Testimony

on behalf of the

National Cattlemen's Beef Association

with regard to

Market Structure of the Livestock Industry

submitted to the

United States House of Representatives - Committee on Agriculture
Subcommittee on Livestock, Dairy, and Poultry

The Honorable Leonard Boswell, Chairman

submitted by

Mr. John Queen

President
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National Cattlemen's Beef Association

Mr. Chairman, members of the Committee, my name is John Queen and I am a cattle producer and livestock market operator from Waynesville, North Carolina. I am President of the National Cattlemen's Beef Association (NCBA) and am pleased to be with you today to discuss the market structure of the livestock industry.

When it comes to market structure and competition issues, NCBA's position is simple – we ask that the government not tell us how we can or cannot market our cattle. The way we market cattle has changed significantly over the years, and it has come from a recognition within our industry that we are not just cattle producers, but beef producers, and must be in tune with what our consumers prefer to purchase from their local retail meat case. This focus on consumer preferences has led to many innovative marketing programs that have improved the quality of beef, given the consumer what they are asking for, and made many of America's ranchers more profitable and efficient. Some of these innovations have come in the form of alternative marketing arrangements (AMAs) such as forward contracting, marketing alliances, and packer ownership. These marketing arrangements offer producers the opportunity to get paid for the value that they add to the animal.

Historically, cattle were marketed in lots or pens with every animal in the lot receiving the same average price. Since producers did not benefit from providing higher quality beef, they had no incentive to supply a higher quality product or meet consumer demands. As our industry struggled through the 1970s, 80s, and early 90s with decreasing demand, we did not see any market driven signals to produce the leaner, more consistent beef the consumer demanded. Many producers, however, took significant steps to produce high quality lean beef by making investments in genetics, management, and herd health to meet the demand we began to recognize. To pay for this investment, producers demanded a premium. This demand for premiums has manifested itself today into a system of value-based marketing that is reflected in the multitude of premiums, discounts, grids, contracts, formulas, and alliances that have become commonplace in the beef industry. Some of the marketing programs that producers participate in are:

- Certified Angus Beef
- U.S. Premium Beef, Ltd.
- Ranchers' Renaissance
- Harris Ranch

These are just a handful of the innovative marketing programs available. Many of the country's ranchers have made the choice to participate in a program that will offer them an opportunity for a larger share of the consumer's dollar. These arrangements are market and consumer driven, and in many cases, led by producers themselves. There are many more, particularly in areas where producers are teaming with other segments of the industry to take advantage of national, regional, and even niche market opportunities ranging from breed or genetics programs to natural and organic production. Process and source verified programs are utilizing today's technology, such as electronic identification of animals, allowing producers to become more efficient at raising high quality animals that yield the beef products that consumers will pay a premium for.

This growing number of innovators are ranchers who came together in a proactive way to address their desire for a growing, viable beef industry by developing bold new marketing strategies. Not only are ranchers, feeders, and packers working together in these programs to market cattle, but this innovation is also visible in the meat case. Consumers not only demand leaner, tender, more consistent products, but they demand convenience as well. The meat case is beginning to be filled more and more not by fresh beef, but by products that are pre-prepared and ready for the microwave.

In addition to being responsive to our consumers, participation in these marketing arrangements provide the producer with several tools that help improve their operations and herd management in an effort to capture the premiums I mentioned above. The ability to manage price risk is probably one of the most valuable of these tools. Taking advantage of marketing arrangements such as forward contracting allows producers to make a price that allows them to be profitable. If the price does not fit their needs, they can walk away and find another buyer. Being a "price maker" rather than a "price taker" puts ranchers in control of their business. Traditional routes of cattle marketing do not always offer that flexibility. Knowing that you have a guaranteed buyer and a price you can live with makes it easier to manage your day-to-day business and focus on operational improvements instead of always worrying where your money will come from.

Along those same lines, many producers rely on operating loans from their local bank to get the financing needed to run their operation from year to year. If a producer can go to their banker and show that they have secured a buyer for their cattle and can obtain a premium for those cattle, the banker is much more inclined to approve that loan than if he were dealing with a producer with no marketing plan.

Entering into these marketing agreements also has the added bonus of being able to pick up on operational efficiencies that make the most of your cattle, streamline your operation, and potentially save money. Many ranchers who participate in these programs get information back from the feedlots that tell them how their cattle performed while being fed. Information also comes back from the packer in the form of yield and quality grades. This information is critical in managing the herd to ensure that the traits which provide the higher quality animals and beef are the ones in which you focus on.

