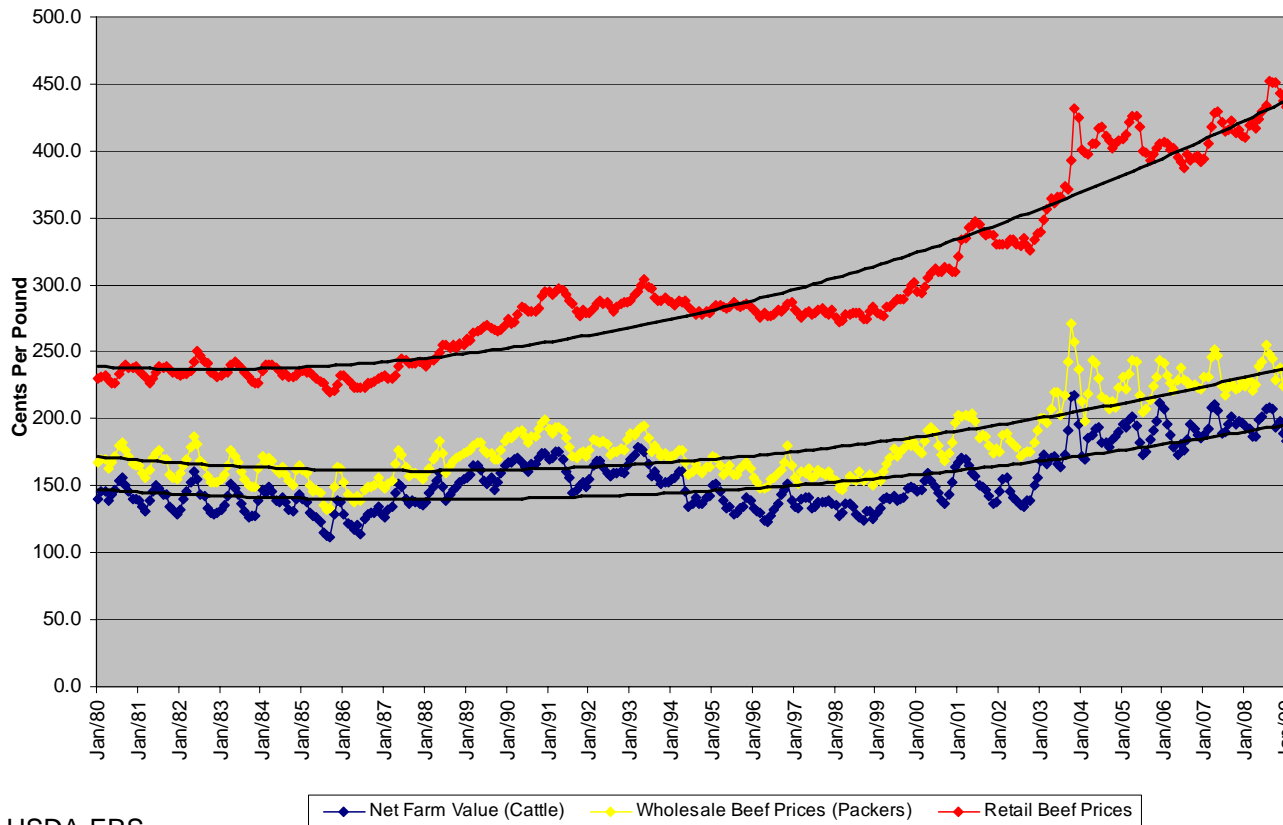


Source: Dr. Robert Taylor, Auburn University

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# U.S. Cattle Market Has Become Inefficient and Inequitable for Producers and Consumers

RETAIL BEEF PRICES vs WHOLESALE PRICES vs NET FARM VALUE (CATTLE) WITH TREND LINES



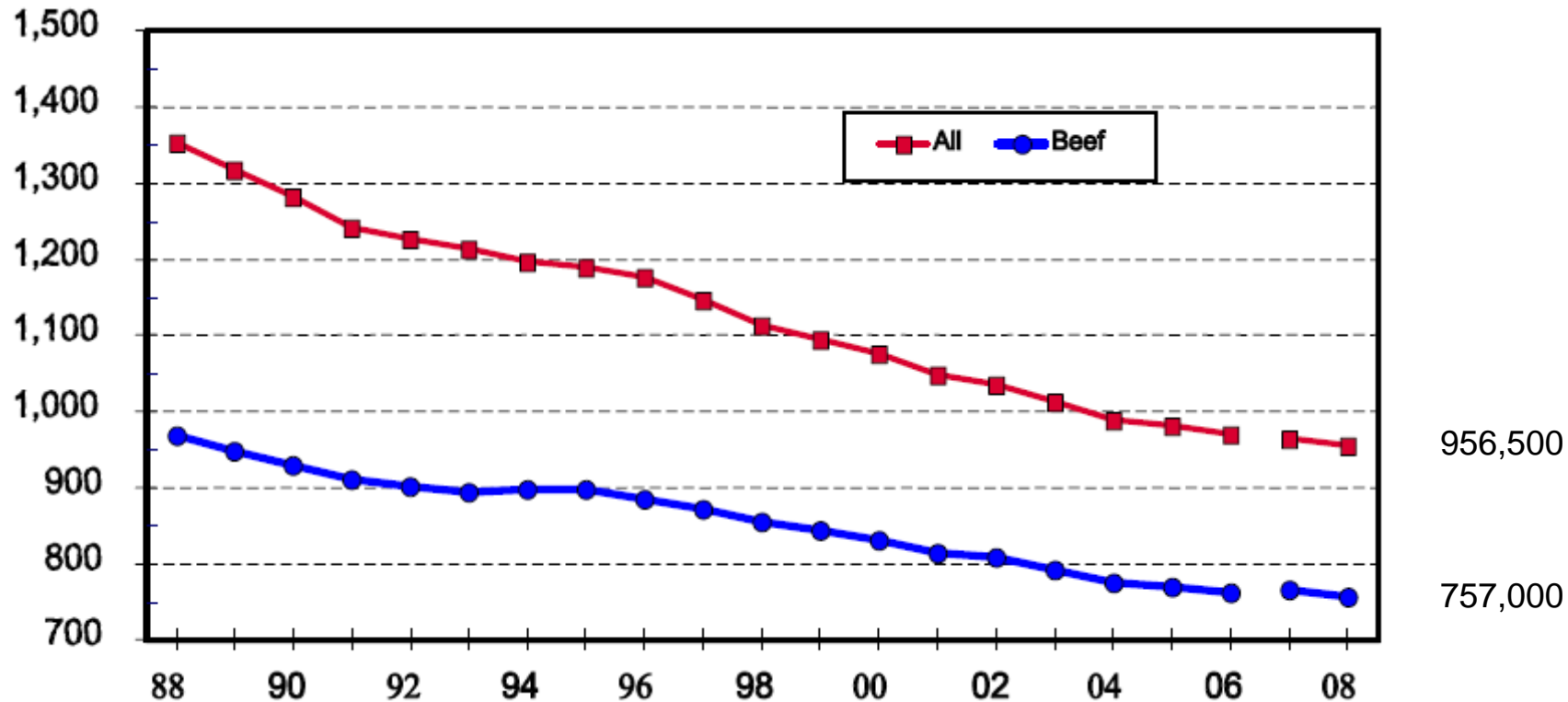
Source: USDA-ERS

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# The Result is a Shrinking Industry: Industry Participants

