



June 1, 2021

The Honorable Debbie Stabenow
Chairwoman
Senate Committee on Agriculture
328 A Russell Senate Office Building
Washington, DC 20510

The Honorable David Scott
Chairman
House Committee on Agriculture
1301 Longworth House Office Building
Washington, DC 20515

The Honorable John Boozman
Ranking Member
Senate Committee on Agriculture
328 A Russell Senate Office Building
Washington, DC 20510

The Honorable Glenn "G.T." Thompson
Ranking Member
House Committee on Agriculture
1301 Longworth House Office Building
Washington, DC 20515

Dear Chairwoman Stabenow, Ranking Member Boozman, Chairman Scott, and Ranking Member Thompson:

The National Cattlemen's Beef Association (NCBA) and its undersigned state affiliate organizations write today to bring your awareness to the challenges currently facing our industry and the overall beef supply chain. NCBA is the oldest and largest national trade association representing the interest of cattle producers, with both direct members and over 250,000 members represented through its 44 state affiliate associations.

As you are aware, cattle producers are facing significant challenges. Soaring input costs, devastating weather patterns, and beef processing woes have resulted in enormous barriers to producer profitability. Further, supply chain disruptions caused by COVID-19 have exacerbated these existing problems and severely impacted America's cattlemen and women. As Congress considers measures intended to help the cattle industry, we encourage you to consider the following critical issue areas.

Increase Transparency in the Cattle Markets

Market transparency is an area of high concern for cattle producers. The marketing of cattle at all stages of the animal's life cycle is highly complex. In an effort to aid producers in marketing their livestock, and to provide consistent real-time information, Congress enacted the Livestock Mandatory Reporting (LMR) Act in 1999. Under this program, major meatpackers are required to regularly report market information to USDA's Agricultural Marketing Service (AMS). USDA then uses this information to report cattle prices, trade volumes, and other market information to the public. LMR must be reauthorized by Congress every five years. The most recent reauthorization occurred in 2015, though a temporary extension was granted via the Consolidated Appropriations Act of 2021. The current authority expires on September 30, 2021. We continue to urge Congress not to allow this vital program to lose its congressional authority. The result would be a catastrophic and instant loss of market transparency, price discovery, and information designed to improve cattle producers' negotiating leverage. Timely reauthorization of LMR is imperative.

We are also interested in proposals which increase the amount of information reported by USDA-AMS under LMR. For example, the use of formula agreements to trade fed cattle has drastically increased over the years. Much of this rise in formula use is because of the premiums paid to producers for more desirable beef traits exhibited post-harvest. The details of these formula arrangements are kept confidential to protect the proprietary business information of the agreeing parties. However, the swine industry has benefited from the publication of a contract library at USDA-AMS—a searchable database containing anonymized summaries of all formula contracts in use between hog producers and processors. NCBA supports the establishment of a similar contract library for cattle so that producers can compare their marketing methods to those of others. The availability of this information may aid cattle producers in capturing more value for their livestock. Several pieces of previously introduced and pending legislation, including the PRICE Act, contain provisions to establish a contract library, and we support such action.

Expand Beef Processing Capacity

Another major challenge currently facing cattle producers is a lack of sufficient beef processing capacity, sometimes referred to as “shackle space.” Cattle and beef are closely related, yet entirely different, commodities with independent factors of supply and demand. Currently, cattle inventories are cyclically high and U.S. beef demand, at home and abroad, is at near-record highs. Unfortunately, while meatpackers realize massive profit margins, cattle producers are not seeing those earnings passed onto them. In fact, fed cattle prices have yet to meet or surpass pre-Covid levels. The cause of this imbalance can largely be attributed to a nationwide shackle space shortage.

A 2020 study by Rabobank found that excess operational beef processing capacity (shackles available to process current supplies of fed cattle) fell to zero in late 2016 and turned negative in 2017 where it remains today. The same study found that the industry could economically accommodate an additional 5,600 shackles worth of daily processing capacity—approximately 1.5 million additional animals per year. As the domestic cattle herd enters another year of cyclical contraction, worsened by the drought, more processing capacity will strengthen producers’ leverage position, increase the value of live cattle, and result in firmer prices.

