

Fighting for the U.S. Cattle Producer!



***Making the U.S. Cattle Industry
Great Again***

*Priorities for the New
Administration/Congress*

by

Bill Bullard, CEO, R-CALF USA

November 10-15, 2016

The New Administration/Congress

- **Restore then Preserve Competition**
 - Country of Origin Labeling
 - GIPSA Rules
 - Antitrust Enforcement
 - Price Manipulation in Cattle Markets
- **Support Beneficial Trade, Not Just Trade**
 - Livestock Disease Import Restrictions
 - Economic Realities & Global Governance
 - Protect Our Nation's Sovereignty
- **Reclaim the Beef Checkoff for All Producers**
- **Restore Private Property Rights**



Negotiated Cash

All Purchase Types

Head Count

Weighted Average Price



Criteria



Region **National**

Year **2016**

Week Ending

Nov-7

Class **Steer**

Selling Basis **Live - FOB**

Apply

Information

Welcome to the AMS Direct Slaughter Cattle Dashboard.
 This data visualization tool provides an interactive experience for searching and



Negotiated Cash Slaughter Cattle

Weighted Average Price - Steer - Live - FOB
W/E Nov 7 2016

Region	Avg Price	vs Year Ago	vs 3-Year Avg
National	\$104.16	↓ -20.1%	↓ -27.0%
5 Area	\$104.31	↓ -20.0%	↓ -26.9%
Colorado	\$105.05	↓ -21.6%	↓ -27.2%
IA/MN	\$101.35	↓ -21.7%	↓ -28.4%
Kansas	\$104.99	↓ -21.3%	↓ -27.0%
Nebraska	\$104.05	↓ -19.7%	↓ -27.1%
TX/OK/NM	\$105.07	↓ -21.5%	↓ -26.9%

Click a column header to sort



National Negotiated Cash Slaughter Cattle

Weighted Average Price vs. Head Count
Steer - Live - FOB - W/E Nov 7 2016



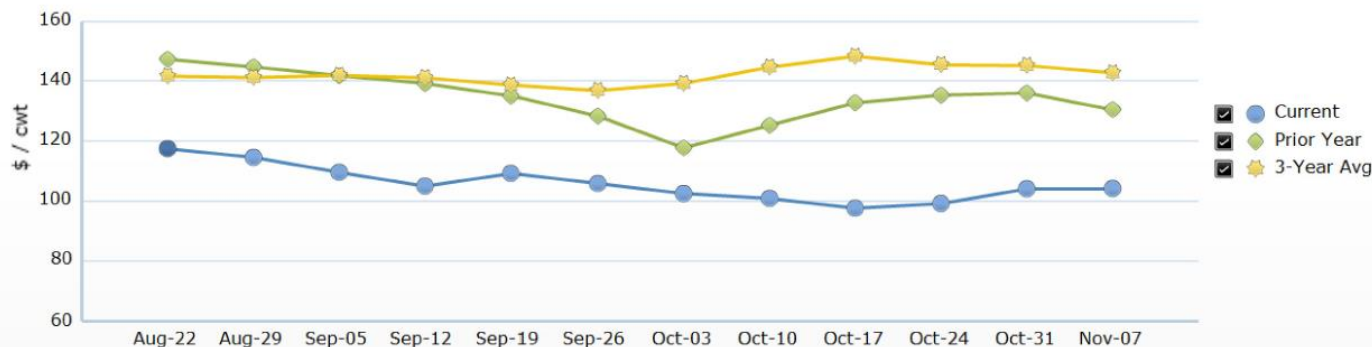
Prior Period Comparison

Regional Comparison



National Negotiated Cash Slaughter Cattle

Weighted Average Price - Steer - Live - FOB - W/E Nov 7 2016 - 3 Month Data Set



Excel

CSV

XML

PDF

Download

Show Latest Cash Market Information

Country of Origin Labeling

- COOL Facilitates Competition
 - Empowers consumers & producers
 - USA Beef. It's What's for Dinner!
 - Prevents packers from leveraging cheap supplies to drive down cattle prices
 - Brazil already 5th largest importer, is expected to export about 209 million pounds in 2017. (USDA estimated 88 million pounds in its rule).
 - Brazilian calf in May 2015: \$506. In U.S.: \$1,575.
 - » March & September 2016 GAIN Reports

Did COOL Work?

A 2010 USDA study found that consumers are willing to pay more for “beef produced entirely within the United States.”

USDA-GIPSA Investigative Report on COOL, at 1, 347, available at <http://www.r-calfusa.com/COOL/090205File3COOLstudy.pdf>.

The WTO panel noted that Canadian affidavits reported “price discounts for imported animal and *meat* as a result of the COOL requirements[.]”

2011 WTO Panel Reports at ¶7.488 (emphasis added).

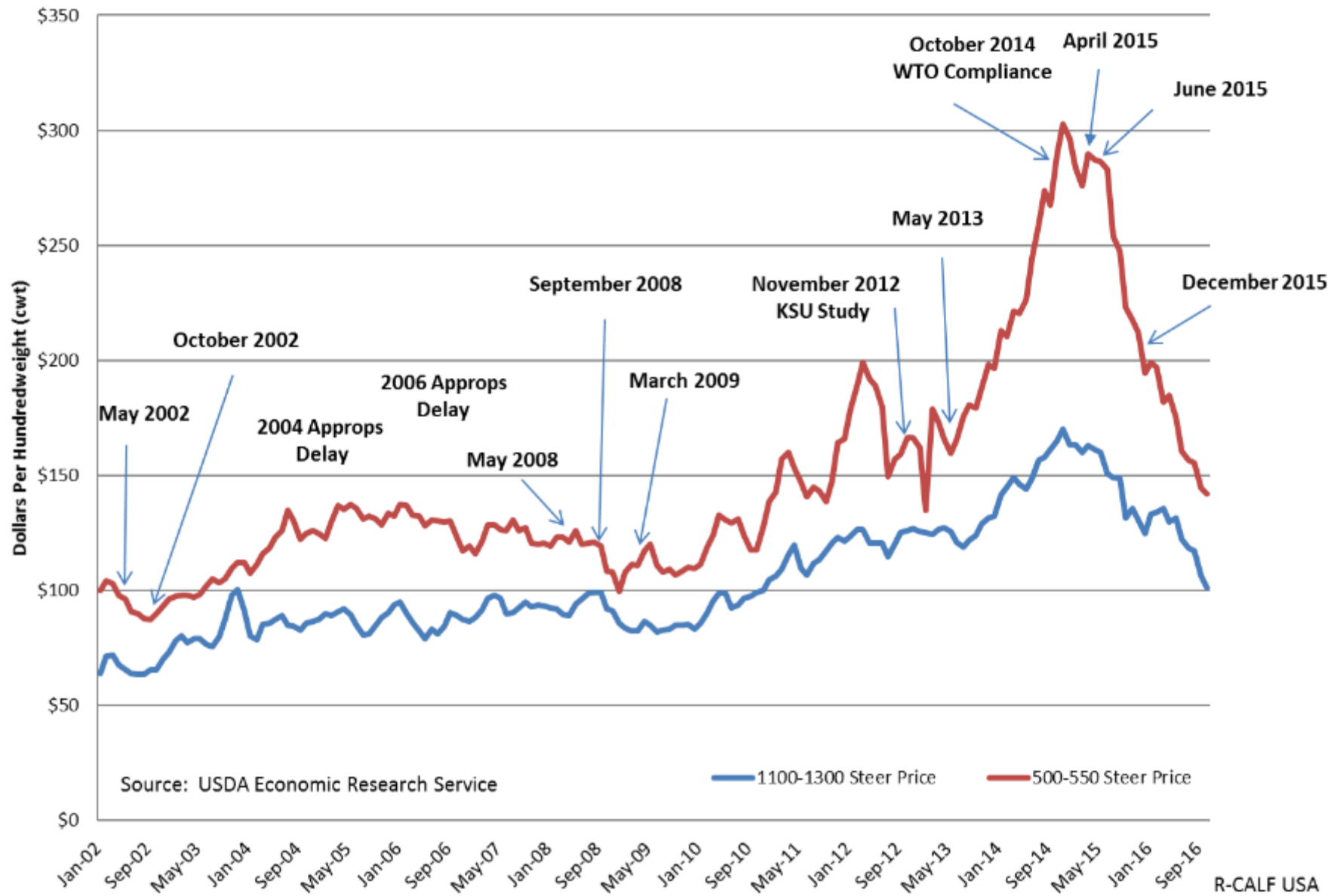
Figure 7 Global heavy steer prices*



Source: IPCVA (Argentina, Paraguay); MLA (Australia); Esalq/Cepea (Brazil); INAC (Uruguay); USDA (US), Canfax (Canada)

* Indicative heavy steers including grassfed and grainfed categories

COOL & Cattle Prices



Priority No. 1

- **We must restore mandatory COOL that reserves the USA label only for beef that is born, raised, and slaughtered in the U.S.**
- Immediate Action: Call your congressional delegation and urge them to draft/support mandatory COOL legislation for beef. Tell them the new legislation must close the WTO-exploited loopholes.

WTO-Exploited Loopholes

- Exemptions (for certain establishments and for processed food items) limited the amount of beef subject to labeling.
 - 67% of Beef and 84% of Pork Exempt.
- COOL labels did not accommodate cattle raised in two countries and, therefore, were vague and inaccurate.

GIPSA Rules

- Packers & Stockyards Act of 1921 prohibits unfair, unjustly discriminatory or deceptive practices; granting undue or unreasonable preferences or advantages; and does not require a showing of competitive injury.

Status of GIPSA Rules

- Two Proposed Rules
 - Tournament Systems and Poultry Growing Arrangements
 - Undue Preference and Advantage
- One Interim Final Rule
 - Farmer Fair Practices Rules
 - Harm or likelihood of harm to competition

Scenarios for Undue Preference or Advantage

- In return for a feedlot's commitment of all its cattle:
 - packer promises to pay all costs plus \$30 per head.
 - packer offers a stop-loss contract, promising no losses greater than \$30 per head.
 - packer offers a \$30 per head across-the-board payment not related to weight or quality.
 - packer agrees to consistently pay more than the cash price, even when quality of cattle is significantly lower.
 - packer sends feedlot a year-end bonus of \$0.10 per pound for all cattle committed during the year.