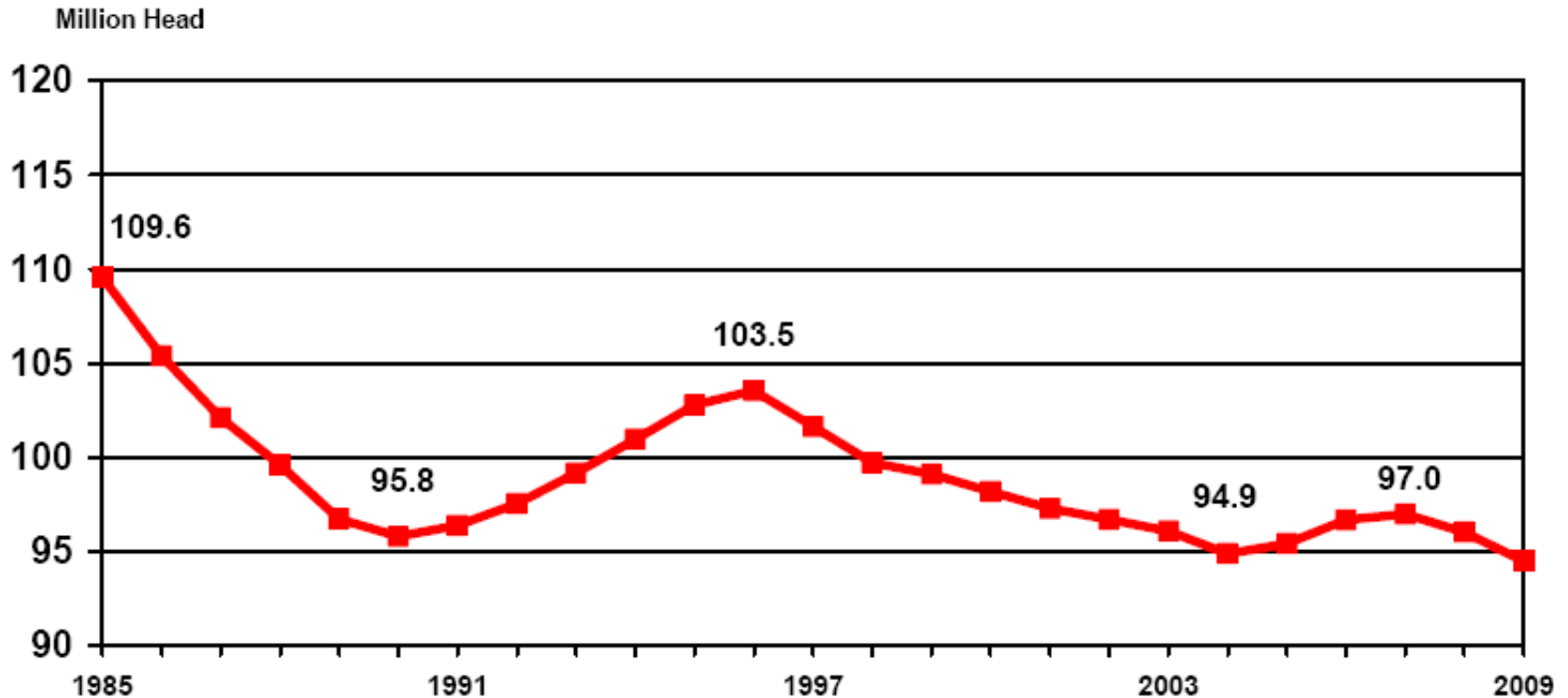
Number of All Cattle and Beef Cow Operations  
United States, 1988-2008

Operations (000)

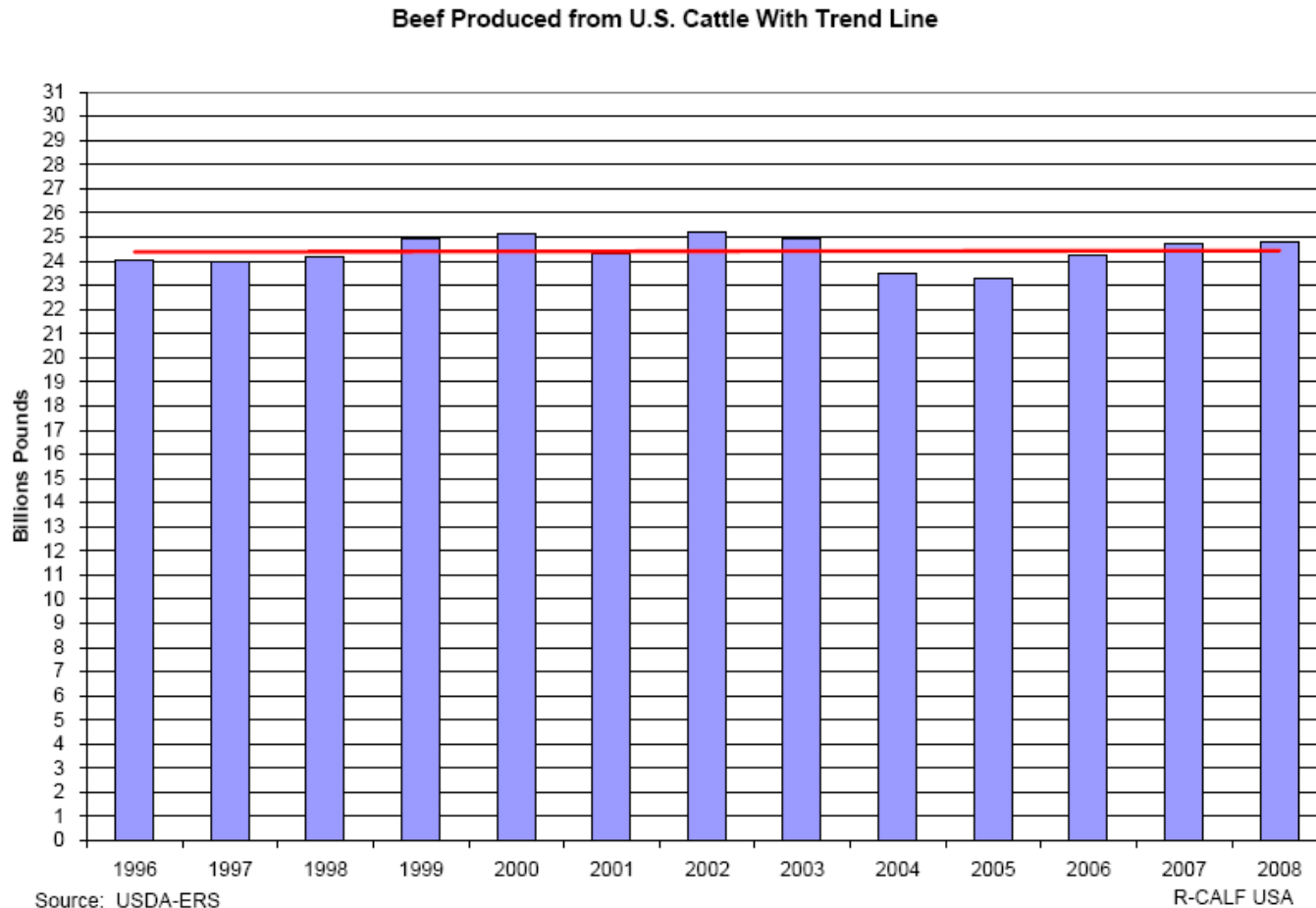


# The Result is a Shrinking Industry: Cattle Herd Size

## U.S. Cattle Inventory January 1



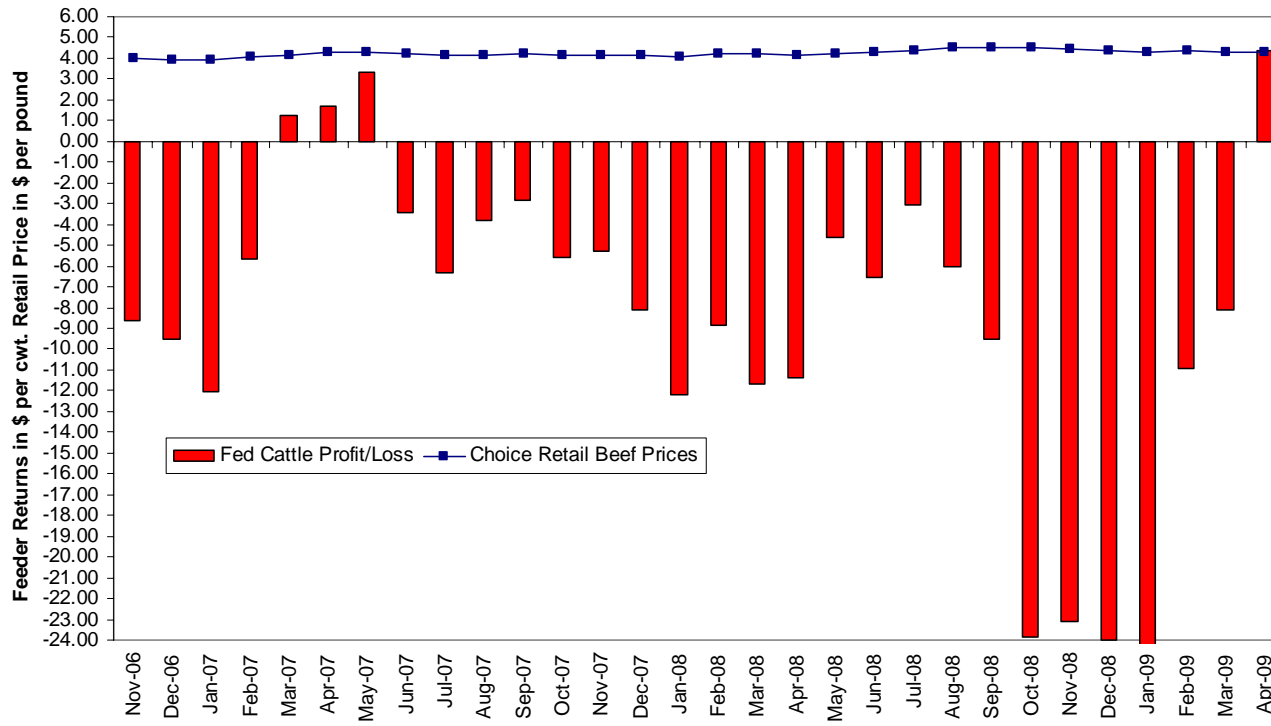
# The Result is a Shrinking Industry: Stagnant Domestic Production



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.

