Testimony

on behalf of the

National Cattlemen's Beef Association

with regard to

Economic Challenges and Opportunities Facing American Agricultural Producers Today

submitted to the

United States Senate - Committee on Agriculture, Nutrition, and Forestry

Senator Tom Harkin, Chairman

submitted by

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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.

As with most agricultural producers in the country, we have been anxious for work to begin on crafting the 2007 Farm Bill. As cattle producers, our livelihood is tied to many other agricultural commodities. Livestock consumes three out of four bushels of the major feed grains like corn, sorghum, and barley. Cattle in feedlots account for nearly one-fourth of the total grain consuming animal units, and all beef cattle account for nearly 30 percent. We are dependent upon this nation's agricultural system and infrastructure to feed, transport, market our cattle, and provide beef for America's table; and as such, we are interested in seeing this segment remain healthy and viable.

Unlike other agricultural commodity groups, however, we tend to take a different look at portions of U.S. agriculture policy. Our industry is made up of over 800,000 ranchers in all 50 states, and we have over 95 million head of cattle in this country. Cash receipts from cattle and calves in 2005 were over 48 billion dollars, and those sales account for nearly 40 percent of all livestock sales and nearly half of all farm receipts. Ranchers are an independent lot who want the opportunity to run their operations as they see fit with minimal intrusion from the government. As the nation's largest segment of agriculture, the cattle industry is focused on continuing to work towards agricultural policy which minimizes direct federal involvement; achieves a reduction in federal spending; preserves the right of individual choice in the management of land, water, and other resources; provides an opportunity to compete in foreign markets; and does not favor one producer or commodity over another.

The open and free market is powerful, and as beef producers, we understand and embrace that fact. The cyclical ups and downs of the market can be harsh, but the system works, and we remain steadfastly committed to a free, private enterprise, competitive market system. It is not in the nation's farmers or ranchers' best interest for the government to implement policy that sets prices; underwrites inefficient production; or manipulates domestic supply, demand, cost, or price.

Conservation and the Environment

There are portions of Federal agriculture policy that we can work on together to truly ensure the future of the cattle business in the United States. Conservation and environmental issues are two such areas. Some of the cattle industry's biggest challenges and threats come from the loss of natural resources and burdensome environmental regulations. Ranchers are a partner in conservation. Our livelihood is made on the land, so being good stewards of the land not only makes good environmental sense, it is fundamental for our industry to remain strong. Our industry is threatened every day by urban encroachment, natural disasters, and misinterpretation and misapplication of environmental laws. We strive to operate as environmentally friendly as possible, and it is here where we can see a partnership with the government.

The goal of conservation and environmental programs is to achieve the greatest environmental benefit with the resources available. One such program that achieves this is the Environmental Quality Incentive Program or EQIP. Cattle producers across the country participate in this program, but arbitrarily setting numerical caps that render some producers eligible and others ineligible limits the success of the program. Addressing environmental solutions is not a large versus small operation issue. All producers have the responsibility to take care of the environment and their land, and should have the ability to participate in programs to assist them establish and reach achievable environmental goals. Accordingly, all producers should be afforded equal access to cost share dollars under programs such as EQIP.

Secondly, many producers would like to enroll in various USDA conservation programs such as the Conservation Reserve Program (CRP) to reach environmental goals. However, to enroll in these programs requires the producer to stop productive economic activity on the land enrolled. We believe economic activity and conservation can go hand in hand. As such, we support the addition of provisions in the next farm bill that will better allow managed grazing on land enrolled in CRP. This will have tangible benefits on environmental quality - for example, helping to improve lands threatened by invasive plant species.

USDA's conservation programs are a great asset to cattle producers. We want to see programs such as EQIP, GRP, and CSP continued and refined to make them more producer friendly and more effective in protecting the environment in a sensible way.

