

08/15/2002 Entry: "R-CALF USA: Presentation Outline by CEO Bill Bullard"

Outline of R-CALF United Stockgrowers of America

Presented at Emporia, KS

By

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August 2, 2002

I. STRENGTHS OF THE U.S. CATTLE INDUSTRY

A. \$30 Billion live cattle industry – largest agriculture sector in the U.S.

B. Cattle producers are among the most common and geographically dispersed small business in the U.S.

C. U.S. producers raise the best beef in the world, under the best of conditions, and are highly productive.

II. CHALLENGES FACING THE U.S. CATTLE INDUSTRY

A. U.S. Producers Face a Series of Obstacles that Distort the Outcome of Global Competition.

i. High tariffs abroad

ii. Lack of harmonization of pesticide and chemical use

iii. Lack of harmonization of regulations

iv. Failure to address market concentration

v. Inability to differentiate product

vi. Continued use of export subsidies by trading partners

vii. Failure to address currency valuation differences

viii. Ineffective means of addressing unfair trading practices

ix. Failure to recognize cattle and beef as perishable agriculture commodities

B. Since 1994, Live Cattle Prices Have Lost Their Relationship with Retail Beef Prices

i. In two decades prior to 1994, live cattle prices and beef prices followed in close synchrony.

ii. In 1994, "major adjustment:" beef prices strengthened while live cattle prices fell. (Chart 1)

iii. In fall of 2001, spread between live cattle prices and retail beef prices widened to all-time high of \$1.90 per pound.

C. U.S. Cattle Producers Losing Market Share at Alarming Rate

- i. In 1994, cattle producers' share of consumer beef dollar was 56 percent; in 2002, share dropped to 42 percent. (Chart 2)
- ii. Value of fed cattle has fallen by approximately \$300 per head since 1994.
- iii. Packers' share of consumers' beef dollar has increased 133 percent since 1992: Packers' margin in 1992 was \$62 per head; \$145 in 2001. (Chart 3)

D. R-CALF USA Formed in 1999 Because of a Belief that the Live Cattle Industry Was Not Maintaining the Foundational Cornerstones of Its Industry

i. Evidence that foundational cornerstones were not being maintained:

1. R-CALF USA prompted GIPSA study reveals that Packers were underreporting captive supplies and GIPSA acknowledges it has not performed an audit on the reports submitted by packers since 1988.
2. R-CALF USA prompted the GAO to determine the accuracy of economic models used by USDA and the International Trade Commission (ITC) to evaluate the impacts of the major structural changes which occurred in the cattle market since the 80s (unprecedented market concentration and use of forward contracts and marketing agreements) and significant increases in both live cattle and beef imports. GAO completed its report in March 2002 and concluded that both the USDA's and ITC's models were outdated and incapable of accurately assessing the impacts of these changes on the U.S. live cattle industry.
3. R-CALF USA prompted the U.S. Department of Commerce (DOC) to begin including the cattle industry in its annual report of trading partner export subsidies. 2002 was only the second year live cattle were included in the DOC report and the report found export subsidies in use by a number of U.S. trading partners.
4. U.S. cattle industry has allowed itself to be the most open market in the world with virtually every cattle producing nation either working to further increase access by negotiating a Free Trade Agreement with us or lining up to do so.
 - a. The U.S. already has the lowest tariff rates (4-10 percent), when compared to our trading partners (Japan at 50 percent, Korea at 40.9 percent, EU at 12.8 percent).
 - b. R-CALF USA is only national cattle organization working to retain our current Tariff Rate Quota system that prevents our markets from being the dumping ground for other countries' oversupply problems.
 - c. R-CALF USA was the only national cattle association supporting the Dayton-Craig Amendment in the TPA bill that would have offered additional protections to our trade remedy laws (There are those within our industry that do not want producers to have the right to file another anti-dumping case).
 - d. R-CALF USA was the only national cattle association supporting the designation of perishable and cyclical product for cattle and beef. We succeeded in getting this done in the TPA legislation and it will provide additional remedies should imports cause domestic prices to collapse.
 - e. R-CALF USA is the only national cattle association calling for the United