Scenario for Competitive Injury

- A cattle feeder testifies before Congress that packers are manipulating the cattle futures market. In response, the Big 4 Packers retaliate by refusing to bid on the cattle feeder's cattle.

Why Are GIPSA Rules Needed?

- The Big 4 Packers Possess Monopsony Power, which Reduces Competition
- To Restore Competition, Must Either Break-up the Monopsonies or Subject them to Regulation
- Neither the Administration nor Congress has the Will to Break-up the Big 4 Packers
- Thus, their conduct must be regulated to preserve competition
- GIPSA Rules Are Needed to First Restore and then to Preserve Competition

Priority No. 2

- We must support GIPSA rules that properly implement the P&S Act to prevent anticompetitive, monopsonistic practices.
- Immediate Action: Call your congressional delegation and urge them to support the finalization of the GIPSA rules.

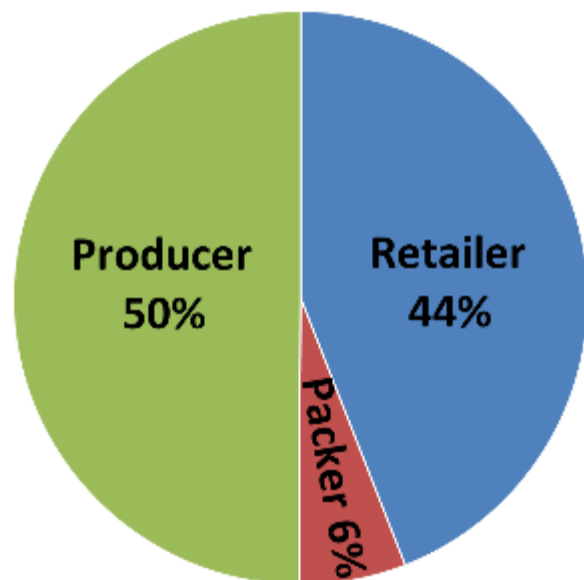
Antitrust Enforcement

- **Sherman Antitrust Act of 1890**
 - Prevents monopolistic conduct that harms the competitive process, but not individual competitors.
- **Clayton Act of 1914**
 - Prohibits certain business practices that are conducive to the formation of harmful monopolies.
 - Section 7 cited as basis for 2008 enforcement action against JBS/National Beef Packing Company.
- **Packers and Stockyards Act of 1921**
 - Prohibits conduct that harms individual market participants

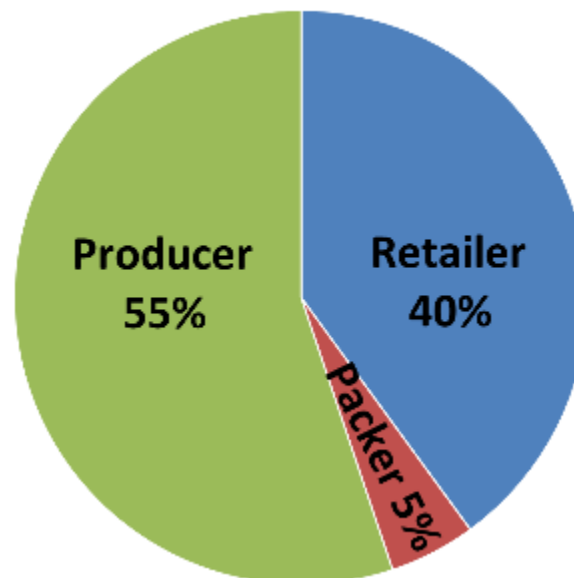
Antitrust Enforcement

- **40-year Lack of Antitrust Enforcement**
 - Unchecked mergers, acquisitions, territory apportionment, collusion, price manipulation
- **Stiegert *et al.*, 2011:** Packers switch between cooperating (colluding) and competing depending on whether short-term cattle supplies are tight (competition phase) or plentiful (cooperation/collusion phase). According to this study, the packers' margins declined significantly when they had to compete and fed cattle prices were reduced 8-9 percent when they cooperated.

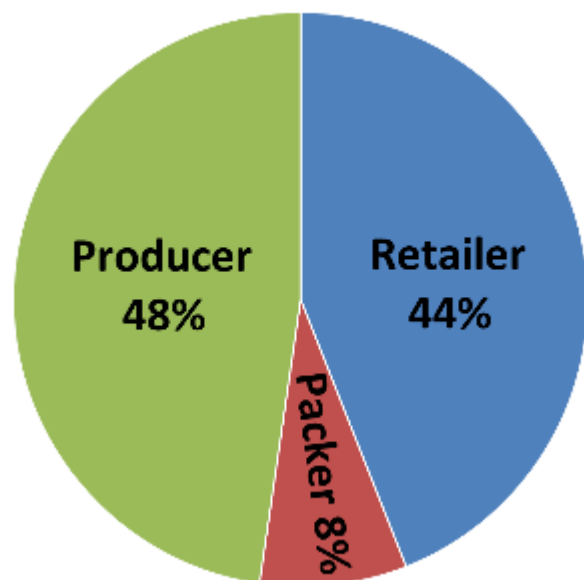
Allocation of Consumers' Beef Dollar
September 2013



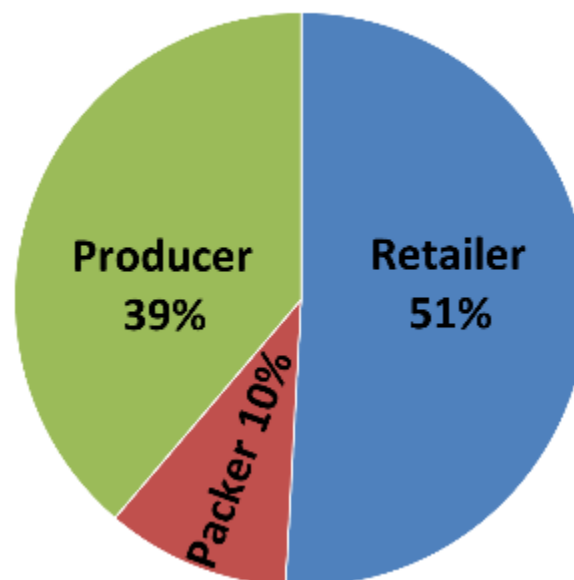
Allocation of Consumers' Beef Dollar
September 2014



Allocation of Consumers' Beef Dollar
September 2015



Allocation of Consumers' Beef Dollar
September 2016



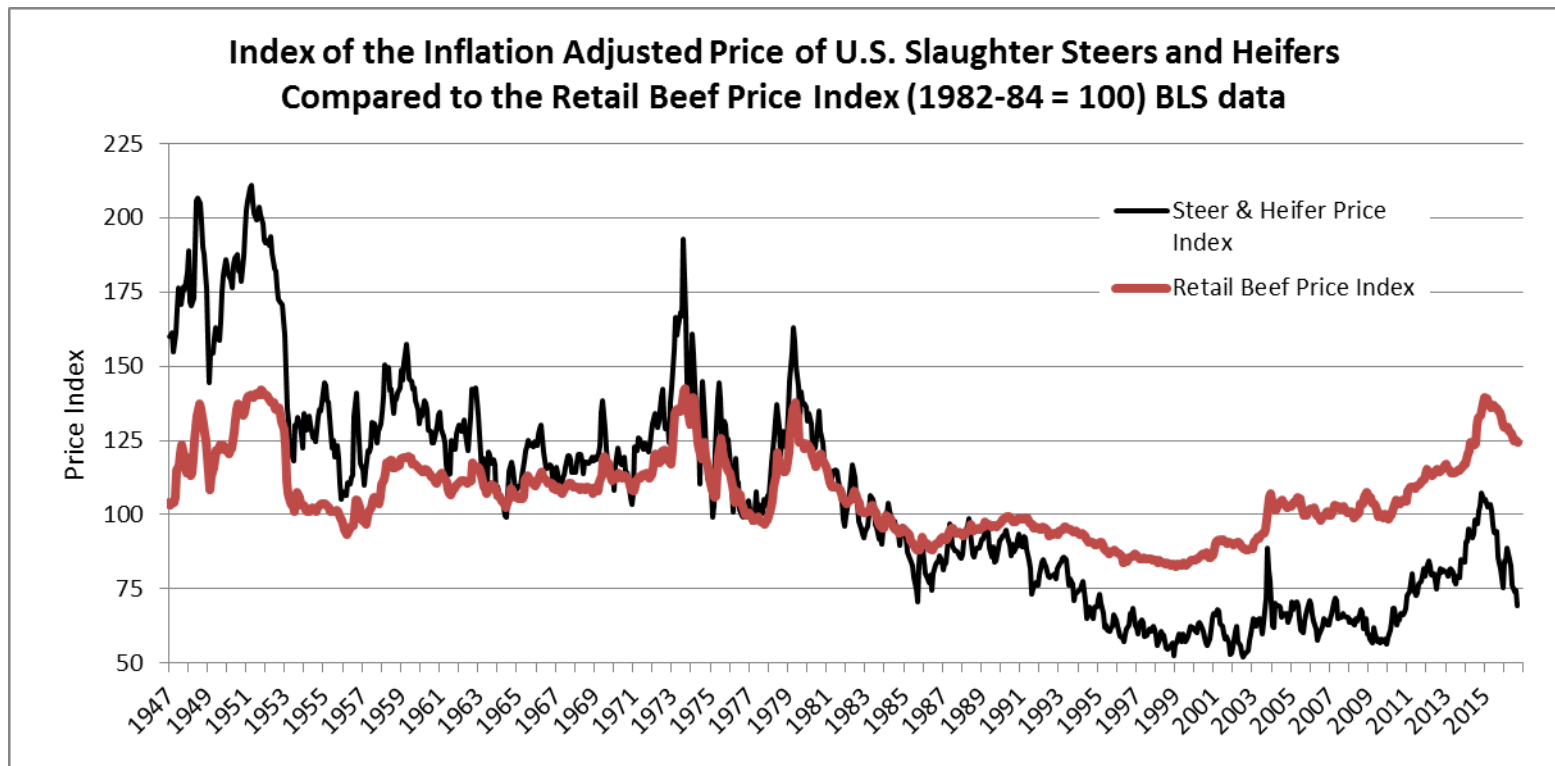
Mergers and acquisitions are about gaining market power, not efficiency

Blonigen et al. 2016 (U of OR): "we find that M&As are associated with increases in average markups, but find little evidence for effects on plant level productivity. We also examine whether M&As increase efficiency through reallocation of production to more efficient plants or through reductions in administrative operations, but again find little evidence for these channels, on average."