Meatpackers face substantial challenges of their own, with labor being the most severe. However, the greatest barrier to entry for small meat processors is access to capital. The average cost to construct a meatpacking facility is approximately \$100,000 per shackle (e.g., a 25 head-per-day facility would cost \$2.5 million just to construct). Further, the risk profile of a packing plant is extremely high, making traditional financing difficult to acquire. To remedy this, Reps. Darren Soto (D-FL) and Dusty Johnson (R-SD) introduced the PRICE Act (116th Cong. – H.R. 8489) last year. One key provision of this legislation, which was supported by NCBA, was the authorization of federally guaranteed, low-interest loans and – in some cases – grants to small businesses and rural ventures to build new beef processing facilities. We urge Congress to swiftly enact similar legislation to support the addition of more shackle space to benefit cattle producers.

NCBA not only advocates for the addition of more processing capacity, but also the strategic support of existing processors. Currently, facilities inspected by a state meat and poultry inspection (MPI) program, as opposed to USDA’s Food Safety and Inspection Service, are generally not eligible to sell products into interstate retail markets. This restriction, while rooted in food safety concerns, hinders the processor’s ability to move meat products, and thus can slow live animal processing. The DIRECT Act (H.R. 547), led by Reps. Dusty Johnson and Henry Cuellar (D-TX), would empower state-inspected facilities to access new

markets without jeopardizing the safety of the product. We call on Congress to quickly enact this important bill.

We were pleased with the passage of the RAMP UP Act (116th Cong. – S. 4298 and H.R. 7490) as part of the Consolidated Appropriations Act of 2021. This bill allocated \$60 million to be distributed via grants to state-inspected meat processors to help offset the costs of becoming federally inspected. Further, the bill commissioned a study to evaluate USDA's Cooperative Interstate Shipment (CIS) program, which allows member-states with existing MPIs to sell state-inspected product to into member-state markets. Unfortunately, only eight states participate in CIS today. We urge Congress to continue its oversight of USDA to ensure the RAMP UP Act is implemented without delay.

Support Labor Solutions to Strengthen the Cattle and Beef Supply Chain

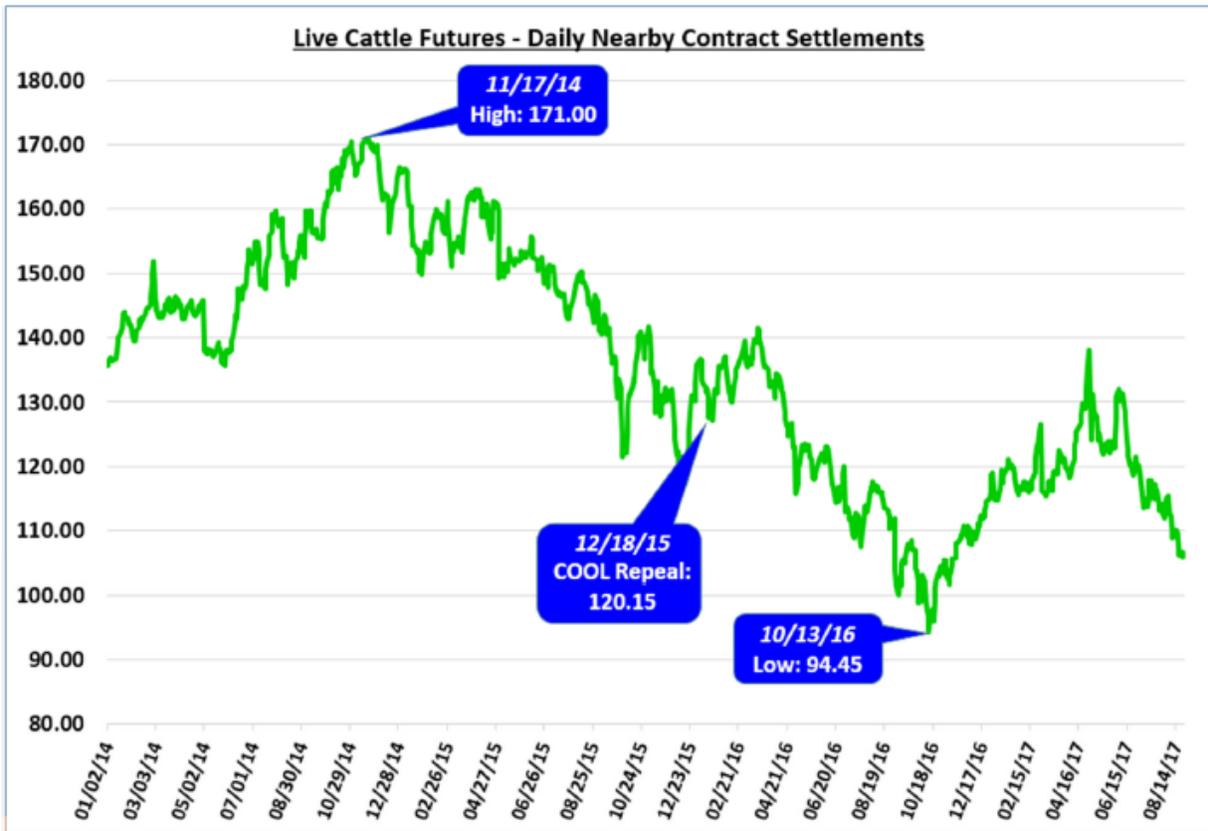
Cattle producers across the U.S. are grateful for the number of tools afforded to various segments of the cattle and beef supply chain which allowed this industry to more effectively navigate a myriad of challenges brought on by the global COVID-19 pandemic, from relief for livestock haulers to greater flexibilities for processing facility workforces. Unfortunately, the benefits that were so necessary at the start of the pandemic, now serve as a disincentive for some individuals to return to work. The beef supply chain cannot function properly without a steady stream of labor. Absent changes to COVID benefits for individual workers, NCBA believes changes to the H-2A program to include year-round labor is one viable solution to our labor shortage. Additionally, the ability to obtain year-round labor for employment at processing facilities, feed yards, and cow/calf operations will continue to be a struggle for the cattle industry without a multi-faceted approach to address a number of weaknesses that exist from pasture to plate. This includes allowing appropriate flexibilities to address near-term in-plant shortages, providing additional resources for workforce training and development for highly skilled technical workers, in-plant line operators, meat scientists and veterinarians alike, and other potential regulatory changes to assist our year-round cattle industry overall in closing the gaps in our ongoing labor shortage.