Environmental issues are also a huge challenge for our industry. We understand the need for environmental regulations to protect resources downstream, and we believe those producers that knowingly and willingly pollute and violate the Clear Air and Clear Water Acts should be prosecuted to the fullest extent of the law. However, the use of other vehicles, such as EPA's Superfund, to sue agricultural producers in an attempt to get larger settlements is egregious and it threatens the future of ag producers both large and small. This, combined with EPA's talk of regulating agricultural dust, animal emissions, and other naturally occurring substances, makes us all concerned for our industry. Although these items are not addressed in the Farm Bill, we ask that the members of the Committee step in and help ag producers in their fight to have effective and sensible environmental regulations.

Activism

In addition to dealing with the misapplication of environmental regulations, our industry is also becoming more at risk from attacks by environmental and animal activist and terrorist groups. Activist groups such as PETA and the Humane Society of the U.S. (HSUS), along with extremist groups such as the Animal Liberation Front and Earth Liberation Front, use heavy-handed measures to try and force their views of vegetarianism and extreme environmentalism on others. Every person has a right to their own views, but to force their views on others using scare tactics, arson, and terrorism is unacceptable. It's not just the extremists, however, that threaten animal agriculture. All we have to do is look at the issue of processing horses for human consumption. All it took was a few celebrities, horse racing groups, and misinformed politicians to pass a law that banned the use of USDA funds to inspect horse processing facilities. The processing of horses is a regulated and viable management option that helps take care of unwanted or unmanageable horses. It would be preferable if there were plenty of people willing to pay for these animals and take care of them, but there are not. Instead, a group of activists have pushed their emotional views on others, and in return are running the risk of allowing more horses to starve or be mistreated, as well as putting companies out of business. This win gives activist and extremist groups a foothold to come after other species. It's no secret that groups, such as PETA, want to put the U.S. cattle industry out of business. It may seem far-fetched, but in today's society, the rural voice is quickly being lost. The Farm Bill should not be a platform for these activist groups.

Trade

Outside of conservation, environmental, and activist issues, there are several other issues that have the potential to impact the long-term health of the beef industry. One such area is trade. U.S. cattlemen have been and continue to be strong believers in international trade. We support aggressive negotiating positions to open markets and to remove unfair trade barriers to our product. We support government programs such as the Market Access Program and the Foreign Market Development Program which help expand opportunities for U.S. beef, and we urge sustained funding for these long-term market development efforts.

We also support Congressional and regulatory action to address unfair international trade barriers that hinder the exportation of U.S. beef. We appreciate the Committee's help in working to reopen foreign markets that were closed to U.S. beef after the discovery of BSE on December 23, 2003, in a Canadian cow in Washington State. As you are aware, we continue to fight to recover the market share we once had in countries such as Korea and Japan. We ask that you continue to support the effort to see that sound science is being followed in bringing down these artificial trade barriers. To grow our business, we have to look outside of the U.S. borders to find 96 percent of the world's consumers. We encourage the Committee's continued strong and vigilant oversight of the enforcement of any trade pact to which American agriculture is a party.

Research

In regards to animal health emergencies, we see a need to keep a strong agricultural research component to the Farm Bill. USDA's research is critical in all aspects of our business. Their research and extension activities help to find new and improved cattle production methods to help make our business more efficient and effective. Animal health research helps to control and eradicate animal diseases; develop better methods to keep foreign animal diseases out; and to identify, control, and preempt new diseases. These activities keep our national herd healthy and make it easier to export our beef and cattle. In addition, nutrition research is important to show that beef is a healthy part of America's diet and plays an important role in USDA's "My Pyramid" and food guidelines.

Energy

Research is also needed to identify and develop alternative methods of producing energy. Renewable energy is an increasingly important part of our country's energy supply and there are many ways that cattle producers can contribute and benefit. Research and development is needed to find cost-effective methods of utilizing manure and animal waste as a fuel supply. Gasification, biodiesel, and other methods hold a lot of promise for our industry. When looking at ethanol, however, we must be careful not to act in a way that is detrimental to the livestock industry. Livestock consume the majority of U.S. corn. As ethanol continues to grow, we must make sure we find ways for all of us to be successful. All we want is to be able to compete on a level playing field with ethanol for that bushel of corn. We must take all opportunities to look at ways to balance feed demand, price, and the benefit of renewable fuels.