R-CALF USA's Enforcement Requests

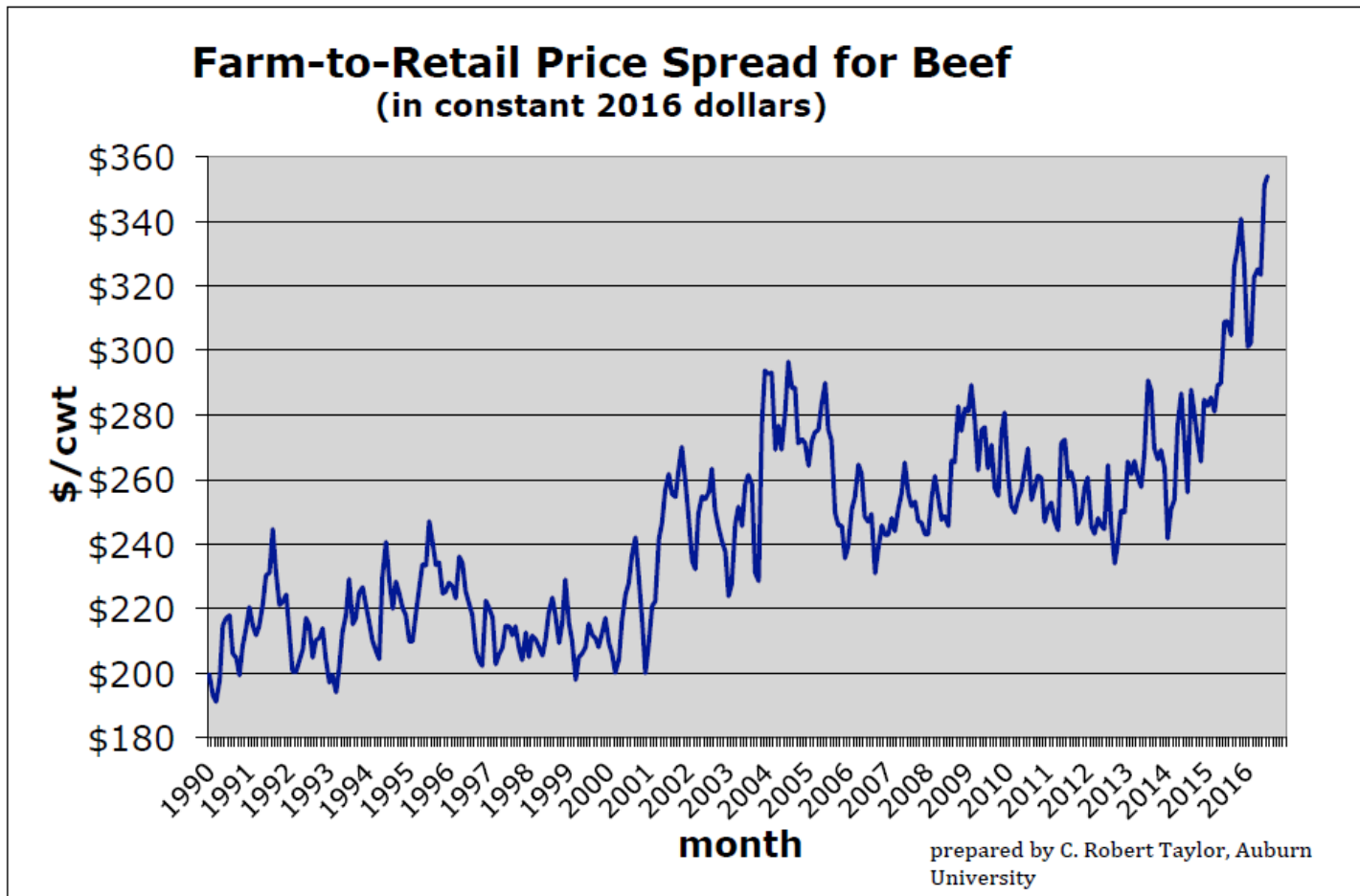
- 2008 JBS/Smithfield Beef & National Beef
- 2009 JBS/Pilgrim's Pride (substitute protein)
- 2010 JBS/McElhaney Cattle Company (final gathering point)
- 2012 JBS/XL Four Star Beef (Idaho and Nebraska)
- 2013 Shuanghui's Acquisition of Smithfield Foods
- 2014 Tyson's Acquisition of Hillshire Brands Co
- 2016 Friona Industries Acquisition of Two of Cargill Cattle Feeders' Feedlots