# Cattle Feeders Suffer Long-Run Losses (Exceeding \$300 Per Head) While Beef Prices Steadily Climb to Record Levels

Feeder Returns vs Choice Beef Prices

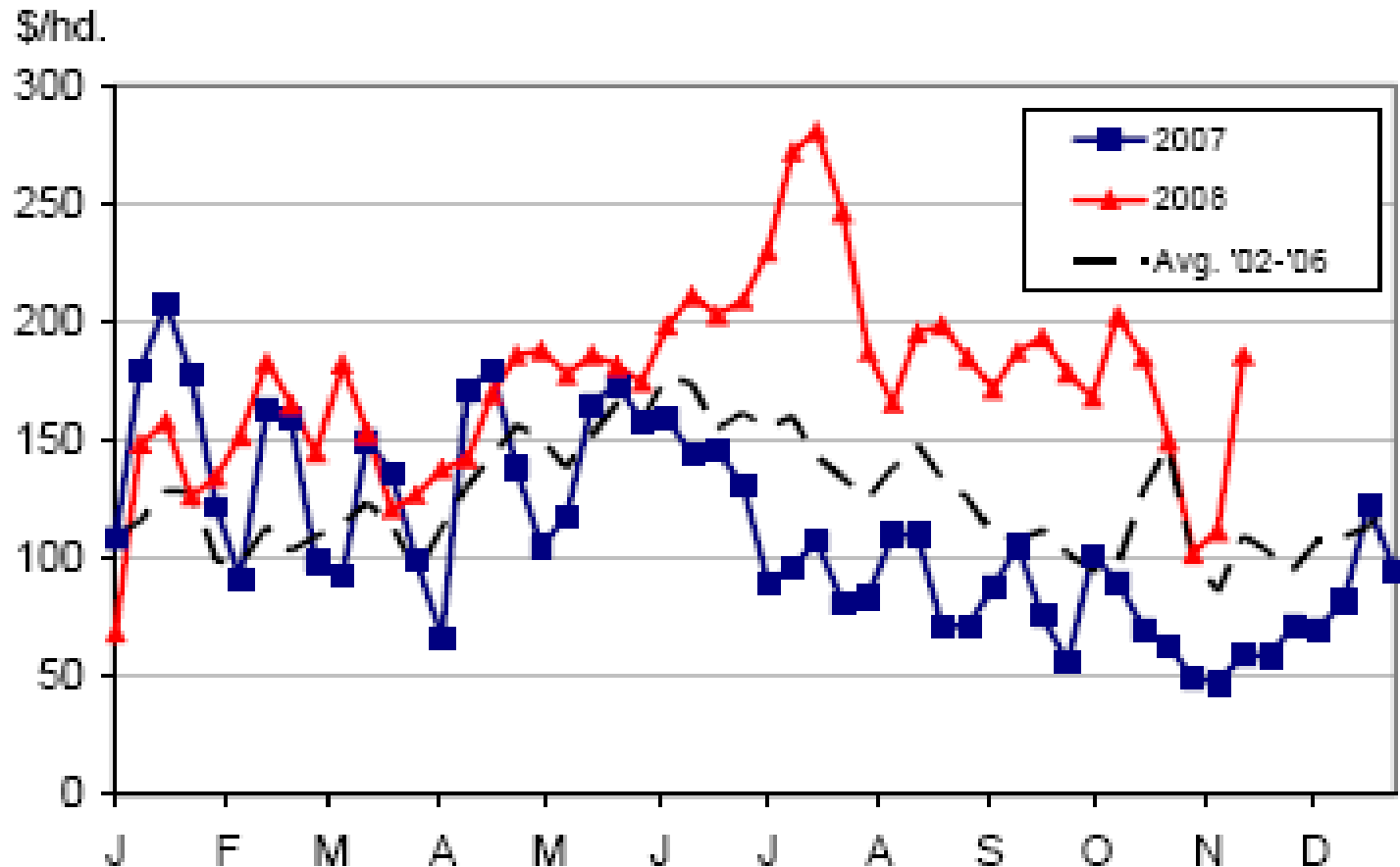


Source: USDA-ERS High Plains Cattle Feeding Simulator and Beef Price Spreads

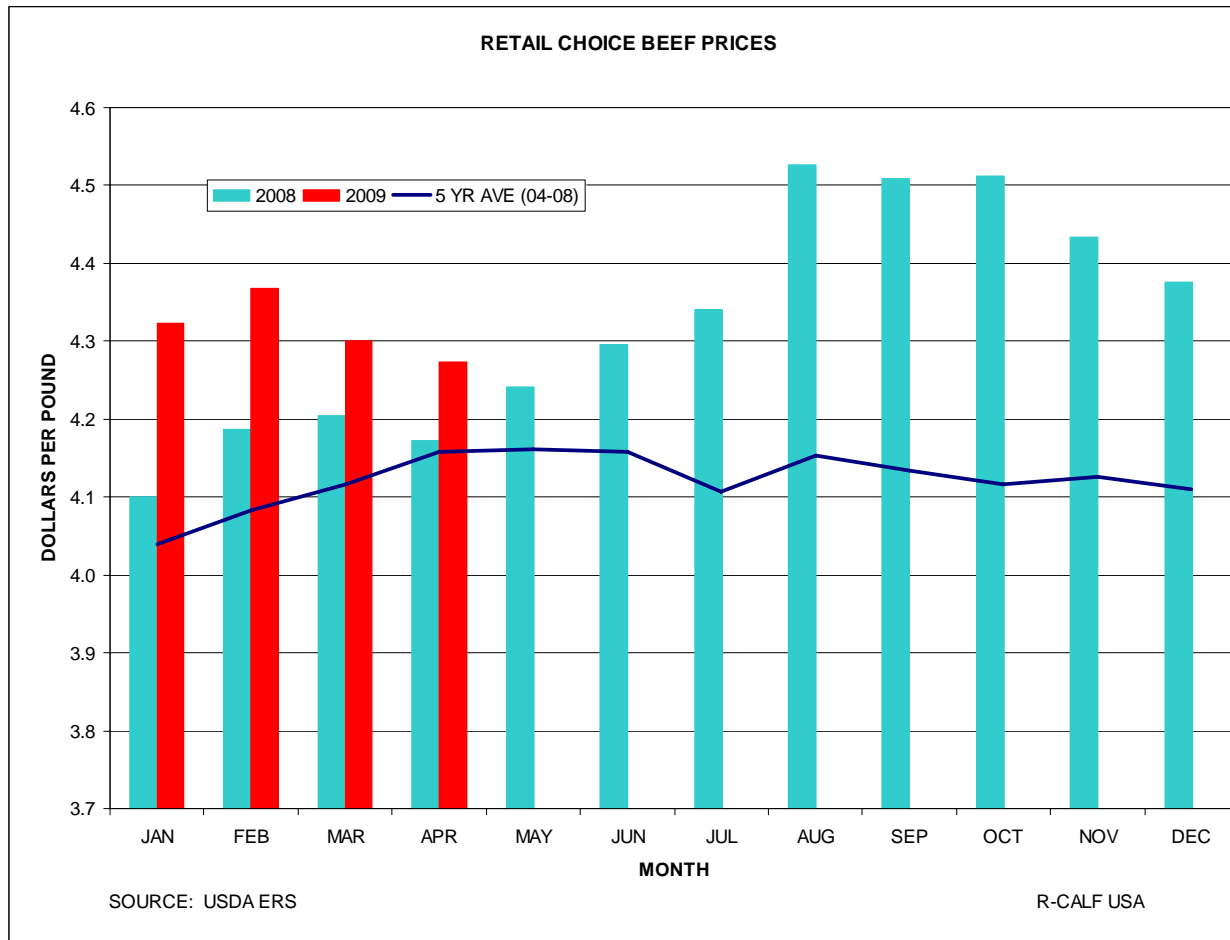
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# Losses to Cattle Feeders Equate to Higher Beef Packer Margins