The benefits of alternative marketing arrangements are being seen everyday in the cattle business, and they were recently supported by the results of the Grain Inspection Packers and Stockyards Administration's (GIPSA) Livestock and Meat Marketing study conducted by RTI International and released in February. This three and a half year study was funded by four and a half million taxpayer dollars and was billed as the "definitive answer" on these issues. The study supports what many ranchers across the country have known all along – a market-driven system works. This study was based on over half a million transactions representing more than fifty-eight million head of cattle[1]. The overwhelming conclusion of this study is that overall, alternative marketing arrangements help all sectors of the industry, not just those that participate.

[1] RTI International, *GIPSA Livestock and Meat Marketing Study,* Vol. 1, Executive Summary, page 4

With all of the taxpayer money and time invested in this project, I think the livestock industry and Congress need to give serious consideration to its conclusions. The report states that the leading reasons producers participate in alternative marketing arrangements are the ability to buy or sell higher quality cattle, improve supply chain management, and obtain better prices[2]. All three of these tie into the topics we discussed above – higher quality cattle produce the beef products that the consumers desire. Providing this consumer preferred product allows us to capture more of that consumer dollar in the form of a premium. That bigger share of the consumer dollar is being passed down to the producer. The producer is getting a better price for their cattle and can use that money to continue to improve their operation.

When talking about improved supply management, we have to once again go back to the consumer. The consumer does not come into their local Safeway looking for "Rancher's Reserve" beef only on Tuesdays. The consumer demands the convenience of picking up a package of "Rancher's Reserve" beef any day of the week. To meet that demand, the retailer and packer need a steady and consistent supply of cattle that meet the qualifications of the store-branded program. This allows them to ensure this product is available daily. If the packer is limited in its ability to source these cattle, they cannot ensure that there will be a steady supply of animals coming through their processing plants. In turn, they can not supply "Rancher's Reserve" beef everyday, and the consumer chooses another source of protein for the center of the plate.

Thus far, I have only talked about alternative marketing arrangements and the benefits they have provided to our industry. One of the conclusions in the study, however, was that only a minority of the cattle marketed to the twenty nine largest packers was done so with AMAs. RTI International's results show that approximately twenty nine percent of cattle are marketed through marketing agreements, almost five percent through forward contracting, and only five percent were packer owned. Approximately sixty two percent of cattle marketed were done so through the cash or spot market[3].

Auction markets are a critically important part of the U.S. cattle industry. They have been the primary arena for marketing cattle for over a hundred years. In this method, a willing seller takes the highest bid for his cattle when he decides it is the right time to bring them to the auction barn. Ranchers who market this way cite several reasons for their choice. One reason is independence. By using the cash or spot market, you have no restrictions or cattle quality concerns that would keep you from selling your cattle – unlike marketing arrangements that require certain criteria be met before cattle qualify for filling the contract. Flexibility is also important to these producers. Selling on the spot market gives ranchers the opportunity to participate in market rallies whereas those who have already contracted their cattle lose that opportunity because they are already locked into a price agreement. We must remember, however, that this only gives

[2] RTI International, *GIPSA Livestock and Meat Marketing Study,* Vol. 1, Executive Summary, page 4
[3] RTI International, *GIPSA Livestock and Meat Marketing Study,* Vol. 1, Executive Summary, page 5

them the opportunity to catch the rally. Timing the market is always a difficult task and adds to your price risk.

Even with traditional means of marketing, we have seen innovations and improvements that have been market-driven. One of these innovations is video livestock auctions. With this method, ranchers can auction their animals by video and reach customers across the country and not just those that come to the sale barn that week. This style of spot market stemmed once again from ranchers who produce a higher quality product and want to make sure they are getting paid for the value they are adding to their cattle.

It is always a bonus when both the consumer and rancher can benefit from innovations in the cattle industry. Many of these new marketing methods and tools are great successes. The consumer is getting the beef products they prefer and ranchers are getting paid for that added value. The results are quantifiable as shown by the Livestock and Meat Marketing Study and by the numbers. Demand for beef has grown substantially over the past decade – twenty percent since 1998. Consumer expenditures on beef are at record levels of seventy-one billion dollars for 2006. More importantly, consumer confidence in beef is at ninety-one percent. This is greater than it was in September of 2003 (before the December 23rd BSE case in Washington state) when it was eighty-eight percent. All of this has translated into profitable market conditions for ranchers. In 1980, the average price for a 650 pound feeder steer was $73.11 per hundredweight. That price dropped to $65 per hundredweight in 1996. We saw tremendous improvement in the market over the next ten years resulting in an average price of $117.73 per hundredweight in 2005 and only a slight drop from that in 2006. This price increase was affected by many things, but one of those factors was meeting consumer demands with alternative marketing arrangements.