Disconnect Between Retail Beef Prices and Live Cattle Prices

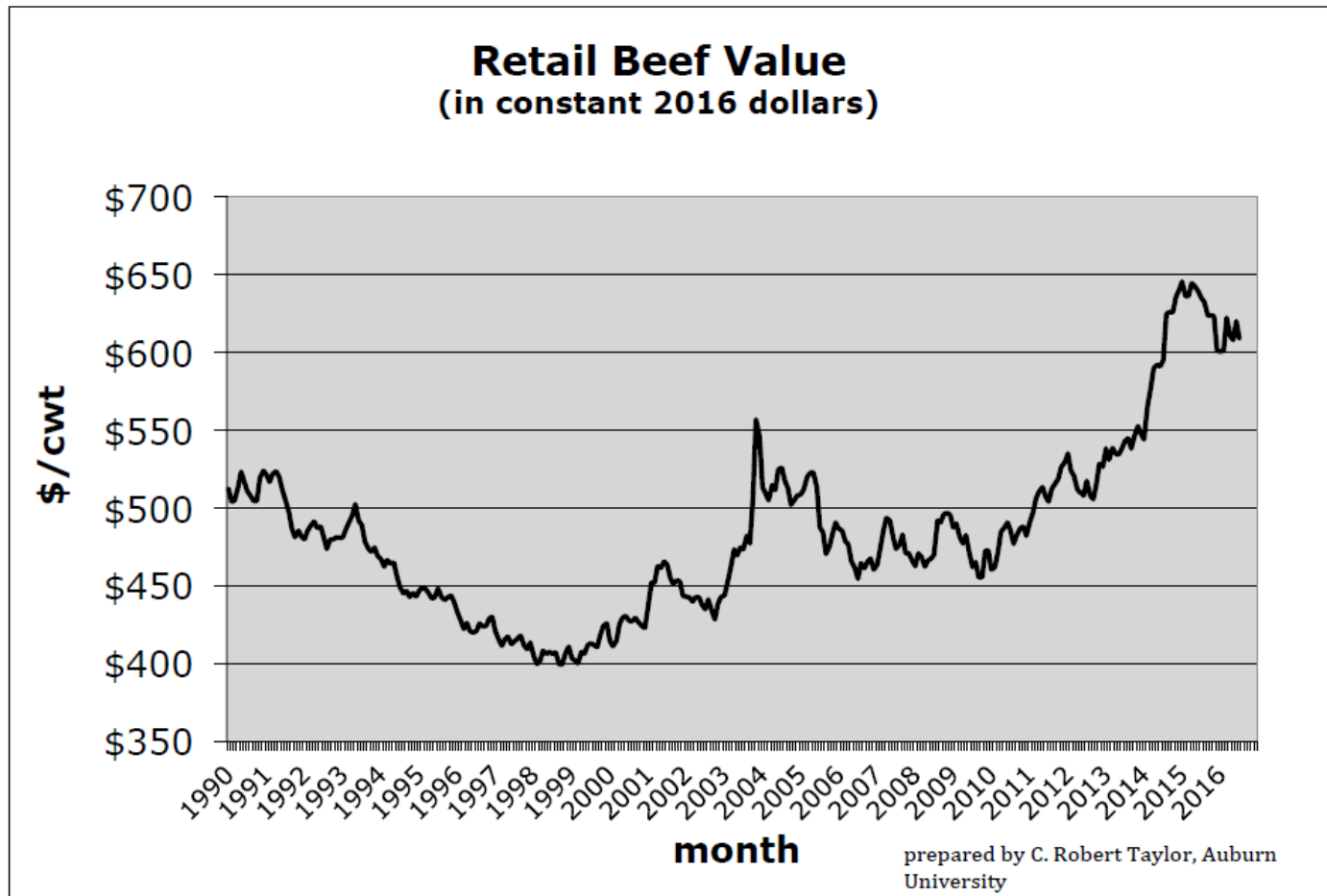


C. Robert Taylor, Auburn University

Exploitation of Producers & Consumers



Exploitation of Producers & Consumers



Priority No. 3

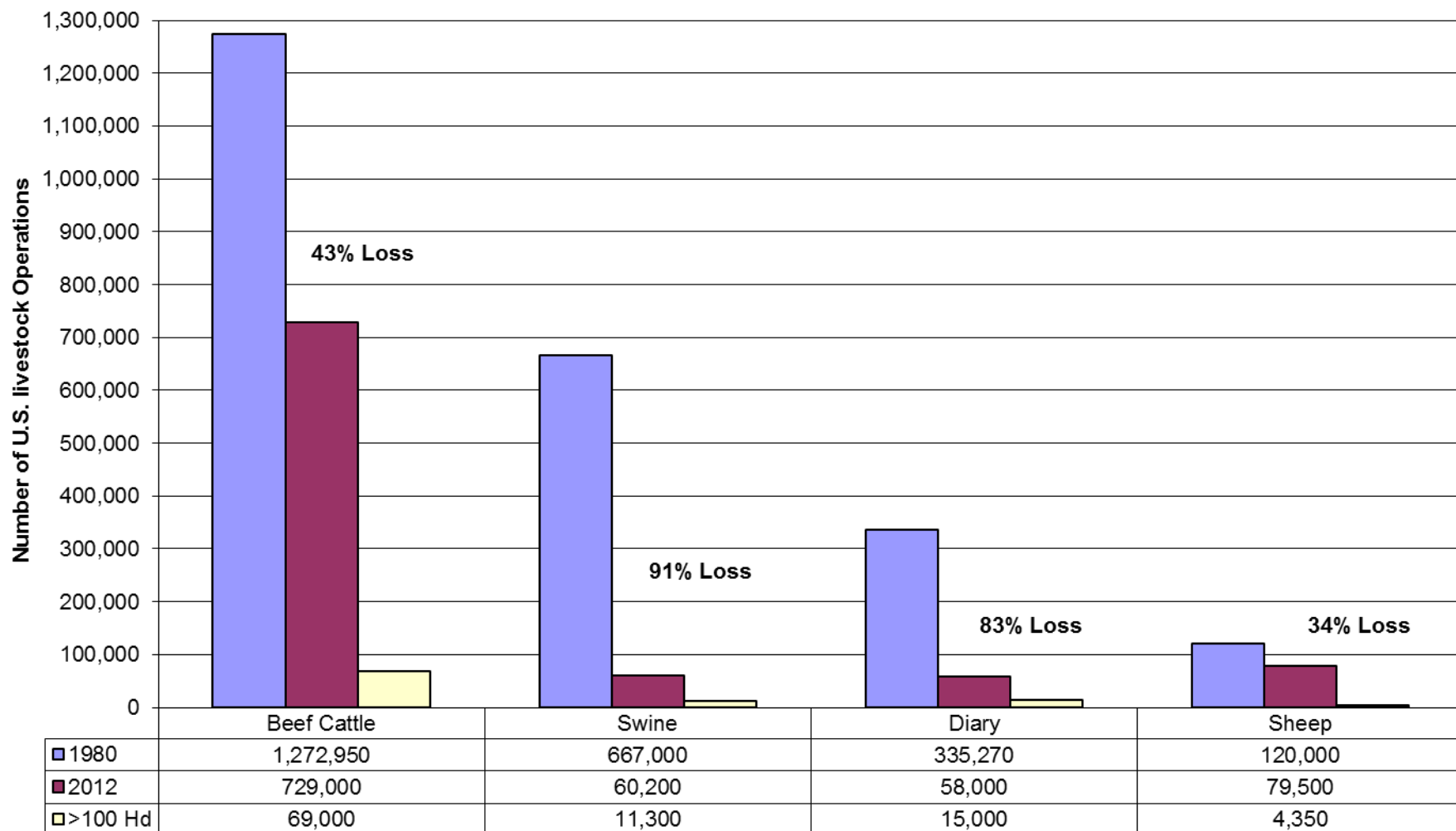
- We must begin to aggressively enforce antitrust laws before we reach the point where there is no longer any meaningful competition to preserve, *i.e.*, before the competitive processes and competitive marketing channels (e.g., salebarns, farmer-feeders, order buyers, packer buyers) are dismantled.

Price Manipulation in Cattle Markets

- Beginning in Mid-2015, Cattle Prices Fell at a Record Pace and by a Record Amount Despite the Fact that Market Fundamentals Suggest Cattle Producers Should be Enjoying the Very Best of Times.
 - How did the expected 3 plus-year upside in cattle prices (based on industry's limiting biological characteristics) get compressed into less than 18 months (July 2013 – November 2014)?