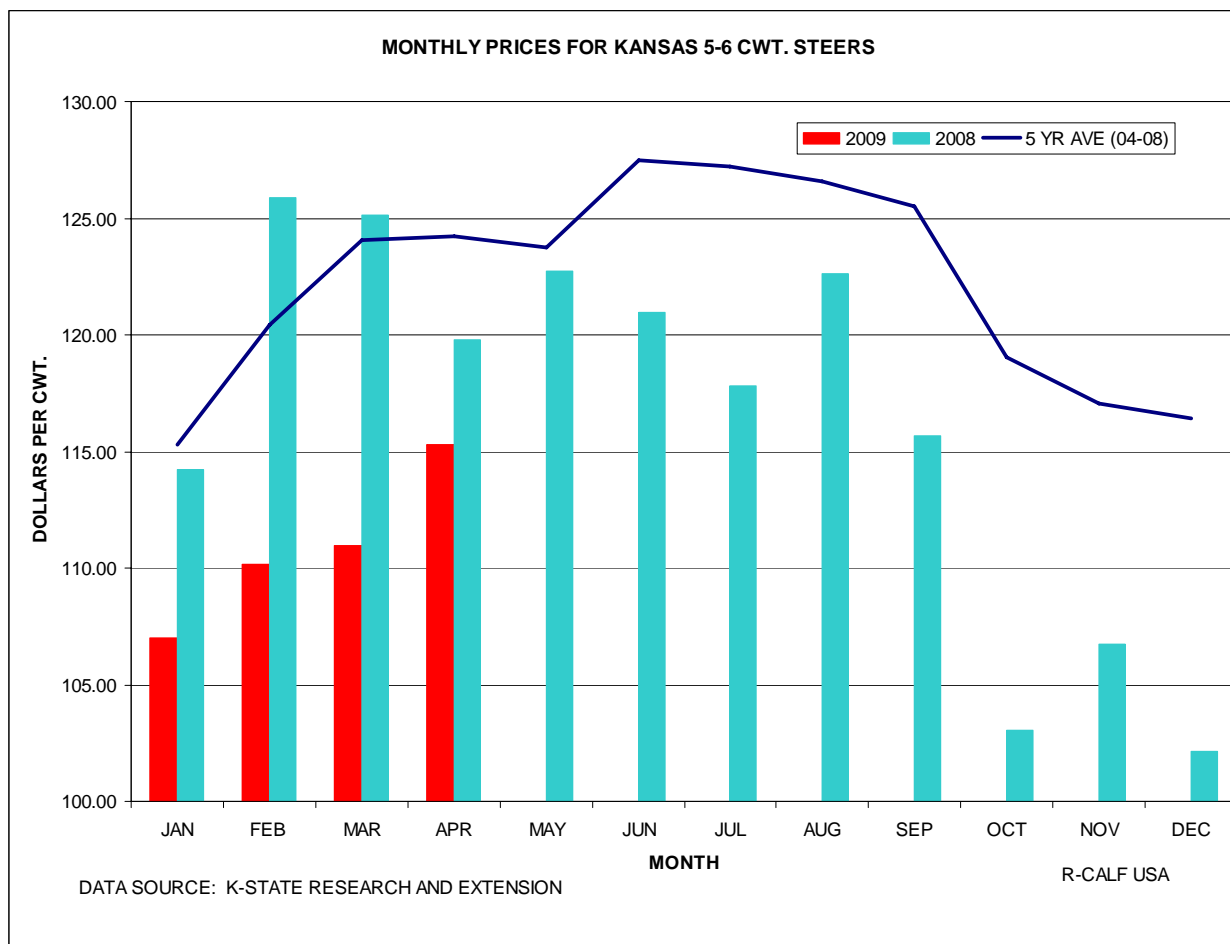
## BEEF PACKERS' EST'D GROSS MARGIN



# Consumers Paying Record Beef Prices

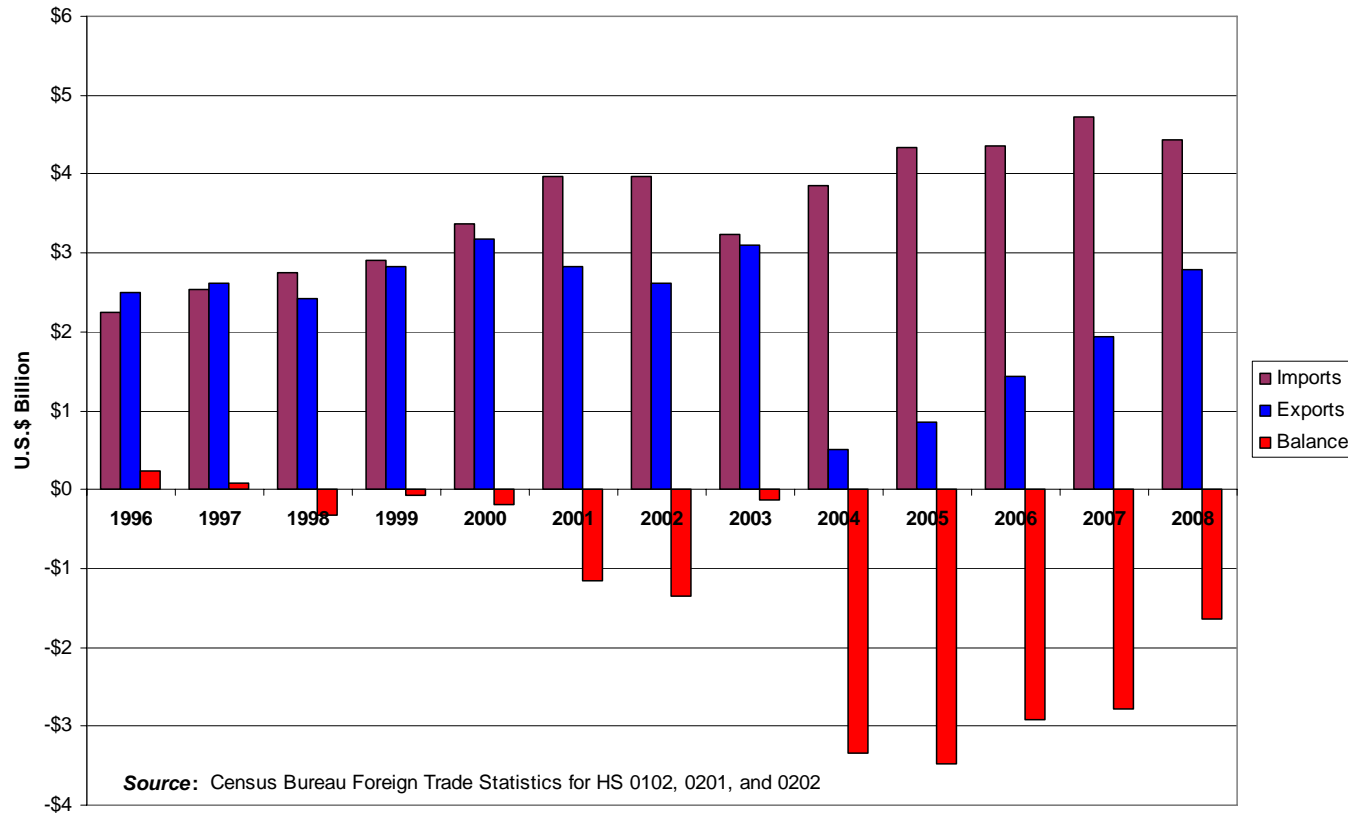


# Cow/Calf Producers Receiving Depressed Prices



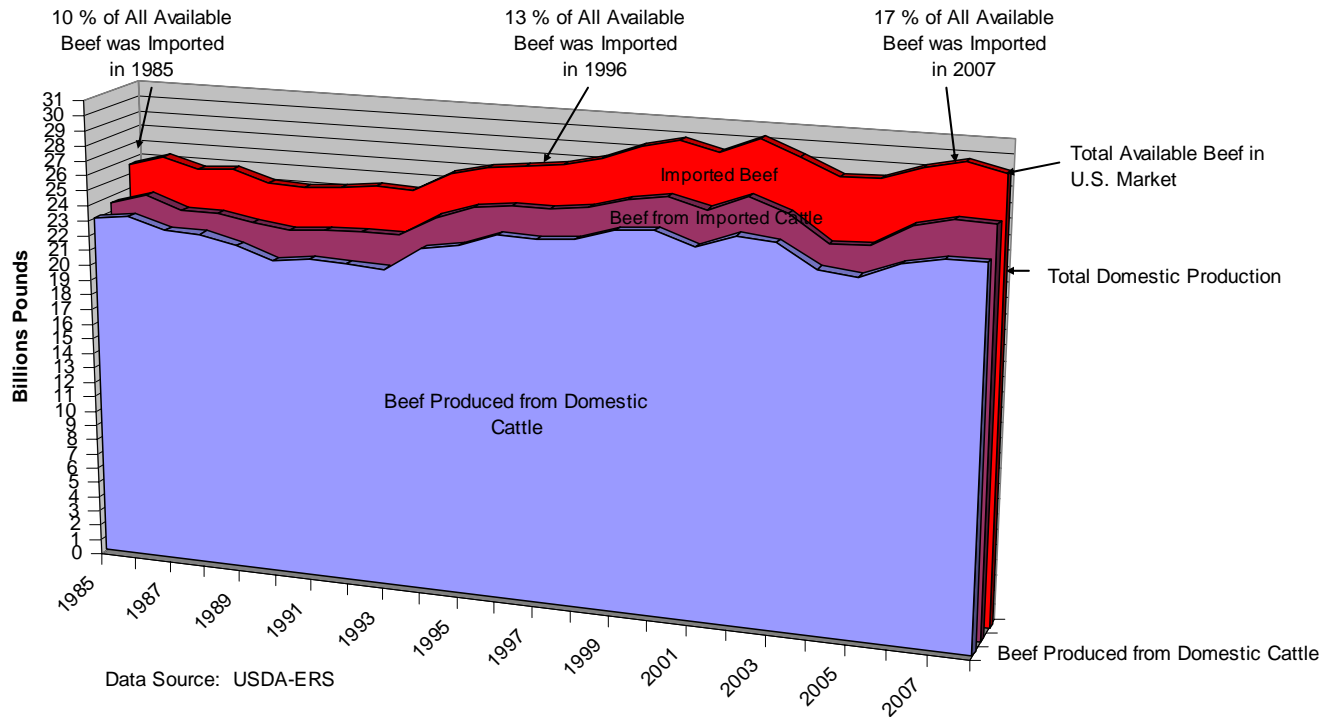
# Long Run Value Deficit in Cattle and Beef Trade Exacerbates Broken Market Problems

