

09/24/2002 Entry: "Competitive Markets Are Threatened...Suggestions on How to Restore Competition"

"On behalf of the thousands of cattle producing members of R-CALF United Stockgrowers of America, I'm here to tell you that meatpackers are abusing market power and they are threatening the independence of our U.S. cattle producers," stated Leo McDonnell, Jr., President of R-CALF United Stockgrowers of America (R-CALF USA) in his written testimony submitted to the United States Senate Judiciary Committee. The Senate Judiciary Committee held a field hearing August 23, 2002 in Sioux Falls, South Dakota, and solicited testimony on "Ensuring Open and Competitive Markets: Are Meat Packers Abusing Market Power?"

R-CALF USA testified that the U.S. live cattle industry is the largest sector in agriculture and generates more than \$30 billion annually for the U.S. economy. "During the past several years, however, this vitally important sector of the overall beef industry and the American economy has been in a state of substantial economic crisis, a condition that persists today," stated McDonnell.

R-CALF USA directed the Committee's attention to four charts demonstrating that anti-competitive forces are accelerating in the U.S. cattle market. "1994 was the year in which the packing industry's exercise of considerable buying power became manifest within the U.S. live cattle market," wrote McDonnell. He informed the Committee that an unprecedented market concentration level, the deployment of new cattle procurement tools leading to greater use of captive supplies, and an increase in imported live cattle that function similar to captive supplies are the factors the meatpackers have combined to provide themselves the ability to exercise and abuse market power. For the last factor, R-CALF USA provided a chart showing "the record U.S. production of beef reported by USDA in 2000 occurred despite a significant decline in domestically produced beef from 1999 levels, and the near record U.S. production of beef in 2001 occurred with domestic production declining to a three-year low," wrote McDonnell.

"By 1994, the effects of the radical changes that occurred in the structure of the U.S. cattle industry resulted in a significant disruption to the competitive functioning of the U.S. live cattle market," wrote McDonnell. He listed five indicators demonstrating that the competitiveness of the live cattle market has been disrupted:

The synchronous relationship shared between live cattle prices and retail beef prices was lost in 1994. In the six-year period following 1993, the live to retail spread increased by 88 percent. By July of 2002, the spreads increased to \$1.93 per pound. Using this indicator alone, this equates to a loss to U.S. producers of over \$240 per head on a 1200-pound animal.

From 1994 on, both packers and retailers captured a disproportionate share of the consumers' beef dollar. In 1993, the producers' share was 56 percent. In July

of 2002, the producers' share dropped to 42 percent. Using this indicator alone, this equates to a loss to U.S. producers of \$245 per head on a 1200-pound animal.

Since the mid-90s, while both domestic and export demand for beef strengthened, the U.S. live cattle industry has been in a significant state of decline. Domestic cattle inventories have been falling since 1996 as cattle producers have been liquidating their herds. The USDA reported that the calf crop in 2001 was likely the smallest since the 1950s. Ironically, between 1996 and 2000, live cattle imports grew by 11 percent.

Since 1992, the packers' per head margin has increased an incredible 133 percent, increasing from \$62.28 per head in 1992 to \$145.20 per head in 2001. Consumers have not seen a reduction in the price of retail beef that a competitive market would predict when input costs associated with the final product are drastically reduced. Based on USDA-ERS data, live cattle prices for July 2002 had fallen to \$.63 per pound, a decline from 1993 prices of 18 percent. Retail prices for July 2002 were \$3.29 per pound, an increase over 1993 prices of 12 percent.

R-CALF USA further informed the Committee that the meatpacking industry readily admits that it is acquiring greater control over the live cattle industry. R-CALF USA wrote that the Packers and Stockyard Act of 1921 prohibits meatpackers from controlling prices. McDonnell testified, "It would appear that the NCBA commissioned Sparks study provides documentation that 'Packers use ownership of livestock to help control unit costs in a variety of ways . . .' If the Committee believes as I do that the unit costs that Sparks refers to is the price the packers pay for live cattle, then I would urge the Committee to cause the packing industry to immediately halt all practices that help them control the unit costs of live cattle," he wrote.

In his closing remarks, McDonnell wrote, "I am testifying today that our markets are not competitive, that packers have and are interfering with the competitive forces in our markets to control the unit price of their number one input costs – the live cattle raised and marketed by my members. And, I have identified the tools presently used by the meatpacking industry to accomplish this objective."

R-CALF USA provided 16 specific recommendations to the Committee to correct the current problems in the marketplace. These recommendations include 1) Banning packers from owning livestock. 2) Calling for an immediate Senate investigation to consider a) Senator Mike Enzi's captive supply amendment that would require a firm base price in formula contracts and would require contracts to be traded in open, public markets; b) Senator Charles Grassley's amendment that would protect our cash cattle market from further thinning; c) packers' use of imports and their affect on the domestic cattle market; d) interstate shipment of state inspected meat, along with minimal performance standards, so state-inspected plants can expand their presently constricted marketing area; e) restricting the use of the USDA quality grade stamp to only

meat derived from animals born, raised, and slaughtered in the U.S.; f) need for increased price transparency in cattle markets; and g) needed reform of the Commodities Future Markets. 3) Re-introduce the Agriculture Competition Title, to strengthen and enforce the Packers and Stockyards Act of 1921. 4) Direct USDA and the International Trade Commission to update and improve the economic models used to explain and forecast cattle and beef prices.