The Last Frontier

Loss of U.S. Livestock Operations 1980-2012

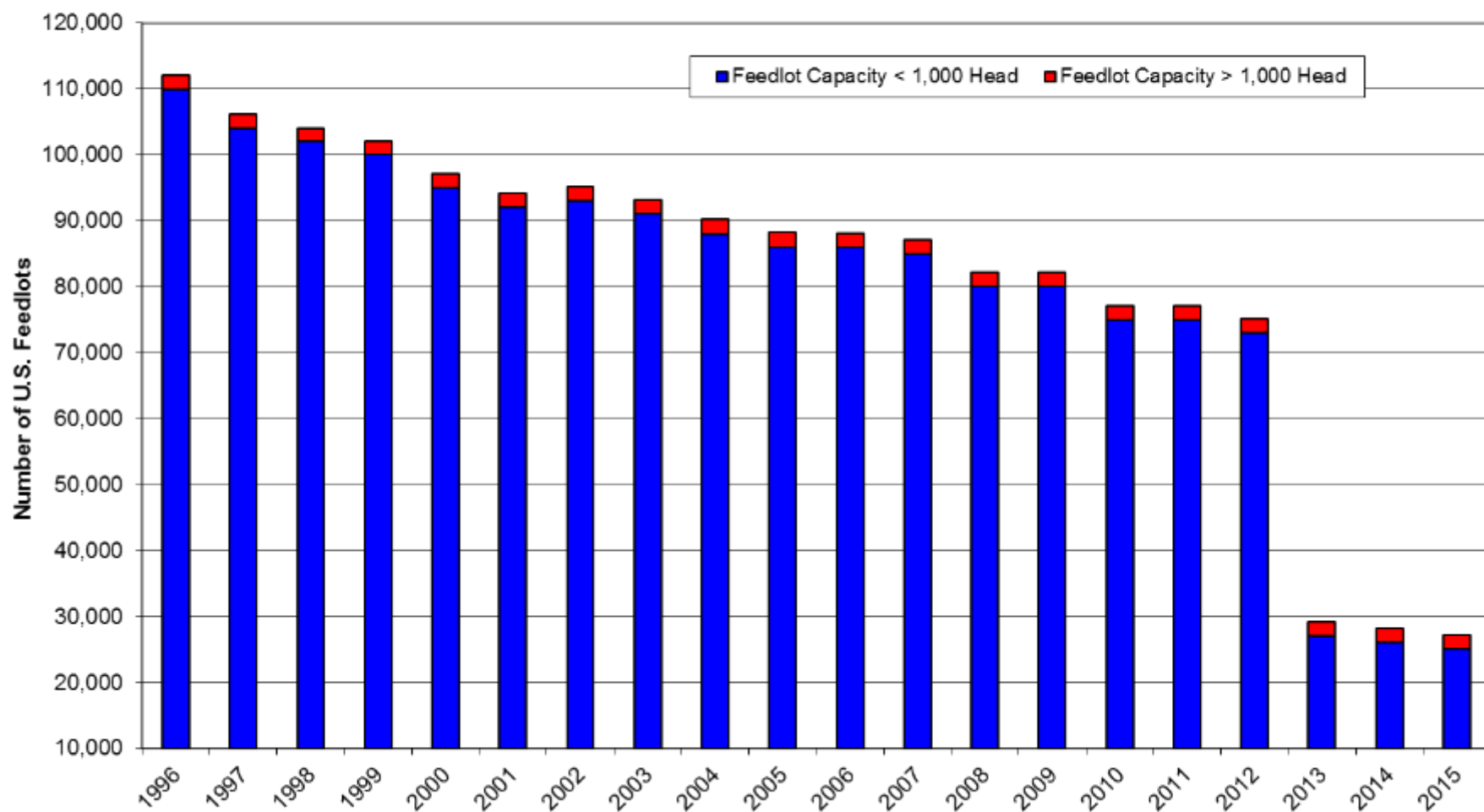


Source: USDA-NASS

Type of Livestock Operations

R-CALF USA

**Decline in Numbers of U.S. Feedlots
1996-2015
(loss of 84,920 feedlots in past 19 years)**



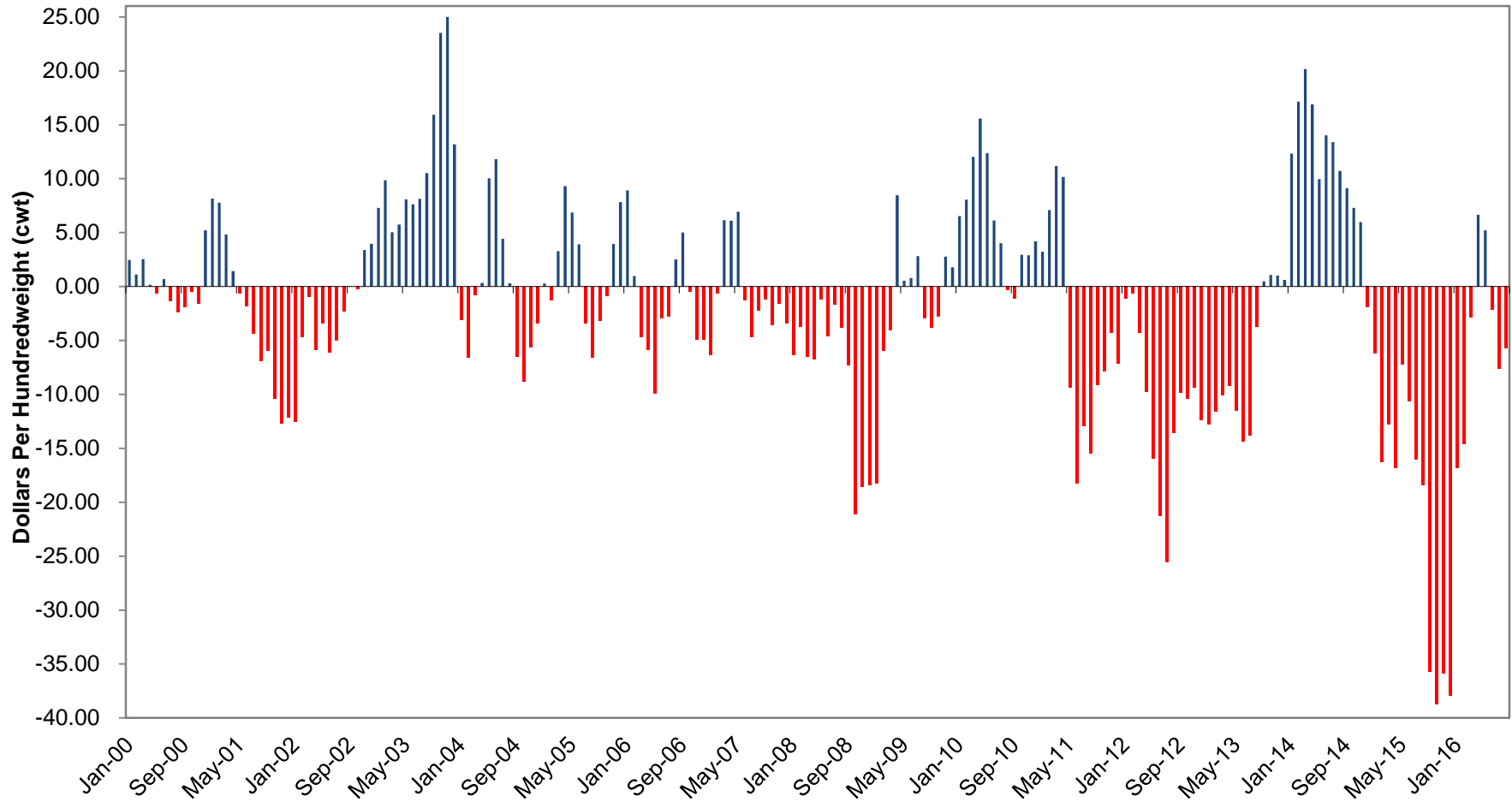
Source: USDA-NASS, Various Cattle on Feed Reports

R-CALF USA

Supply Chain Capture

Returns to U.S. Cattle Feeders (Jan. 2000 - August 2016)

Prolonged and Persistent Losses to Cattle Feeders (Ave. loss of \$26.52 per head per month)



Source: USDA-ERS High Plains Cattle Feeding Simulator

R-CALF USA

Destruction of Price Discovery

LMR Purchase Type Breakdown by Region

NATIONAL

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Jan - Aug 2016
Cash	52.1%	49.4%	47.3%	42.6%	38.8%	37.4%	32.6%	26.0%	23.1%	23.1%	21.3%	25.4%
Formula	33.2%	34.3%	37.4%	39.1%	43.7%	43.1%	47.4%	54.8%	59.8%	56.8%	57.0%	57.1%
Forward Contract	4.8%	7.2%	6.8%	11.2%	9.5%	11.9%	13.2%	12.0%	10.8%	15.8%	17.5%	13.5%
Negotiated Grid	9.9%	9.0%	8.5%	7.1%	8.0%	7.6%	6.7%	7.2%	6.3%	4.3%	4.2%	4.0%

Source: USDA AMS Livestock, Poultry & Grain Market News

TEXAS -OKLAHOMA-NEW MEXICO

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Jan - Aug 2016
Cash	47.2%	42.5%	36.7%	31.5%	26.4%	21.5%	17.0%	10.2%	6.1%	3.0%	2.6%	6.3%
Formula	42.2%	42.2%	48.4%	53.3%	60.4%	66.9%	72.7%	76.0%	83.0%	84.6%	85.9%	82.4%
Forward Contract	3.1%	5.0%	4.4%	5.8%	5.4%	4.9%	4.4%	5.4%	4.0%	7.4%	9.3%	7.2%
Negotiated Grid	7.5%	10.3%	10.5%	9.3%	7.8%	6.7%	5.9%	8.4%	6.9%	5.1%	2.1%	4.0%

Source: USDA AMS Livestock, Poultry & Grain Market News

IOWA-MINNESOTA

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Jan - Aug 2016
Cash	73.9%	68.8%	68.8%	66.7%	63.9%	65.6%	61.8%	56.4%	54.6%	57.0%	56.7%	52.1%
Formula	7.2%	8.4%	8.2%	9.0%	10.3%	11.2%	10.9%	20.5%	23.2%	20.3%	20.2%	21.2%
Forward Contract	7.1%	10.2%	13.3%	16.7%	13.2%	13.9%	17.1%	13.2%	13.8%	17.1%	16.1%	18.8%
Negotiated Grid	11.8%	12.6%	9.7%	7.6%	12.6%	9.3%	10.2%	9.9%	8.4%	5.7%	7.0%	7.9%

Source: USDA AMS Livestock, Poultry & Grain Market News

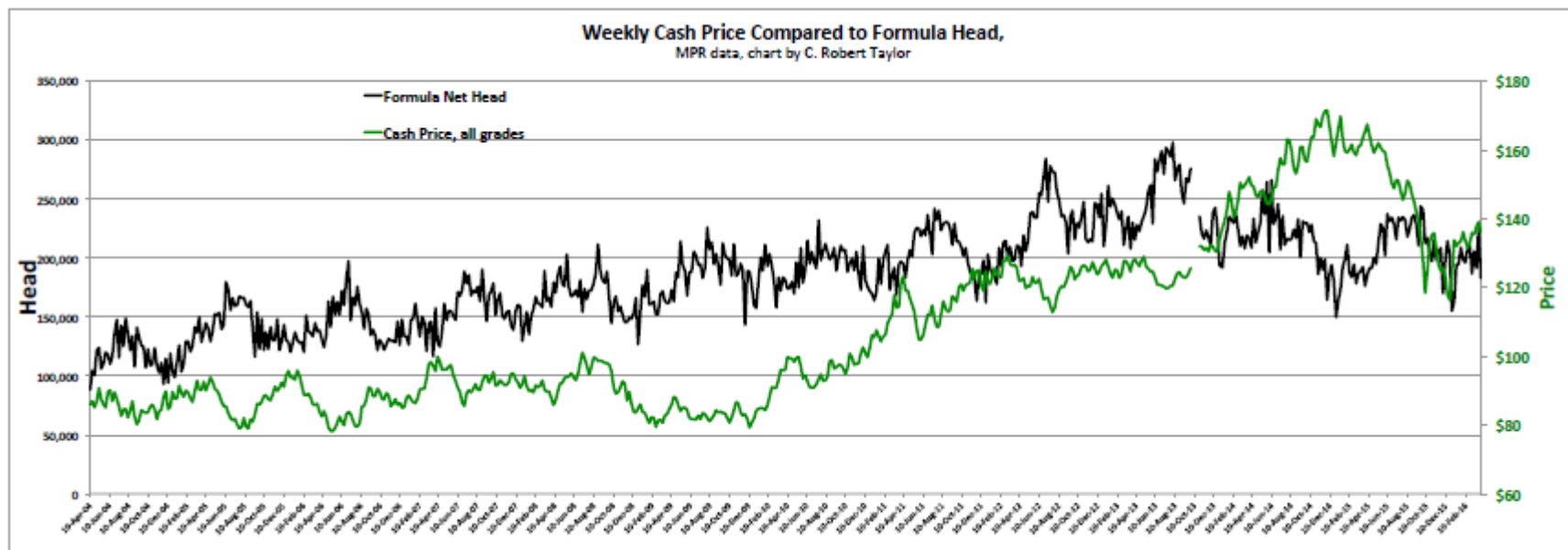
Including the Futures Market

- Unprecedented limit moves in single year
- Major disconnect between futures price and cash price
- Market fundamentals do not explain the larger moves
- Big orders attributed to big market moves were made manually, not electronically
- Cattle futures market has become extremely thin where today a 200 lot market order can turn the cattle futures market on its head
- CFTC investigation of 400 orders taken April 28, 2016

Manipulation With Captive Supplies

Captive Supply Study

- Captive Supply Impact on the U.S. Fed Cattle Price: An Application of Nonparametric Analysis, Journal of Rural Development, 2011
 - When captive supply reaches 20 percent of total cattle procurement, “[b]eyond this point, the U.S. fed cattle price decreases approximately \$0.20/cwt ~ \$0.40/cwt for each percent increase in the captive supply share.”
 - 2015 reduction: \$10.90-\$21.80 per cwt, or between \$136.25 and \$272.50 per head



Market Investigation Timeline

- Jan. 5, 2016 Investigation Request
- Jan. 14, 2016 Staff Briefing
- Jan. 22, 2016 First Follow-up
- Feb. 3, 2016 Second Follow-up
- Mar. 9, 2016 Third Follow-up
- Mar. 28, 2016 Fourth Follow-up
- April 20, 2016 Request to GAO
- May 10, 2016 S.2911 (Sen. Grassley)
- Oct. 23, 2016 GAO Briefing