U.S. Trade in Cattle and Beef



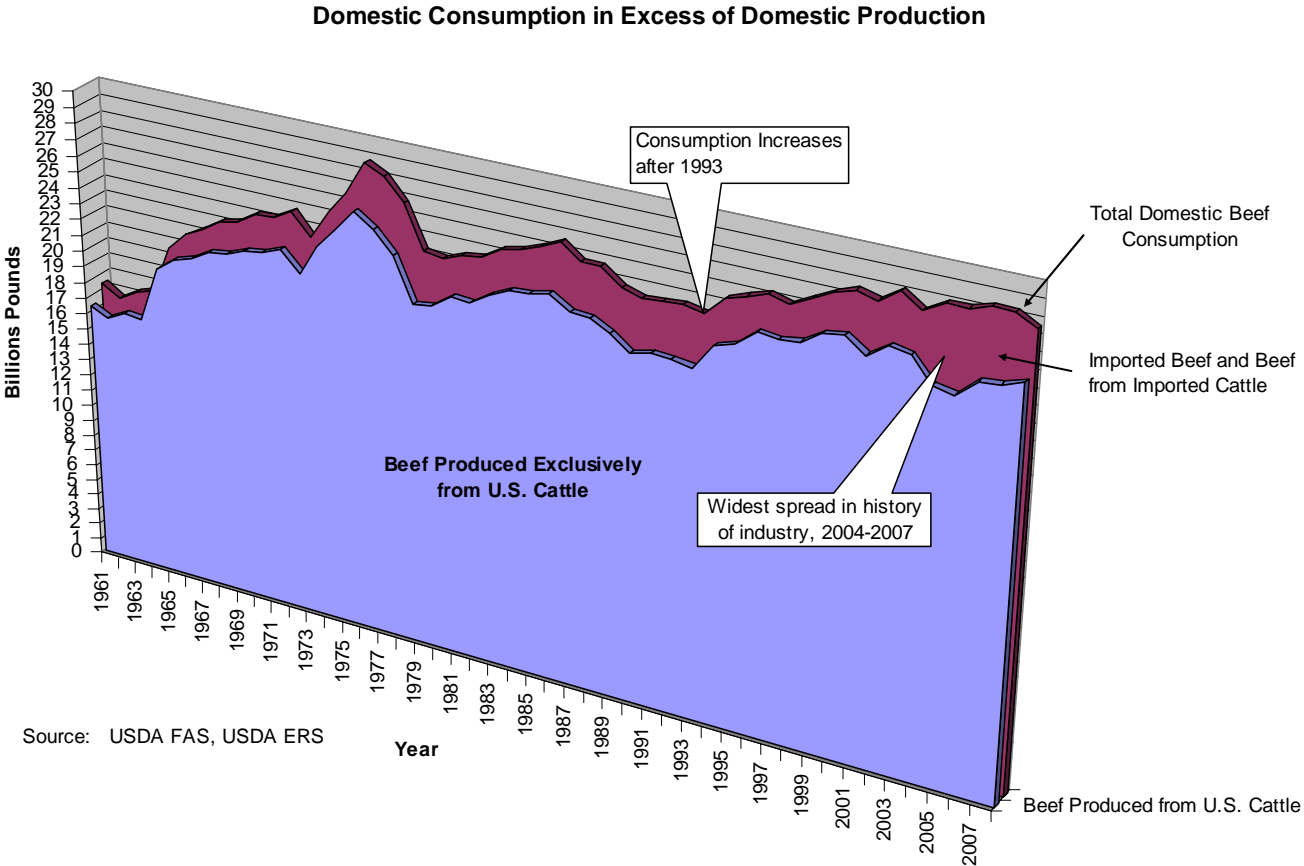
# Cattle and Beef Imports Capturing Growth in Domestic Beef Supply

Origins of United States Beef Supply



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

# Historic Under-Production of Domestic Beef in Recent Years



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

# U.S. Cattle Industry is Highly Sensitive to Even Slight Changes in Cattle Supplies

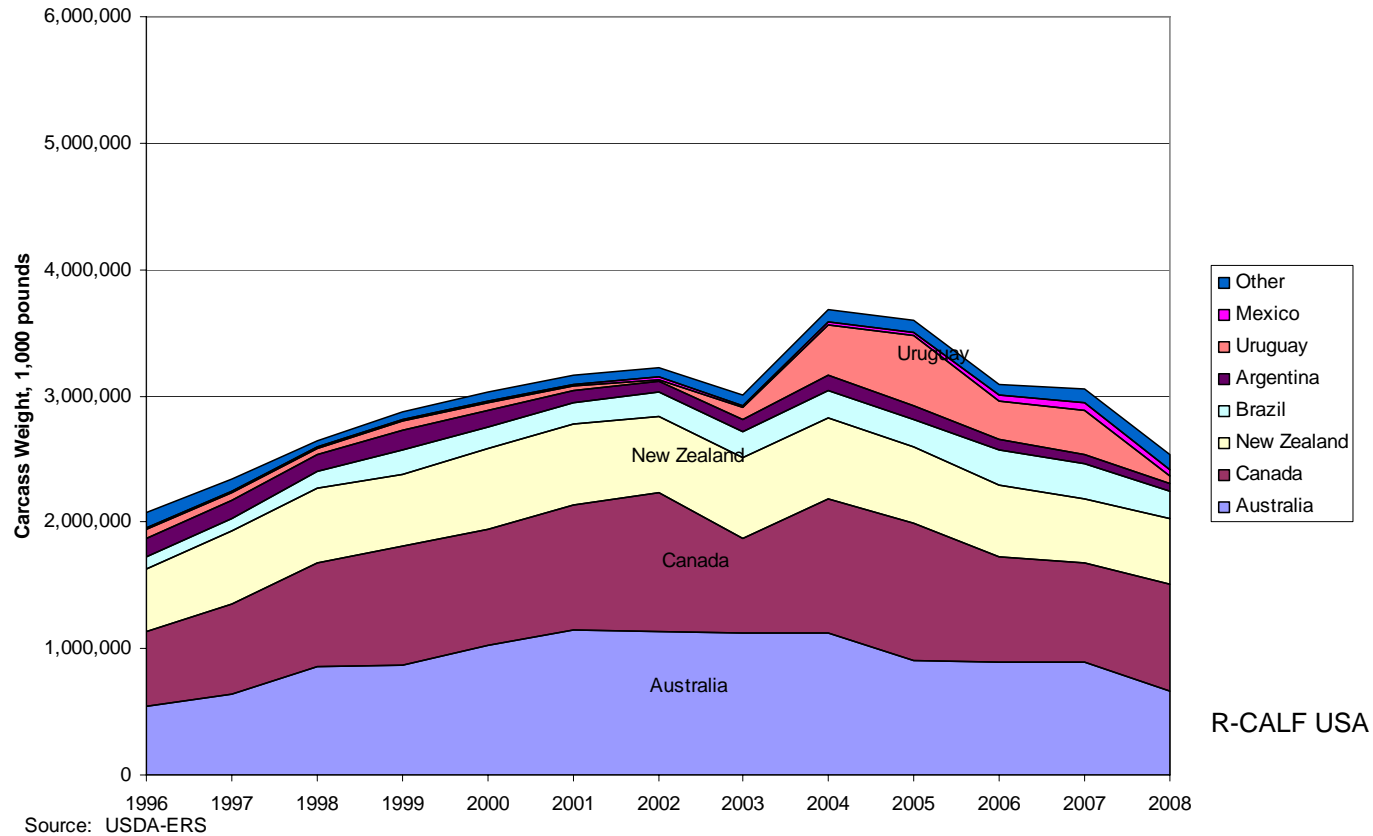
- The staff at the U.S. International Trade Commission found that the farm level elasticity of demand for slaughter-ready cattle is such that:

“[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>.*

# Origins of Imported Beef When Only Imported Beef Product is Included

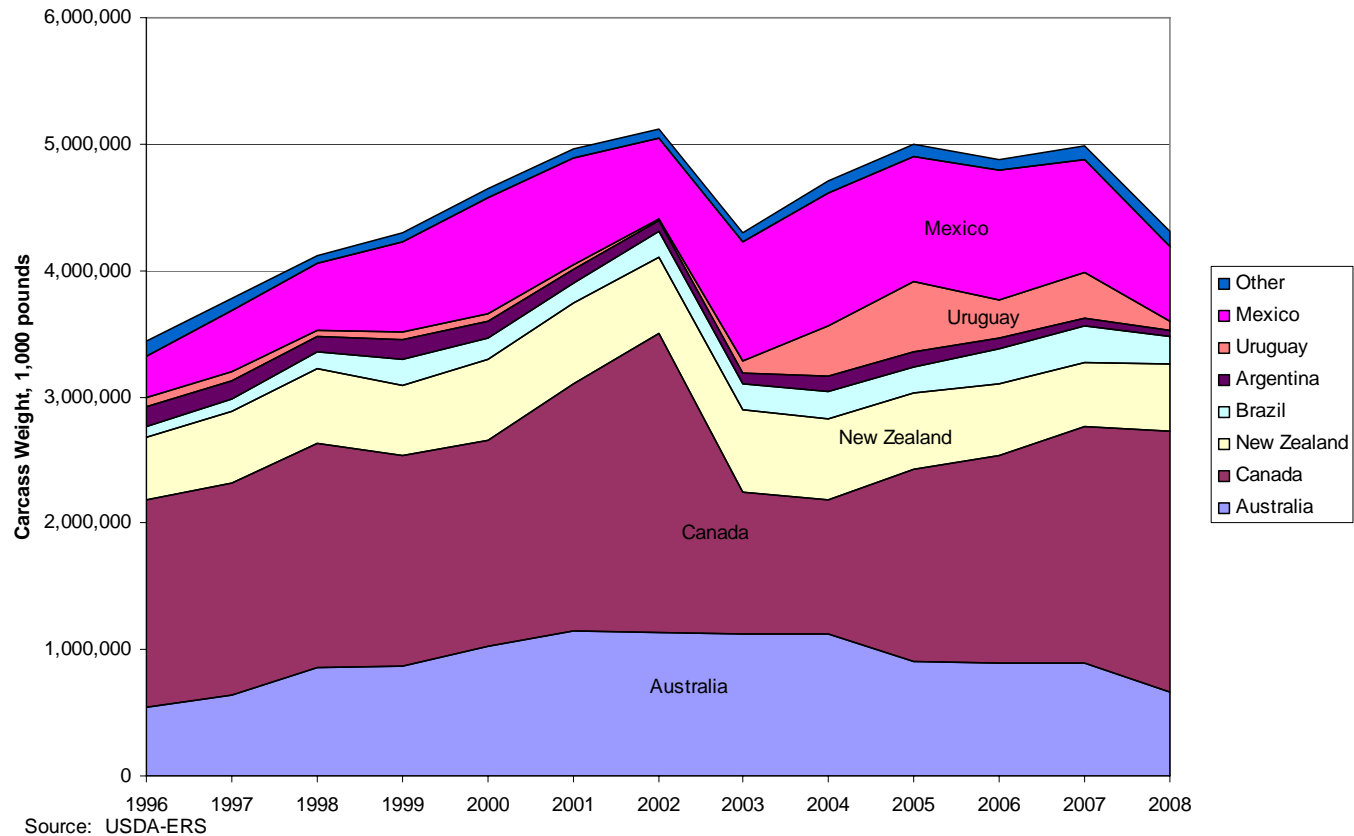
Origins of Imported Beef Without Including Beef from Imported Cattle



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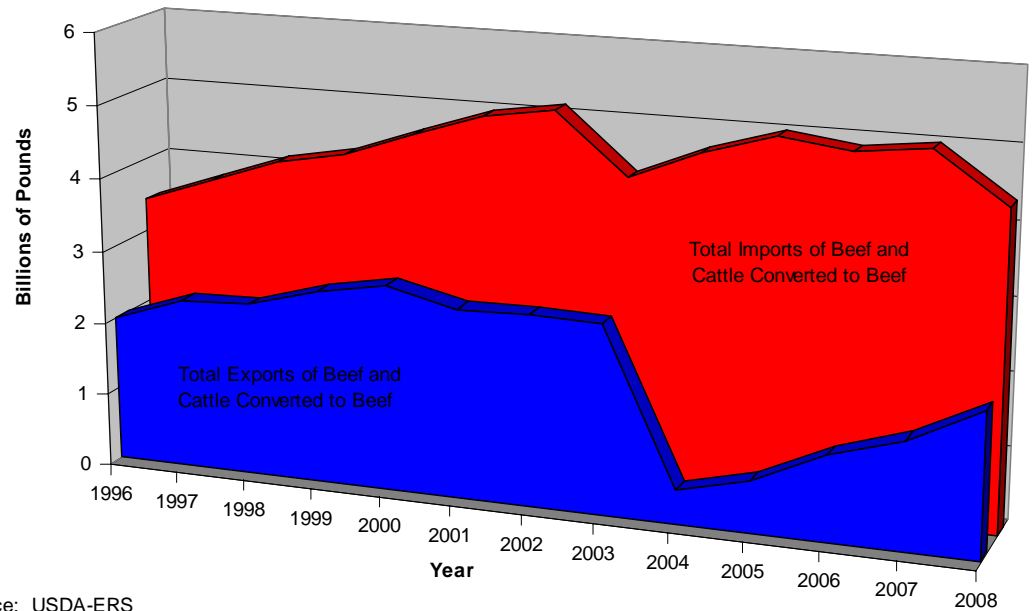
# Canada and Mexico Become Largest Beef Sources When Imported Cattle are Slaughtered

