

06/18/2002 Entry: "28 U.S. Cattle Associations Call for Immediate Senate Investigation"

June 18, 2002

Dear Majority Leader Daschle, Minority Leader Lott, Chairmen Harkin and Leahy, and Ranking Members Lugar and Hatch:

We write to express our concern regarding the functioning of the United States cattle market. We believe the United States Senate Agriculture and Judiciary committees should lead an investigation into the workings of these markets with an eye toward enacting legislation that addresses the concerns of cattle producers across the United States. The severity of the current market situation dictates the need for a more expedient review than what could reasonably be accomplished through administrative channels.

Structure of the U.S. Cattle and Beef Markets

As you may know, there are several individual sectors within the overall beef industry. The beef industry is broken down between the live cattle sector and the U.S. beef sector. The United States live cattle industry is divided into two sub-sectors: production and feeding. These sub-sectors represent a production chain leading to the cattle industry's end customer – the U.S. beef industry. The U.S. beef industry, in turn, is divided into three sub-sectors: processing, wholesaling, and retailing. These sub-sectors represent a production chain leading to the beef industry's end customer – the consumer. Each of these sub-sectors, in both the cattle and beef industries, is an independent economic unit, i.e., an industry within an industry. They are, however, operationally integrated in order to coordinate the overall industry's final product – consumable beef.

If the marketplace is truly competitive, product value is progressively added within each independent sector, beginning first with the production sector of the cattle industry. Economic pricing signals, driven by consumer demand, are focused at the end of the beef industry's production chain – the retail sector. Thus, the retail sector is the direct recipient of pricing signals that must percolate down the production chain, distributing profits to each of the five integrated sectors.

We are concerned that forces are at work to unravel this framework and we believe that we must look at both the recent fluctuations in the marketplace as well as the function of the marketplace over the last several years to understand what changes are occurring and what action must be taken.

Recent Activities

In recent months, live cattle markets experienced repeated market collapses following a series of negative events, including announcements of routine FMD

investigations. However, traditional market fundamentals would have dictated far less volatility and a market recovery, but this has not occurred. According to USDA-ERS, U.S. beef production hit a record high in 2000. During April – May of that record-breaking year, Choice retail beef prices were \$3.07/lb. (retailer share), boxed beef prices were \$1.24/lb. (packer share), and fed cattle prices were \$.72/lb. (producers share). Production levels in 2002 are currently 2 percent below the 2000 record. However, in April – May 2002, Choice retail beef prices are \$3.30/lb., boxed beef prices remain around the \$1.20/lb. level, and fed cattle prices are in the mid-\$.60/lb.range. Traditional economic market fundamentals would predict that live cattle prices should have increased, or at least have stayed the same, during this period versus the 10–15 percent decline that actually occurred. This comparison of current prices to prices received during the record-breaking beef production year of 2000 demonstrates the irrational functioning of our industry's market structure.

With April – May 2002 U.S. beef production 2 percent below 2000, and with increasing beef demand, continued growth in the U.S. population, and a USDA-ERS forecast for 2002 export gains over 2001, a 7 percent increase in the Choice retail beef price is understandable. However, a 10-15 percent decline in fed cattle prices to the low to mid-\$60s price range does not fit the equation. There can be no doubt that the traditional market fundamentals, which have historically rewarded U.S. cattle producers with higher prices, are being frustrated.

Also unexplained during this period of depressed live cattle prices is the May 23, 2002, report by Data Transmission Network (DTN) Livestock that the gross margins earned by beef packers are higher than anytime recorded since 1993. While there may not be one single factor that has caused the price differential between the retail and production sectors, more than likely it is the cumulative result of several factors. Contributing factors may include: captive supply impacts, distortions in the futures market, a record high increase in packer concentration levels, and an increase in market power at both the wholesale and retail level. In addition, imports are impacting US cattle markets as reported by Lynn M. Bragg, Chairman of the International Trade Commission (ITC) during the 1999 ITC investigation on Live Cattle from Canada, who said at that time that packers are using imports to suppress domestic live cattle prices.

Activities of Last Several Years

In addition, we are concerned about the increasing concentration in the marketplace that we believe has impacted cattle prices going back to at least 1993. During the twenty years prior to 1993, the prices received by the cattle industry were closely correlated with the prices received by the beef industry, with cattle industry prices rising and falling in conjunction with beef industry prices. This relationship suggested that prices received by the cattle industry were responsive to consumer demand and, therefore, responsive to competitive market signals. During this period, the cattle industry captured a majority share of

the value of the final product, approximately 60 percent, and the beef industry captured a minority share, approximately 40 percent of the value of the final product.