Demand is high, prices are at more profitable levels, and the market-driven innovations our industry has put in place are proving successful. Yet today, we continue to discuss legislation that would interfere with a market-driven structure. In today's marketplace, producers need the freedom and flexibility to market their cattle in ways that provide the best return on their investment. As I have already mentioned, ranchers can market their cattle in different ways and see additional economic benefits – all while maintaining a strong and viable cash market. The study shows that government-enacted restrictions on the market-driven system would be detrimental to all sectors of our industry[4].

The study concludes that reductions or restrictions on alternative marketing arrangements would cause a decrease in the supply of cattle, a decrease in the supply and quality of beef, and an increase in retail beef prices[5]. These are all results that would set our industry back rather than move it forward. The study continues by concluding that feeder cattle prices would decrease because of higher operating costs resulting from

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[4] RTI International, *GIPSA Livestock and Meat Marketing Study,* Vol. 1, Executive Summary, page 3
[5] RTI International, *GIPSA Livestock and Meat Marketing Study,* Vol. 1, Executive Summary, page 8

restrictions on alternative marketing arrangements[6]. That means that in the end, it is the individual cow/calf producers across this country that will bear the brunt of government restrictions. At the same time, we continue to see an increase in feed costs due to competition with ethanol for corn, and an increase in fuel costs. In a time of these additional costs and strains on the bottom line, the last thing we need to do is think about adding more burdens to our ranchers. On the surface, these restrictions and bans on alternative marketing arrangements, including a ban on packer ownership of cattle, look appealing, but in both the short and long-term, they will unintentionally hurt those it was intended to protect.

Rather than talk about restrictions on innovation, NCBA would prefer to talk about ways we can partner with Congress to keep the marketplace working fairly and efficiently. One program that has proven useful in making the marketplace more transparent and fair is mandatory livestock price reporting (MPR). Mandatory price reporting has been in place since 2001, and since then we have seen increased and more readily understandable information regarding pricing, contracting for purchase, and supply and demand conditions for livestock. This user-friendly information is essential to ranchers as they evaluate the marketplace and determine when and how to sell their cattle.

Fortunately we were able to work with Congress to get mandatory price reporting reauthorized last year after more than a year of the program being voluntary. As of today, however, we have still not seen the final rule from USDA that will once again require mandatory reporting. Although we appreciate the beef packers' continued voluntary reporting, we would like to see the rule to re-implement the program expedited and put back in place. We also thoroughly studied the Government Accountability Office's (GAO) report on mandatory price reporting. We thought the program was appropriately reviewed and that the GAO's recommendations were productive. We let the Agricultural Marketing Service (AMS) at USDA know of our support of the recommendations and have urged them to implement those changes as quick as possible. They already have several in place and we will continue to monitor their progress. Mandatory price reporting needs to remain an effective, viable, and reliable tool for producers to utilize when making their marketing decisions.

NCBA continues to look at additional legislation and programs that will help foster more competition in our industry. One of those priorities is the ability for small, state-inspected beef packers to ship their product across state lines. Smaller plants that currently operate under state-inspected programs are precluded from taking advantage of market expansion because they cannot ship across state lines. In order to take advantage of interstate shipment of their products, they must first make the necessary, and often expensive, steps to become federally inspected. NCBA recommends that meat inspected under state programs be accorded the same freedom of movement in interstate commerce that is accorded foreign-inspected imported meat.

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[6] RTI International, *GIPSA Livestock and Meat Marketing Study,* Vol. 1, Executive Summary, page 8

This change would provide smaller packers with the ability to expand their trade area and open new markets. Accessing new markets always provides economic benefit, and it will allow these packers to stay viable, grow, and provide more competition in the fed cattle market. These packers will also have the opportunity to develop local, state, or regionally branded beef products, which, in turn, will allow them to benefit from alternative marketing arrangements and help build a niche demand for their products.

Another avenue where Congress can be helpful in growing the cattle industry is in regards to trade. We just discussed how access to new markets can be economically beneficial, and in the world market, over ninety-six percent of the consumers live outside of the United States. Your support of the Market Access Program (MAP) and Foreign Market Development (FMD) program will help the beef industry regain demand in markets we lost after the 2003 BSE case, and to develop new markets. Congress can also be helpful in holding our trading partners accountable and making sure trade is fair and based on sound science.