Origins of Imported Beef & Cattle Converted To Beef



# Tremendous Volume Deficit in Cattle and Beef Trade Forces Domestic Cattle Prices Lower

U.S. Global Trade Deficit in Cattle and Beef

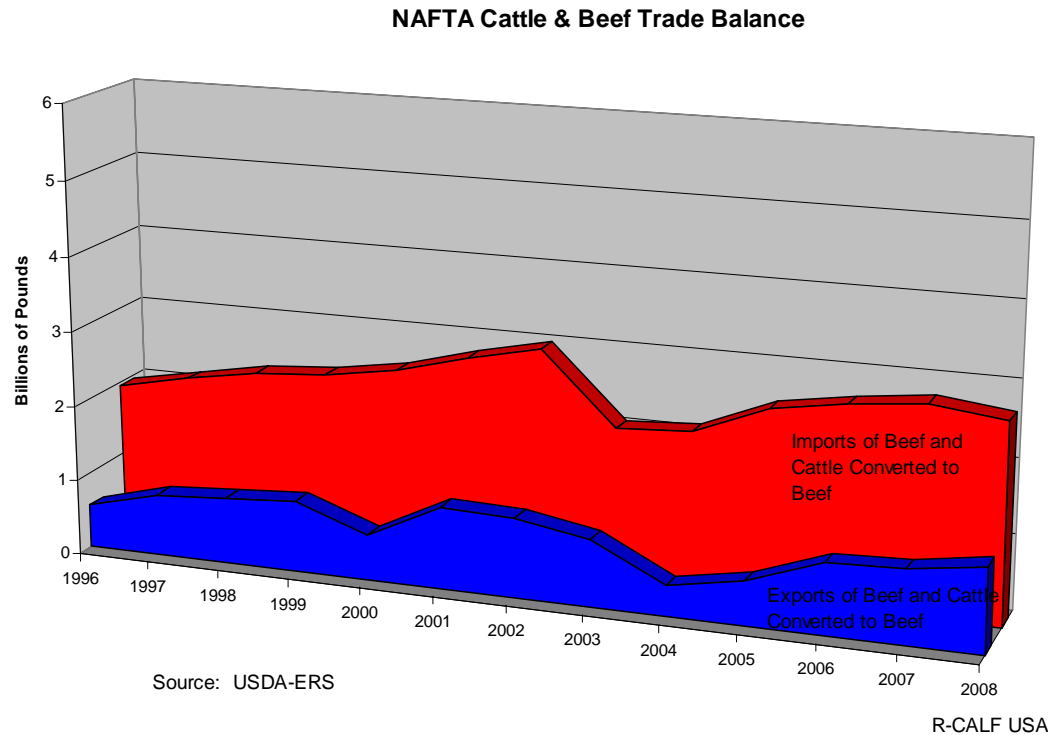


Source: USDA-ERS

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

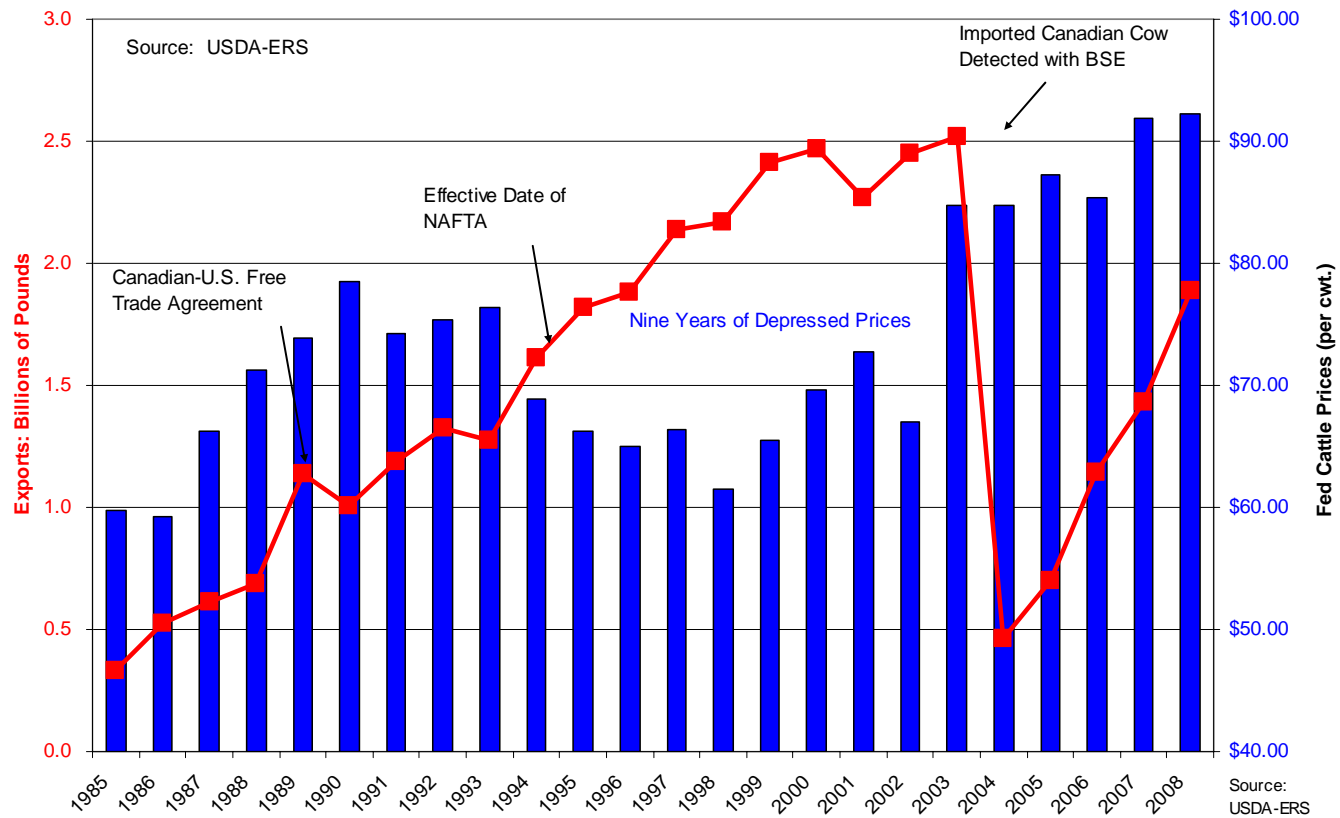
# NAFTA Trade Deficit Represents Over Half of U.S. Global Trade Deficit in Cattle & Beef



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

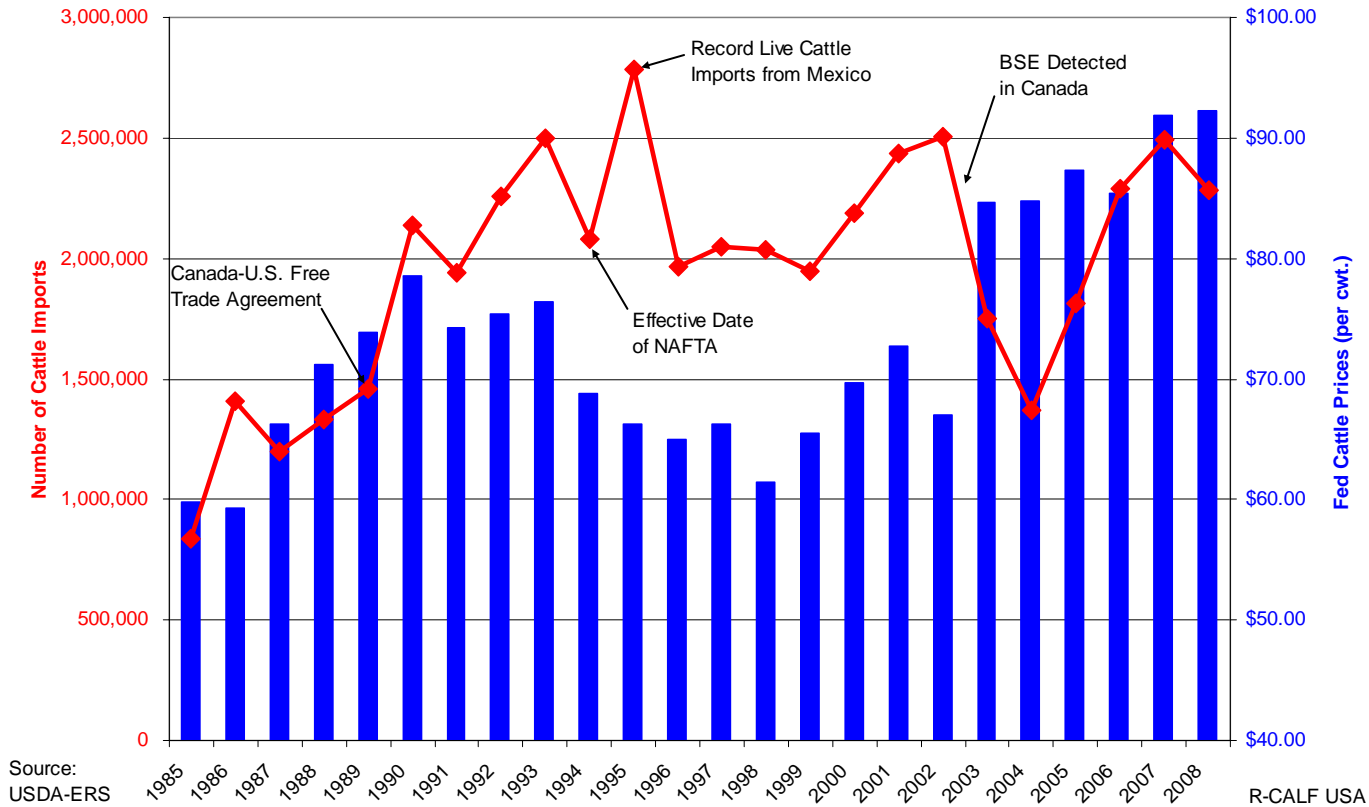
# Increased Exports Do Not Always Lead to Higher Cattle Price

Relationship Between Export Volumes and Fed Cattle Prices

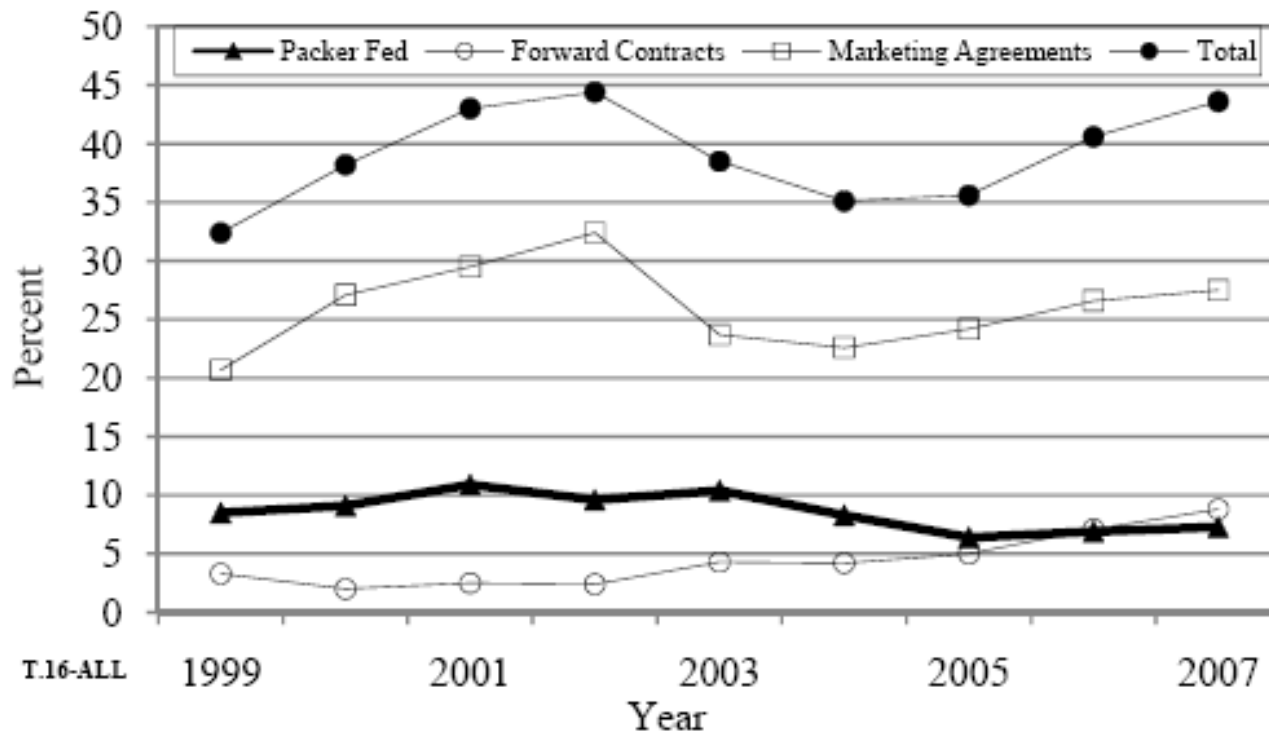


# Long-Run Price Depression Coincides with Increased Cattle Imports

RELATIONSHIP BETWEEN CATTLE IMPORTS AND FED CATTLE PRICES



# Increased Captive Supply Use Temporarily Disrupted by BSE



**Figure 26. Percentage of Steers and Heifers Procured Through Alternative Types of Committed Procurement Arrangements by the Four (Five) Largest Steer and Heifer Slaughter Firms**