Property Rights

In turning to business matters, one of the biggest concerns to cattlemen right now is their private property rights. The Supreme Court's ruling in Kelo versus The City of New London sent a shockwave through the cattle community. The thought that our ranches could be taken by municipal governments and turned over to private developers in the name of economic development is disturbing. Our country is great for many reasons, but one of them is the ability to own property, use it how you see fit, and not worry about it being taken from you on someone else's terms. We believe in the rights of cattlemen to keep their property and applaud the Committee's efforts to protect those rights.

Taxes

Reducing the tax burden on ranchers has always been a top priority for our industry. We continue to support permanent repeal of the Death Tax. Regardless of how many or how few are effected, if even one rancher has to sell off part of their operation to pay this tax, it is unacceptable to us. Cattlemen pay their fair share of taxes, and resent the fact that many are being penalized for wanting to pass their operations on to future generations. Our priority is to keep families in agriculture, and this tax works against that goal. We do not see this as a tax cut for the rich. The rich can afford high priced attorneys and accountants to protect their money now. Ranchers operate in an asset rich but cash poor business environment. Ranchers must spend money that would otherwise be reinvested in their businesses to hire the resources necessary to protect their assets and pass their operations on to their children. At the same time, however, they may have several hundred acres of land whose value has been driven up by urban sprawl and the unintended consequences of Federal crop supports. We also support keeping the Capital Gains Tax at a lower rate, repeal of the Alternative Minimum Tax, and full 100 percent deductibility of health insurance premiums for the self-employed.

Marketing Issues

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 . The overwhelming conclusion of this study is that overall, alternative marketing arrangements help all sectors of the industry, not just those that participate.

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 . 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 cattle entering their processing plants. In turn, they cannot 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 .

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 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 .

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 . 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 restrictions on alternative marketing arrangements . 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 thoroughly studied 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.

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.

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 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.

Another issue of concern is mandatory Country of Origin Labeling or COOL. Cattlemen across the country realize the benefit of labeling our product because we produce the best beef in the world. The ability to separate our product from everything else in an effort to market its superiority is a fundamental marketing strategy. There are voluntary labeling programs across the country that are being driven by the market, led by cattlemen, and are providing a higher return on their cattle. This is what a labeling program should be about...marketing. Instead, mandatory COOL has turned this into yet another commodity type program that treats all beef the same and does not allow for forms of niche marketing. This will cost producers money, but will not provide them with any return. Many proponents of mandatory COOL say that this law is about giving the consumer a choice. The current law, however, does not really do that. Restaurant and food service is exempt from mandatory COOL, but this is where over fifty percent of the consumer dollar is spent on beef. Instead of giving the consumer a choice, we are only providing a loophole that will allow all imported product to be funneled through the food services channels. In addition, mandatory COOL is being pushed by some as a food safety prevention tool and a non-tariff trade barrier. COOL is a marketing tool only, and in no way should be tied to food safety. We have firewalls in place to keep U.S. beef safe. COOL should also not be used as a non-tariff trade barrier. To label our beef in an effort to capitalize on the demand for our premium product is one thing, to label it as a way to block the competition is yet another.

Conclusion

As you can see, we are not coming to you with our hand out. Like I mentioned before, America's cattlemen are proud and independent, and we just want the opportunity to run our ranches the best we can to provide a high quality product to the American consumer, and even more importantly, provide for our families and preserve our way of life. We are coming to you in an effort to work together to find ways to use the extremely limited funds available in the best way possible to conserve our resources, build our industry, and provide for individual opportunity at success. We ask for nothing more than Federal agriculture policy that helps build and improve the business climate for cattlemen. We look forward to working with you on the 2007 Farm Bill.