Priority No. 4

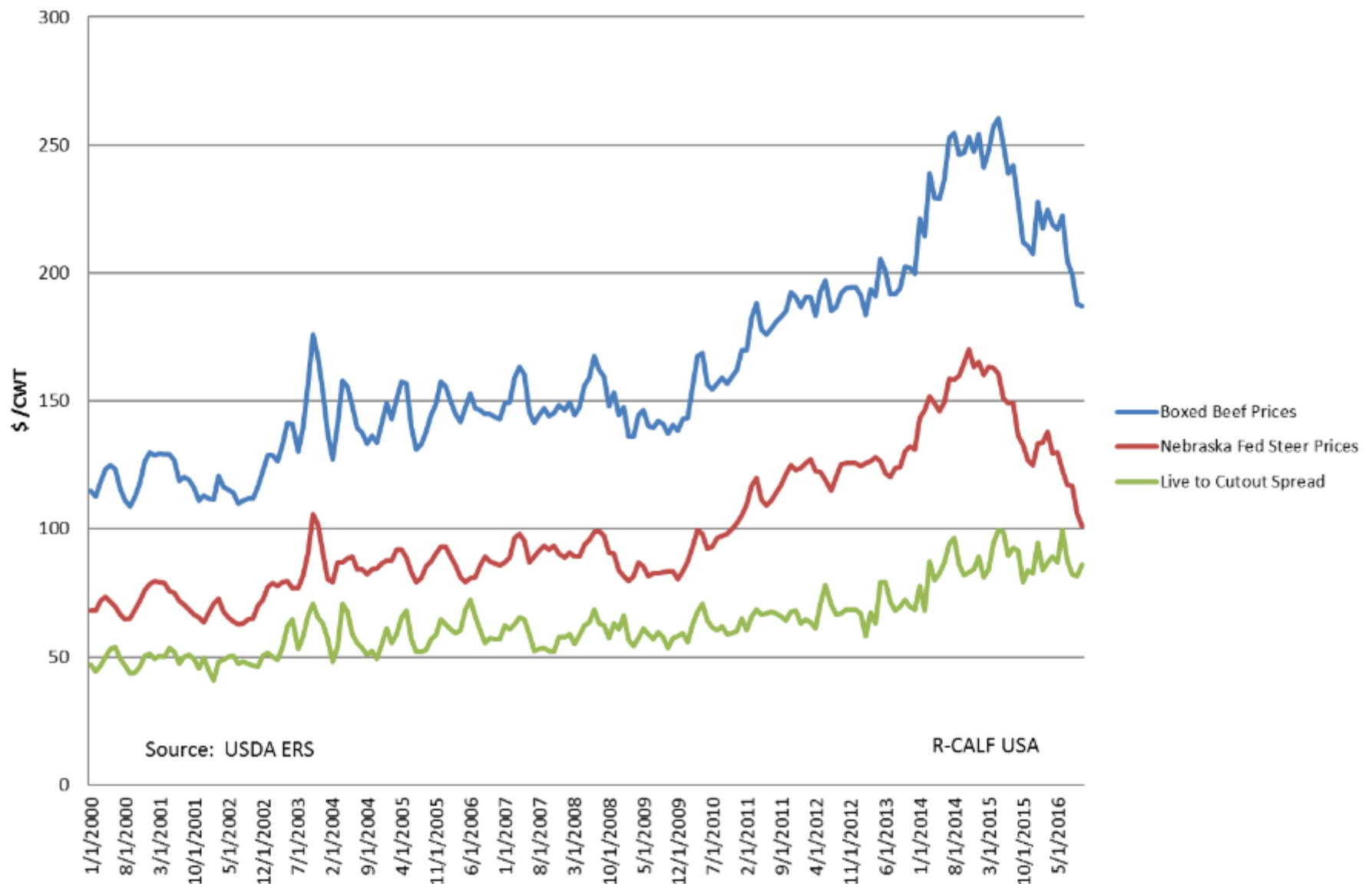
- We must pass legislation to stop the Big 4 from using captive supply cattle to capture control of the live cattle supply chain.
- Immediate Action: Call your congressional delegation and urge them to cosponsor Sen. Grassley's ban on packer ownership of livestock, S. 2911

October 21, 2016

“Recent data from USDA shows the near-record to historically wide spreads between cash fed cattle values and boxed beef and retail prices. This indicates windfall cumulative margins beyond the production sectors of the beef industry.”

- Nebraska Cattlemen -

Monthly Wholesale Boxed Beef Prices, Monthly Nebraska Fed Steer Prices, and Monthly Live Cattle to Beef Cutout Spreads



Beneficial Trade, Not Just Trade

- Livestock Disease Import Restrictions
 - USDA is systematically dismantling U.S. disease-related import restrictions.
 - TB from Mexico
 - FMD from Argentina, Brazil, and Namibia.
 - BSE from Europe
 - Catastrophic consequences.