# Cash Cattle Market is Rapidly Shrinking; Captive Supply Use is Rapidly Increasing

## TX-OK-NM NUMBERS (Cattle that were fed in these three states)

**\*\*Head Counts below reflect slaughter totals for each purchase type from January 1 through June 1 of each year\*\*\*\***

	2005	2006	2007	2008	Net Change
<b>Cash</b>	1,097,605 (51.7%)	986,744 (45.9%)	823,810 (38.5%)	804,736 (34.0%)	-17.7%
<b>Formula</b>	811,620 (38.2%)	854,802 (39.8%)	983,029 (45.9%)	1,198,462 (50.7%)	+12.5%
<b>Forward Contract</b>	71,665 (3.4%)	108,816 (5.1%)	53,279 (2.5%)	143,886 (6.1%)	+2.7%
<b>Negotiated Grid</b>	142,091 (6.7%)	197,518 (9.2%)	280,070 (13.1%)	216,875 (9.2%)	+2.5%
<b>TOTAL</b>	<b>2,122,981</b>	<b>2,147,880</b>	<b>2,140,188</b>	<b>2,363,959</b>	

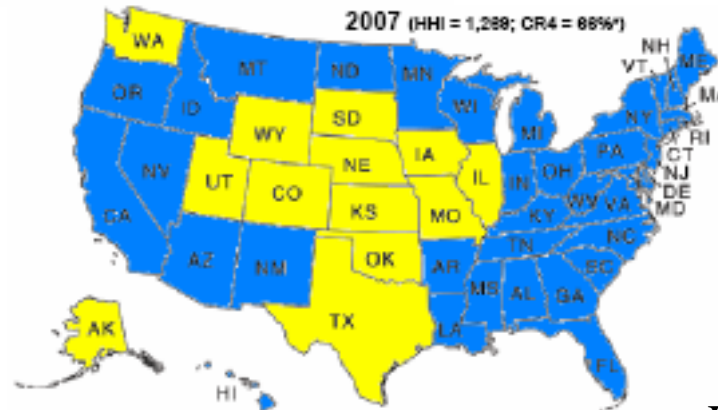
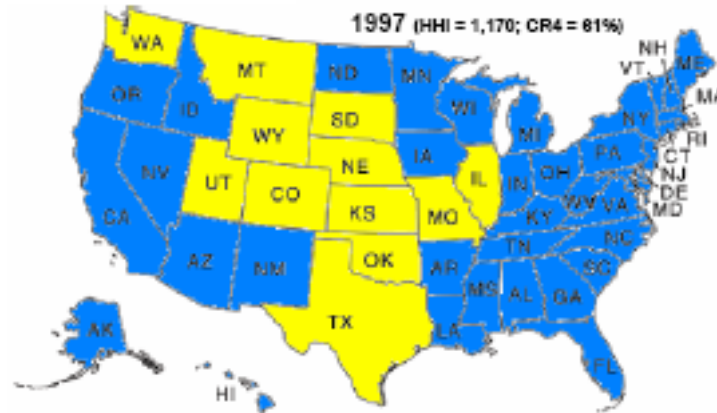
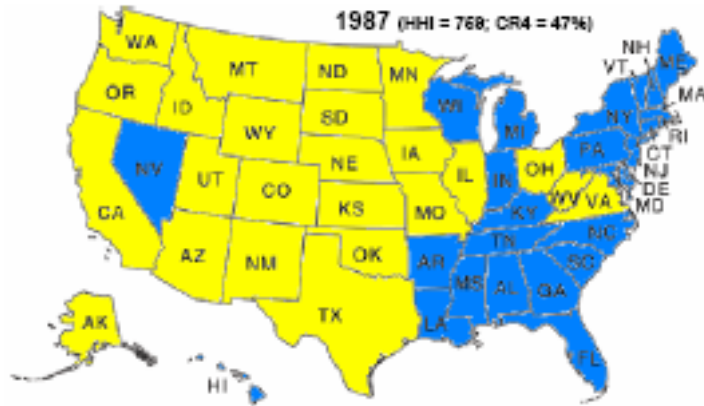
Source: USDA Livestock and Grain Market News/Mandatory Price Reporting/St. Joseph, MO

# Effects of Declining Competition on Cattle Prices 1987 - 2007

Prepared by R-CALF USA

**Key:**

- Above-the-Average National Cattle Price
- Below-the-Average National Cattle Price



**Data Source:**

Average Cattle Prices: USDA, NASS, *Meat, Poultry, Eggs, Production, Disposition and Income, Summary* for 1987, 1997 and 2007.  
 HHI and CR4: USDA, GPOSA, *Market Structure Concentration, Packers and Stockyards Statistical Report, 2006* (CR4 is the concentration ratio for top 4 firms).

\*2006 is the latest data available.

# 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.

# Packers/USDA/Ear Tag Companies Are Forcing International Trade Compliance Costs on All U.S. Producers

Previous Administration promoted NAIS as “crucial for trade,” an inappropriate consideration for domestic animal disease prevention and control.\*

*“But the sooner producers in the U.S. and around the world get on board with animal ID, the more options they will have to market their livestock. In other words, traceability is the key to international sales and market expansion. Animal ID will open doors for producers everywhere.”\**

\* Bruce Knight, USDA Under Secretary, Houston Livestock Show and Rodeo, March 4, 2008.

The Following Recommendations,  
If Initiated Immediately, will Help  
Stop the Ongoing Contraction of  
the U.S. Cattle Industry and Will  
Help Restore the Credibility of and  
Trust for the USDA Among U.S.  
Cattle Producers:

# First Steps Regulatory Solutions: APHIS

## **1. Restore Previously Weakened U.S. Disease Protections:**

### **First: Reverse APHIS' OTM Rule (over-30-month rule).**

The agency's risk modeling conducted for this rulemaking predicts, at best, the introduction of 19 BSE-infected Canadian cattle, resulting in 2 BSE infections of U.S. cattle over the next 20 years.

# First Steps Regulatory Solutions: GIPSA

## **2. Take Steps to End Anticompetitive Marketing Practices of Concentrated Packers:**

**First: Initiate a rulemaking to eliminate captive supply use by concentrated packers.**

# First Steps Regulatory Solutions:

## **3. Restore APHIS' Mission Regarding Foreign Animal Diseases to that of Prevention, Not Management:**

### **First: Cease all agency efforts to implement the National Animal Identification System (NAIS).**

APHIS' NAIS usurps Congress' authority by mandating NAIS participation, including premises registration, for producers that participate in federal disease programs. At the same time, APHIS knowingly allows disease introduction at our borders, e.g., TB and fever ticks from Mexico and BSE from Canada. Also, APHIS proposes to allow products of higher risk for FMD from Argentina.

# Since February, Other Issues have Become Increasingly Important as Well:

- We Urge USDA to Assist USTR in Rigorously Defending Country-of-Origin Labeling (COOL) Against the WTO Challenges Filed by Canada, Mexico, and Peru, as well as to ensure Industry Compliance with Congress' COOL intent.
- We Urge USDA to Convince DHS to Reverse the Previous Administration's Decision to Relocate the Plum Island Research Facility (where FMD viruses are held) in the Great Plains Beef Belt in Manhattan, Kansas.
- We Urge USDA to Oppose any Future Trade Agreements that Do Not Require Exporting Countries to Meet or Exceed U.S. Safety Standards, Do Not Contain Price- and Quantity-Triggered Safeguards to Protect Against Import Surges, and that Do Not Include Rules of Origin to Prevent Transshipments of Cattle and Beef.

**Because of its dominant size and widespread geographical footprint, the U.S. live cattle industry is uniquely positioned to help revitalize Rural America's ailing economy – without any direct government expenditure – but only if effective solutions are implemented to address the industry's systemic problems.**

**The initial solutions offered by R-CALF USA are intended to put a stop to the industry's misguided trajectory, which has resulted from more than a decade of neglect.**

**After the industry's misguided trajectory is stopped, it must then be realigned, which will require a host of additional solutions.**

**R-CALF USA has a comprehensive blueprint containing solutions designed to overcome the myriad of challenges the industry will face during its realignment phase, but these additional solutions must follow, not lead, a commitment to fundamentally change the course of the U.S. cattle industry.**

*Fighting for the U.S. Cattle Producer!*



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