States to adopt the domestic born, raised, and slaughtered standard for determining international rules of origin in the WTO agricultural negotiations.

f. There are at least six free trade agreements under consideration by the United States. They include the Free Trade Areas of the America's Agreement FTAA (including Argentina and Brazil), Korea, Singapore, Chile, Australia and New Zealand.

g. It was commonly known in Washington and within the industry that the FTAA would not pass Congress without the President having Fast Track authority (TPA).

h. The U.S. negotiating position and the U.S.'s continued emphasis on international trade does not make sense for an industry that does not produce enough product to meet its own domestic demand. The U.S. cattle industry has not produced enough beef since at least 1961 to meet the U.S. demand for its product. This hold true even if you include the 2.4 million head of live cattle imported from Canada and Mexico and counted as domestic production by USDA. (Chart 4)

III. U.S. CATTLE INDUSTRY IS NOT SENDING ACCURATE OR RESPONSIBLE MESSAGES TO CONGRESS

A. New Forces Have Entered Our Marketplace Beginning in the 80s.

i. Our market structure has changed radically. In 1976, the four largest packers controlled 36 percent of all the steer and heifer slaughter. Today, the four largest firms control about 81 percent of all steer and heifer slaughter.

ii. Along with this unprecedented level of concentration (according to the GAO, no manufacturing industry has underwent this level of industry concentration since 1947, the year the Census Bureau began tracking concentration) the packing industry introduced new cattle procurement tools like forward contracts, marketing agreements and alliances.

iii. The industry has admitted that it is working to vertically integrate the beef packing and feeding sectors similar to what has occurred in the poultry and hog industries (See the NCBA commissioned Sparks Study that says, "Vertical integration often attracts investors because of the negative correlation between profit margins at the packing stage and the feeding stage.")

iv. In 1996, the Packers and Stockyards Administration said in its study that it could not conclude that the U.S. cattle industry was competitive.

v. In 1999, then Chair of the International Trade Commission said packers were using imports to leverage down U.S. cattle prices.

vi. The Chairman of IBP cautioned the industry on the effects packer owned cattle would have on cattle prices in 1988.

B. Despite These Facts and Admissions, Congress is Being Told a Different Story. Congress is Being Told by Our Industry Representatives that Our Industry Wants to be Vertically Integrated Much Like the Poultry Industry.

i. At the July 16, 2002, Senate Agriculture Committee Hearing on the packer ownership ban, the American Meat Institute testified, "Demand for consistent quality product has led many firms to exert greater control over the supply chain." AMI also said, "It is unfair to make it illegal for the meat industry to compete with the poultry industry for the consumer's beef dollar."

ii. Also at the July 16, 2002, Senate hearing, the NCBA testified that traditional market forces were causing lower cattle prices:

1. heavy slaughter weights
2. reduced export to Japan
3. record supplies of competing meats
4. poultry crisis

iii. NCBA did not offer that the 22.5 percent increase in live Canadian fed cattle in 2002 accounted for more than the increase in U.S. slaughter numbers, or that the increased exports to Korea more than offset the lost exports to Japan, nor did it ask why, if live cattle prices have fallen so drastically, hasn't their been a significant decrease in the price consumers are paying for beef?

iv. The NCBA also testified that according to the Sparks study it commissioned, the industry would suffer catastrophic losses if packers were prohibited from owning cattle. They said the loss could be \$10 billion dollars.

v. But, our industry is a \$30 billion industry, and according to the Packers and Stockyards Administration, packers own only about 8 percent of the cattle they slaughtered, or about 2 million head. It is simply not logical that a change in ownership of only 8 percent of the cattle would cause a 1/3 loss to the industry.

vi. Although the Sparks study is really a "position paper" supporting the need for packers to vertically integrate the feeding sector, the NCBA attached the study to its Senate testimony.

vii. 2000 was a record production year for beef. That year retail prices were \$3.07/lb and fed cattle were \$.72/lb. During April-May of 2002, production was 2 percent below 2000, retail prices increased to \$3.30/lb., and live cattle prices fell to the low \$.60/lb range. What traditional market fundamentals explain this?