Economic Realities & Global Governance

Measuring Economic Strength

$$\mathbf{GDP = C + I + GS + X - M}$$

C is consumption

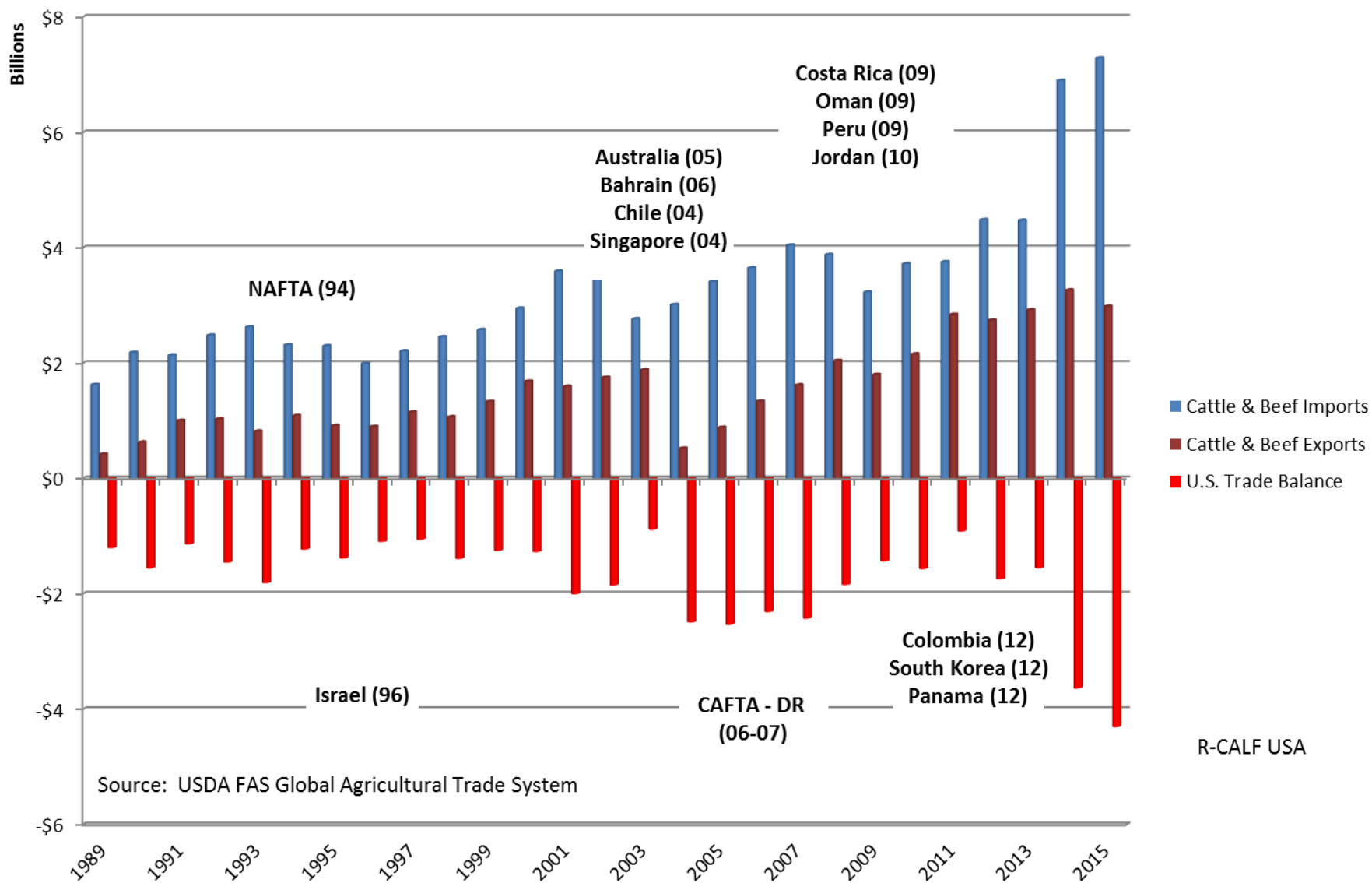
I is investment

GS is government spending

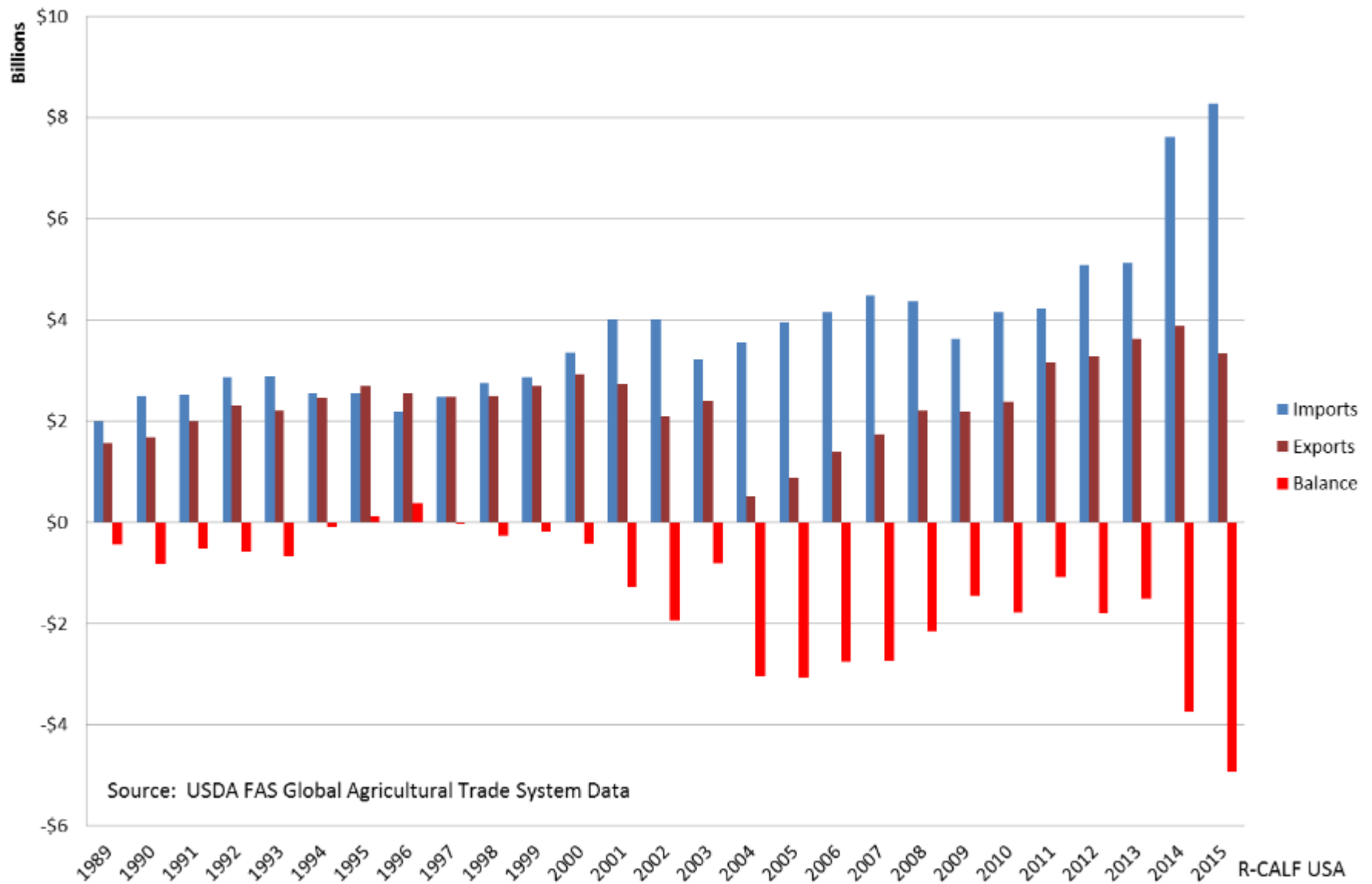
X – M is net exports

Net exports strengthen; Net imports weaken
(\$737 billion goods deficit lowered GDP 3%)

U.S. - 20 FTAs Trade Balance In Cattle, Beef, Beef Variety Meat and Processed Beef



TPP Trade Balance in Live Cattle, Beef, Beef Variety Meats, and Processed Beef



Beneficial Trade, Not Just Trade

- Cattle industry does not overproduce
- Extremely sensitive to changes in supply
- Not the low-cost producer
- **TPP**
 - Beef is Beef: Origin is Country Where Animal Is Slaughtered
 - No Safeguards for Import Surges
 - Invites Foreign Governments and Foreign Corporations to Challenge Food Safety Standards
 - Will Not Reverse U.S. Trade Deficit in Cattle and Beef

Do U.S. Cattle Producers Benefit Automatically from Increased Exports?

- Not if packers source the beef exported to the new market from imported cattle or imported beef.
- Not if the packers leverage their market dominance to capture the share received from increased sales that a competitive market should allocate to producers.
- TPP: USITC's optimistic prediction is that after 15 years, the net benefits (new exports minus new imports) would be \$457 million in increased sales - roughly one half the number of cattle typically slaughtered each week.
~250,000 head.

United States Sovereignty

- Self-imposed erosion of national sovereignty the United States is experiencing at the hands of the World Trade Organization (WTO).
- The WTO is the global, governing body authorized by trade agreements to adjudicate trade rules.
- In 2015 the WTO threatened the U.S. with an ultimatum to either repeal its domestic COOL law or face economic sanctions.
- Congress quickly capitulated and repealed the U.S. statute that required COOL for beef and pork.
- The chief member of the WTO panel that issued the coercive ultimatum was not an independent judge. Instead, he was a Mexican national – a citizen of one of the two countries that brought the COOL complaint to the WTO.

United States Sovereignty, Con't.

- Turned basic rules of procedure and evidence, which are hallmarks of U.S. jurisprudence, on their head.
- The U.S. now subjects its laws and lawmaking powers to a subverted WTO procedure whereby U.S. law becomes subservient to trade agreement rules as interpreted not by independent judges but by WTO panels.
- Much less about tariff reduction and much more about global governance and global standardization.
- We must withdraw from the now established global process whereby U.S. law becomes subservient to trade agreement rules as interpreted by WTO panels.

Priority No. 5

- We must renegotiate current trade agreements such as NAFTA and CAFTA and oppose the TPP to:
 - allow the U.S. to maintain import restrictions for countries with ongoing disease problems
 - protect the supply-sensitive cattle industry
 - designate the origin of beef as the country where the animal was born, raised, and slaughtered.
 - provide the U.S. cattle industry a meaningful opportunity to achieve more balanced trade with its trade-agreement partners.
- Action: Urge congressional delegation to oppose TPP

Beef Checkoff Program

- Perhaps the greatest hypocrisy in the history of the U.S. cattle industry.
- The resulting cattle tax revenues total about \$80 million per year and are collected by state beef councils that retain half the taxes and remit the other half to the national beef checkoff program.
- Most of the \$40 million in cattle taxes received by the national beef checkoff program is paid to the National Cattlemen's Beef Association (NCBA), a lobbying organization that represents both multinational meatpackers and producers.
- More than 82 percent of the NCBA's total funding is derived from the federal cattle tax.
- The NCBA's political mantra is its call to get government out of agriculture. The NCBA lobbies against cattle-producer initiatives on the basis that it does not want the government involved in the cattle industry. Yet, the NCBA is the single-largest benefactor of the \$80 million government-mandated cattle tax that funds government speech.

Beef Checkoff Program, Con't.

- The cattle tax cross-subsidizes the NCBA's lobbying efforts, it promotes the anticompetitive message that beef is beef regardless of whether the cattle were born and raised in Honduras, Nicaragua, Mexico or the United States, and the federal government's audit determined that hundreds of thousands of cattle tax dollars were improperly spent by the NCBA.
- July 2016 Checkoff Reapportionment
 - Domestic producers lose 2 seats on CBB
 - Importers gain 1 seat on CBB (KS, NE, SD, IA, OK)

Strategy

- Judicial Branch
 - Unconstitutional for federal government to compel producers to fund the private speech of state beef councils
- Legislative Branch
 - S.3200 Voluntary Checkoff Program Participation Act
 - S.3201 Commodity Checkoff Program Improvement Act of 2016

Next Administration/Congress

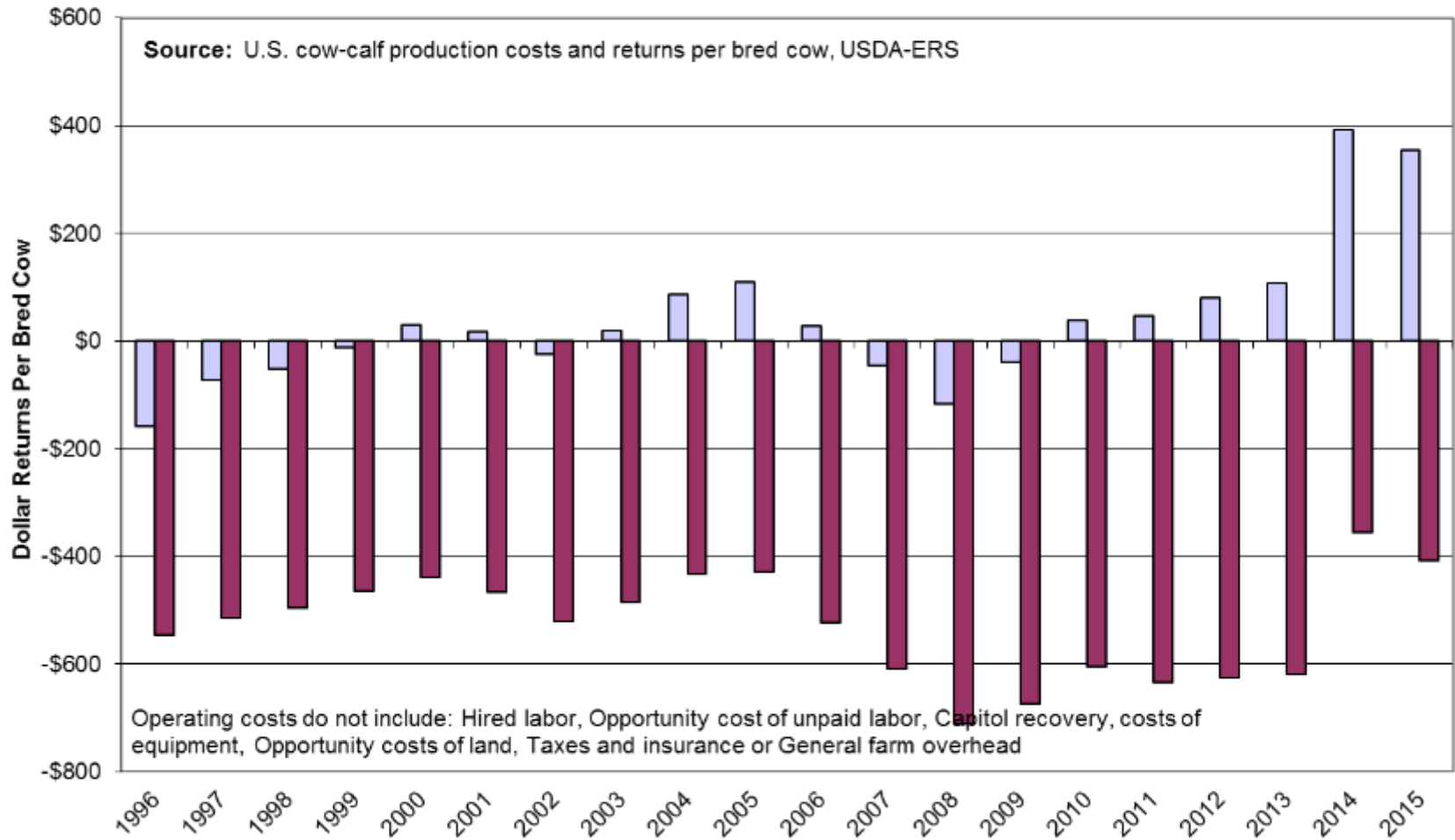
- We must repeal the National Beef Checkoff Program as it now exists or, alternatively, pass legislation that would: 1) prohibit any lobbying organization from contracting with the checkoff program; 2) allow U.S. cattle producers to promote USA beef; and/or 3) require the checkoff program to be purely voluntary
- **Immediate Action: Encourage your two senators to cosponsor the two checkoff bills: S. 3200 and S. 3201.**