According to our data, this relationship ended in 1994. Beginning in 1995 and continuing today, the percentage shared by each industry has been inverted, with the beef industry now capturing the majority of the final product value, 54 percent in 2001, and the cattle industry capturing a minority share, 46 percent. This radical transformation of the relative economic positions of the two industries occurred during a period marked by increased retail demand, rising retail prices, and a declining supply of domestic inventories. We believe a competitive market with efficient firms would not operate this way. According to USDA data, concentration in the meat packing industry has increased significantly during this time. Specifically, the four-firm concentration ratio for steer and heifer slaughter was 36 percent in 1980. This concentration measure has increased steadily since then, increasing to 50 percent in 1985, 72 percent in 1990, 79 percent in 1995 and 81 percent in 1999 (the last year for data reported by USDA GIPSA on this measure).

The foregoing challenges facing U.S. live cattle markets have not gone unnoticed. They have, however, gone unanswered for several years. The March 2002 report issued by the General Accounting Office (GAO), *Economic Models of Cattle Prices*, found that in reference to the beef industry, “. . . no other manufacturing industry showed as large an increase in concentration since the U.S. Bureau of the Census began regularly publishing concentration data in 1947 . . .” The GAO further referenced a 1996 report by the Grain Inspection Packers and Stockyards Administration (GIPSA) stating in regard to the 1996 report, “This report also stated that while the body of evidence from the literature was insufficient to support a finding of noncompetitive behavior, GIPSA also could not conclude that the industry [beef industry] is competitive.”

In their November 1999 Final Determination on Live Cattle from Canada, three of the six ITC commissioners found the impacts of beef industry concentration deserving of comment, notwithstanding the non-jurisdictional nature of their comments. Commissioner Carol T. Crawford noted, “. . .there is considerable concentration in the packing industry . . . which can and does exert significant influence over prices for cattle.” Commissioner Thelma J. Ashley noted, “. . . the beef packing industry is heavily concentrated . . . [which] leads to unequal bargaining positions between the two groups [packers versus feedlot operators] . . . This disparity in bargaining positions enables . . . beef packers to have a more significant influence on price levels . . .” Then-Chairman Lynn M. Bragg noted, “The concentration of packers increases the packers’ leverage relative to cattle prices.” The challenges facing the U.S. live cattle market are widely known, now is the time to effectively and expeditiously address these challenges.

Conclusion

We respectfully call upon the U.S. Senate Agriculture, Nutrition and Forestry Committee and the U.S. Senate Judiciary Committee to conduct an immediate and thorough investigation into the cause or causes of why our U.S. cattle industry markets have failed to properly respond to the favorable competitive market signals received and enjoyed by the beef industry since 1994.

In addition, the investigation should look into the cause or causes of why U.S. cattle industry markets have suffered repeated collapses during the past few weeks and whether the same forces that adversely influenced our markets in 1993 have become more pronounced, or if new forces have entered the marketplace to effect the more recent collapses.

As a part of this investigation, we urge the respective U.S. Senate Committees to evaluate the packing, wholesaling, and retailing industry structures and conduct and to recommend statutory changes to facilitate proper market operation.

We stand ready to work with you in any way to help ensure that the livestock industry remains competitive.

Sincerely,

State Cattle Associations:

Colorado Cattlemen's Association
Kansas Cattlemen's Association
Kansas Hereford Association
Independent Cattlemen's Association of Texas
Missouri Stockgrower's Association
Montana Cattlemen's Association
Nebraska Cattlemens, Inc.
Nevada Live Stock Association
New Mexico Cattle Growers' Association
North Dakota Stockmen's Association
South Dakota Stockgrowers Association
Washington Cattlemen's Association
Wyoming Stock Growers Association

Local/County Cattle Associations:

Beartooth Stock Association (Montana)
Bitterroot Stockgrowers Association (Montana)
Grant County Stockgrowers (Oregon)
Houston County Cattlemen's Association (Minnesota)
Lincoln County Stockgrowers Association (Colorado)
Madera County Cattlemen's Association (California)
Minnesota Cattlemen's Association
Pike's Peak Cattlemen's Association (Colorado)

Pueblo County Stockmen's Association (Colorado)
Southern Colorado Livestock Association
Yuma County Cattlemen's Association (Colorado)

Cattle Marketing Associations
Livestock Marketing Association
South Dakota Livestock Auction Markets Association

Regional Cattle Associations
American Indian Livestock Association

National Cattle Associations:
R-CALF United Stockgrowers of America (R-CALF USA)