C. The Live Cattle Industry Needs to Make a Choice and It Doesn't Have Much Time. We Either Believe in the Merits of a Free and Open Competitive Market or We Don't.

i. Auburn University Economist Robert Taylor used Kansas State Data to determine returns to cattle feeding.

1. The average returns to feeders from 1980-1990 was \$41.40
2. The average returns to feeders from 1991-2001 was <14.60>

ii. How much longer can our independent feeders stay in business, especially if you look at the more recent losses of the past two years?

iii. The choice our industry must make is this:

1. Do we want to restore and preserve a free and open competitive marketplace that will determine both our production and price? Or,
2. Do we want to continue moving toward the poultry model where the integrator (packer) dictates both the production and price for our cattle?

D. If Producers Make the Decision to Support a Free and Open Competitive Marketplace, They Must Understand Two Realities:

- i. The economic interest of live cattle producers and the rest of the beef industry is naturally different
- ii. There are elements within our industry that fully support greater packer control over production and price and less competition
- iii. Remember, no representative of our industry so much as called for even a study until after R-CALF USA elevated the Packer Ownership Ban to the highest levels in Washington. The Sparks study is a tribute to the need to integrate our industry.

IV. R-CALF USA's STRATEGY TO RETURN CONTROL OF OUR INDUSTRY BACK INTO THE HANDS OF CATTLE PRODUCERS

A. R-CALF USA Has Adopted a One-Member, One-Vote Policy Structure and Members Must Own Cattle to Vote.

B. R-CALF USA Also Mails a Ballot To Each Voting Member So Its Entire Membership Can Direct The Organization, Even If They Can't Attend the Annual Meeting.

C. R-CALF USA is Working To Provide Producers With the Tools They Need To Compete.

- i. We joined with many other organizations to pass mandatory country of origin labeling so U.S. producers can differentiate their product in the marketplace.
- ii. We are now working with USDA to ensure that mandatory labeling is implemented the way Congress intended – as a benefit to producers
- iii. We are working to encourage our U.S. Trade Representative to adopt the born, raised, and slaughtered standard as the international standard for determining the origin of cattle.

D. R-CALF USA is Working To Restore Competition in the Marketplace by Removing the Forces Known to Interfere With Competition

- i. We are continuing to encourage passage of the ban on packer ownership.
- ii. We support Wyoming Senator Enzi's Captive Supply Bill
- iii. We support IA Senator Grassley's bill that protects the cash market from further deterioration as a complimentary bill to both the packer ownership ban and the Enzi Captive Supply bill.
- iv. We are calling for an immediate Senate Judiciary Committee and Senate Agriculture Committee investigation into the functioning of our cattle market and we're telling Congress there is no need for another lengthy study.
- v. We supported the Dayton-Craig amendment in the TPA bill that would have protected our U.S. trade remedy laws.
- vi. We are working to preserve our Tariff Rate Quota's as an essential element of any trade agreement.

vii. We are working to protect the interests of U.S. cattle producers in each of the pending Free Trade Agreements presently under consideration and in the WTO agricultural negotiations.

E. U.S. Producers Need to Immediately Decide If they Support the New Direction for Their Industry as Represented by the New Organization - R-CALF USA

i. If they do, they must immediately align themselves with R-CALF USA by becoming a supporting member. Only by becoming a member will producers not be counted as supporting the current direction of the industry.

ii. Our industry is at a crossroads. Now is not the time to simply sit on the sidelines and watch what happens. The future of our industry is at stake and we have the ability to ensure a profitable, viable future – if we stand together.

F. R-CALF USA Urges All Producers to Support both the State and National Cattle Associations That They Believe Best Represent Their Values, Goals, and Interests.