

Fighting for the U.S. Cattle Producer!



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Nebraska State Senators
Nebraska Unicameral Legislature

**Re: Nebraska Legislative Bill 176 Is the Antithesis of Free Market Capitalism
and Must Be Defeated**

Dear Senators:

On behalf of the members of the Ranchers Cattlemen Action Legal Fund, United Stockgrowers of America (R-CALF USA), I write to express strong opposition to Nebraska Legislative Bill 176 (LB 176).

R-CALF USA is the largest producer-only national trade association representing the U.S. cattle industry. Nebraska is one of our largest membership states. We represent only the live cattle segment of the multi-segmented beef supply chain. This means we represent farmers and ranchers who sell cattle, but we do not represent the packers that buy our members' cattle.

In 2007, the U.S. Department of Agriculture (USDA) conducted a study of the U.S. hog industry and disclosed the critical importance of preserving a strong, open market outlet for hogs. The study found that when only 9 percent of slaughtered hogs were procured in the open cash market, and the rest procured through packer ownership or contracts, a 'statistically significant presence of market power' was identified.¹ The study determined that 'a 1% increase in contract hog quantities *causes* the spot market price to decrease by 0.88% (emphasis added),'² which effectively lowers the price paid to all independent hog producers.

Alarming, in many hog procurement regions in the U.S. today, the percentage of hogs sold in the cash market is now well below the 9-percent threshold that existed in 2007. However, the Nebraska Legislature has the unique opportunity to protect its state's free market system from the encroachment of this statistically significant presence of market power by defeating LB 176. In economic terms, this market power is also known as abusive monopsony power because

¹ See USDA GRAIN INSPECTION PACKERS AND STOCKYARDS ADMINISTRATION (GIPSA) LIVESTOCK AND MEAT MARKETING STUDY, VOLUME 4: HOG AND PORK INDUSTRIES FINAL REPORT 2-12 tbl.2-3 (2007), available at http://www.gipsa.usda.gov/psp/publication/livemarketstudy/LMMS_Vol_4.pdf. *Id.* at ES 2-3; 2-12.

it projects market-destroying, monopoly-like effects *back* through the supply chain rather than *forward* to consumers.

It is irrefutable that free market capitalism cannot exist without free markets. The effect of LB 176 will be to eliminate free markets. This will occur because LB 176 will allow Chinese-owned Smithfield Farms to bypass the free market, produce its own hogs under its corporate veil, and create an entirely new economic risk for all of Nebraska's independent hog producers.

The new economic risk LB 176 will license Smithfield Farms and other corporate integrators to create is "market access risk," which is defined by the USDA as "the availability of a timely and appropriate market outlet."³

By procuring their hog supply needs through direct- and contract-ownership, Smithfield Farms and other corporate integrators can avoid participating in the free-functioning livestock market. This will effectively destroy timely and appropriate market outlets for Nebraska's remaining independent hog producers because a market without buyers is no market at all.

If LB 176 passes, Nebraska's independent hog producers will be relegated to nothing more than residual suppliers to hog integrators who will make marketing opportunities available to independent producers only periodically – only when integrators run short of their own hogs.

Nebraska represents the last bastion of free markets for livestock producers when compared to anywhere else in the United States. Although LB 176 is specific to hogs, it is no doubt the precursor for a similar exemption for cattle.

The thousands of members of R-CALF USA strongly urge you to defend our free market system by defeating LB 176. We urge this because LB 176 will gift to corporate integrators a licensee to destroy market outlets for Nebraska livestock and inflict abusive market power upon Nebraska's independent livestock producers.

Sincerely,



Bill Bullard, CEO

³See USDA GRAIN INSPECTION PACKERS AND STOCKYARDS ADMINISTRATION (GIPSA) LIVESTOCK AND MEAT MARKETING STUDY, VOLUME 3: FED CATTLE AND BEEF INDUSTRIES FINAL REPORT 5-4 (2007), http://www.gipsa.usda.gov/psp/publication/livemarketstudy/LMMS_Vol_3.pdf.