Probably the most effective way for industry and Congress to ensure that the marketplace stays fair and competitive is to just ensure that the laws already on the books are readily enforced. The Packers and Stockyards Act (PSA) was passed to ensure that the marketplace stays competitive. USDA's enforcement of PSA and other anti-trust laws and regulations are critical in identifying, investigating, and prosecuting anti-competitive actions by packers, dealers, markets, and others who fall under its jurisdiction. To add additional support, it is also important that USDA work with the Department of Justice to bring to justice those who collude against the individual rancher.

There has been evidence over the past number of years that USDA has not been as effective as it could be in investigating allegations of anti-competitive activities, and even less effective at recommending cases for prosecution. We believe some beneficial changes have been made, but we encourage Congress to look at ways to help USDA overcome this issue and put the personnel and resources in place to make sure all cases are actively worked through the legal system. Increased activity in this effort would go a long way in discouraging people from engaging in anti-competitive acts.

NCBA supports a free market system and we trust in the ability, adaptability, and innovative skills of the U.S. rancher to be able to prosper in a relatively unregulated domestic and international marketplace. We rely on federal regulators to ensure that the marketplace is free from anti-trust, collusion, price fixing, and other illegal activities that damage the viability of the market and interfere with market signals, but also to keep the playing field level for cattle producers.

Our membership has consistently said that we want access to business opportunities that will help us improve our bottom line. Accordingly, keep in mind that for every agreement made by a packer, there is an individual rancher on the other side of that transaction who has decided that the agreement is in their own best interest, and they should be allowed to conduct that business privately, just like any other industry. Those cattlemen have exercised their personal right to willingly engage in that agreement because they perceive it to add value to their operation, to their business, to their livestock, and ultimately to their family. That opportunity in the end will help to continually improve their management, genetics, and long-term profitability. The opportunity to engage in and benefit from new advancements is good for the individual producer and good for the industry as we strive to supply the consumer with beef products they demand.

Our industry's reliance on a market-based, market-driven, consumer focused approach has and will provide opportunities for beef producers to be successful. By meeting customer needs, we can best create opportunity for ourselves. With all the choices today's consumers have, we must strive to meet their needs and demands. We have to compete in a global environment and meet global customer needs. To do that, we need to have the flexibility to adjust business plans and practices that help us meet global demand. We must continue to have a world class infrastructure that ensures safe, healthy, and wholesome beef to consumers. We must have a business and regulatory climate that ensures commerce is fair, open, transparent, and not overly burdensome. In the end, we must have a government that works to help our industry and not one that limits or removes choices for cattlemen in the marketing of their cattle.

JOHN M. QUEEN, III
NCBA President

John Queen is president and owner of John Queen Farms, a third generation cattle farm founded in 1917 and located in the western mountain region of North Carolina. His background in the beef industry includes cow/calf producer, stocker/backgrounder, feeder and grazer. He order buys, has been an auction barn owner and operator and currently is owner of Southeast Livestock Exchange, a video-telemarketing company working in the Southeast.

John has served the beef industry at the county, state, and national levels. He served on the nominating committee for NCA and was a Young Cattlemen's Conference participant in 1988. He has been on NCBA's (Policy) Board of Directors 1992-2004. He was NCBA Region II Vice-president and served on the Executive Committee 2003-2004.

John is a past president of the North Carolina Cattlemen's Association and served on their Executive Committee from 1989-2004. He is a past president of the North Carolina Cattlemen's Foundation and has served on their Board of Directors 1991-2004. He is also a member and director of the Haywood County Cattlemen's Association.

During his year as NCBA president-elect, John helped increase NCBA membership by 75 percent in the Southeast Region. That's a testament to his ability to communicate with cattle producers and help them see the value of supporting their national organization. John also spearheaded the fund-raising effort that helped thousands of Gulf Coast farmers and ranchers in their struggle to recover from the 2005 hurricanes.

John graduated from Western Carolina University with a double major in business and sociology. He has held political office, serving as Haywood County Commissioner for four years. He lives on the family farm in Waynesville with his wife Pat. He has two daughters, two stepsons and five grandchildren.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

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Organization you represent (if any): National Cattlemen's Beef Association

1. **Please list any federal grants or contracts (including subgrants and subcontracts) <u>you</u> have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do <u>NOT</u> require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:**

Source: N/A **Amount:** Ø

Source: ______ **Amount:** ______

2. **If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) <u>the organization</u> has received since October 1, 2004, as well as the source and the amount of each grant or contract:**

Source: N/A **Amount:** Ø

Source: ______ **Amount:** ______

Please check here if this form is NOT applicable to you: ______

Signature: ______

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

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