Private Property

- Pre mid-70s: National interest to populate federally managed lands.
- Federal government now pursuing a systematic campaign to remove ranchers and their livestock from those lands.
 - The vested water and grazing rights being impaired or revoked.
 - Land-use restrictions are rendering some grazing lands uneconomical to operate.
 - Laws pertaining to endangered species, conservation, and water are being interpreted and implemented in a manner that demonizes the very ranchers who, for generations, dedicated their lives to the stewardship of the air, land and water, for which their ranching operations were dependent.
- *We must reverse the federal government's ongoing campaign to curtail if not end grazing on federally managed lands by independent cattle and sheep ranchers and restore a cooperative, helpful, respectful and non-litigious relationship between federal land management employees and U.S. ranchers.*

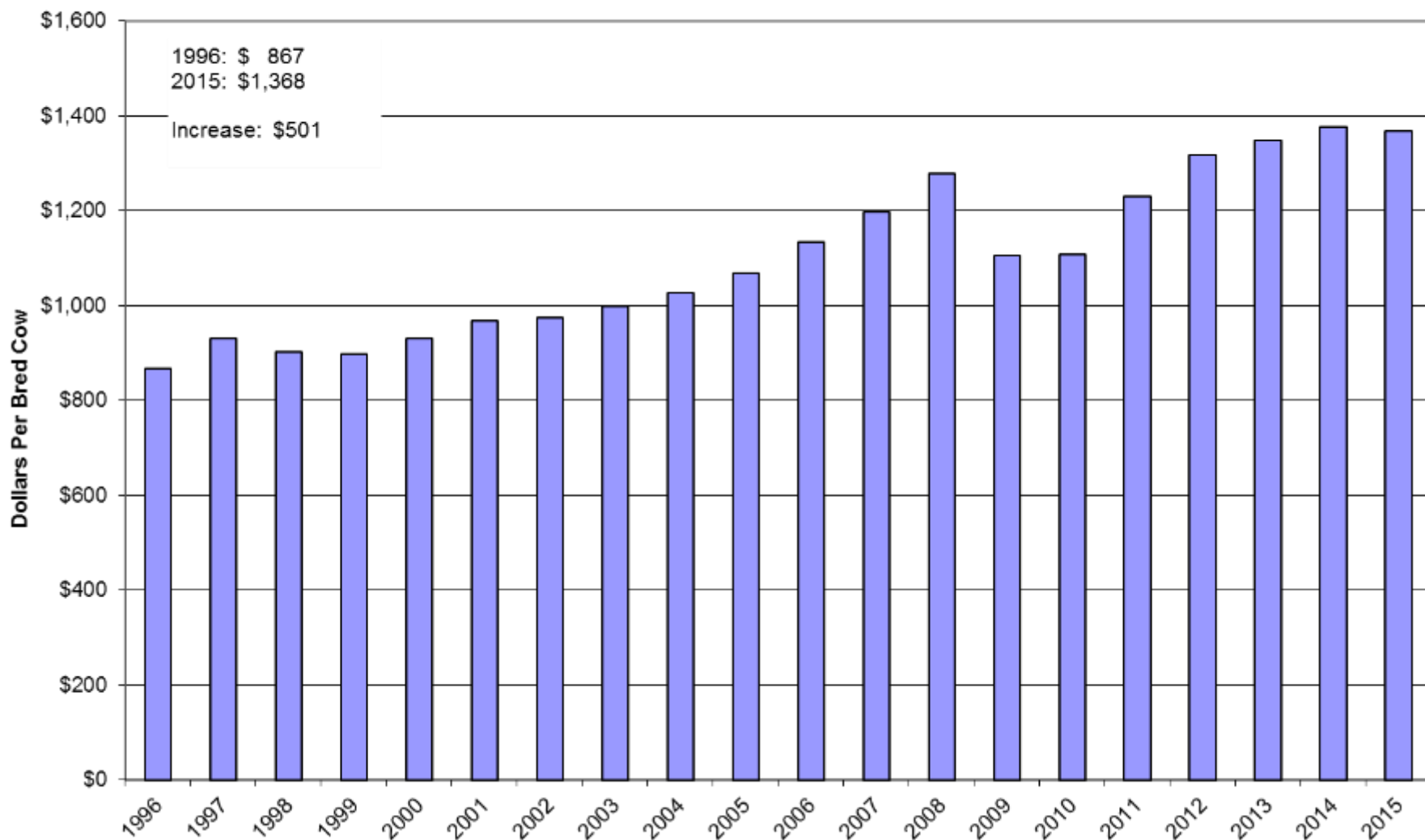
U.S. Cow-Calf Returns Per Bred Cow

■ Returns based only on operating costs
 ■ Returns based on total costs



R-CALF USA

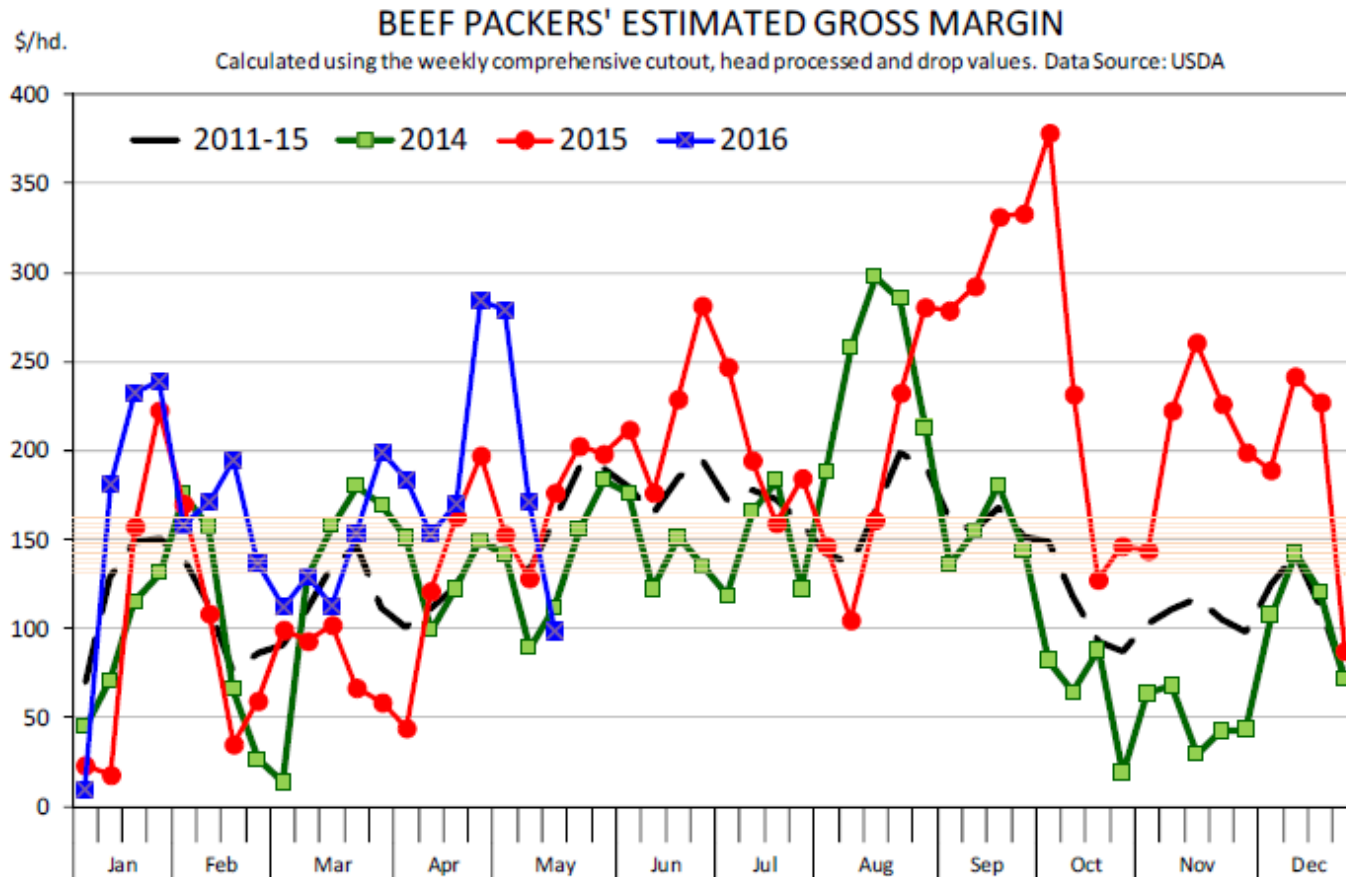
Cost Per Cow of Raising One Calf



Source: USDA-ERS

R-CALF USA

Daily Livestock Report, CME Group, Vol. 14, No. 97 / May 17, 2016



Daily Livestock Report, CME Group, Vol. 14, No. 177 / September 7, 2016

“Annually, the calculated gross margin for slaughtering steers and heifers in 2015 was the third highest in the last two decades; the higher years were 2003 and 2006. Note that those higher years were pre the latest cowherd liquidation and resulting packer excess capacity period and also were pre-recession. This year could easily surpass 2015’s level by more than 30% and set a new 20-year high beef packer margin.” (Emphasis in original).

Market Access Risk

Packer concentration has empowered packers to become market gatekeepers, where the many cattle sellers have too few cattle buyers.

18 weeks in which there was only one market participant, four weeks in which there were none So we consistently can see region by region where we had a presence where the region is dominated by one buyer, clear and simple.

- Bruce Cobb, CEO, Consolidated Beef Producers, 2010 -