Support Industry Efforts to Reform “Product of the USA” Generic Labeling

U.S. cattle producers share an interest in meeting the needs of consumers worldwide by providing high-quality, nutritious beef, while setting higher quality and safety standards than those required by the government. As more consumers continue to be interested in, and concerned about, the environmental footprint, nutritional quality, and healthfulness of the foods they eat – as well as where and how those foods were produced – it is critically important that food product labeling promote honesty and fair dealing in the interest of consumers.

While some elected officials and a very small segment of the cattle industry are calling for restoration of mandatory country-of-origin labeling (MCOOL), we encourage you to avoid resurrecting controversial and divisive policies like MCOOL that are opposed by a vast majority of U.S. cattle producers. As you recall, this matter was settled by the World Trade Organization, and we should not risk triggering another trade war with Canada and Mexico who still have a \$1 billion judgment against us. Furthermore, USDA published a 2015 study that found the regulatory compliance costs of MCOOL outweighed the benefits to producers and consumers.

In the years since MCOOL was repealed in 2015, proponents of restoration have argued that its repeal led to a sharp decline in cattle prices. As illustrated by the below chart, no such correlation exists. In fact, the bulk of price decline following the highs of 2014 occurred in the 13 months leading up to repeal in December of 2015.



We must shift our focus from aged policies like MCOOL to more realistic solutions that allow U.S. cattle producers to truly differentiate their products and capture consumer demand for local and regionally sourced meat products.

NCBA believes the government-issued generically approved “Product of USA” label found on many beef items – which can currently be applied to any beef product that has passed through a USDA inspected facility – does not adequately inform consumers, deliver additional value for our producers, or provide true product differentiation in the marketplace. That is why NCBA is advocating for the expanded use of voluntary origin and value-added marketing opportunities that deliver value back to the producer segment and curtail non-verified blanket origin claims that fail to adequately inform consumers. NCBA is working with USDA and the entire value chain to ensure that accurate and voluntary origin labels are in place to benefit cattle producers and consumers.

Ensure Proper Oversight of Cattle Market Participants

Of course, cattle producers can only be successful in a market where all participants play by the rules. That is why NCBA was the first to request a federal investigation to examine the conduct of the largest U.S. meatpackers in the aftermath of two significant market-disrupting events: the fire at Tyson's Finney County plant and COVID-19. In June of 2020, the Department of Justice's Antitrust Division launched a probe to determine if any anticompetitive or illicit activity occurred following these black swan events. It is our understanding that this investigation remains ongoing, and no details or progress reports have been provided to us in the meantime. We applaud the efforts of a coalition of bipartisan Senators and Members of Congress, led by Sen. John Thune (R-SD) and Rep. Dusty Johnson, who last week sent a letter to Attorney General Garland reiterating the need for a thorough investigation and a swift conclusion. Cattle producers have been bombarded with adverse market conditions for many years and they deserve to know whether packer activity worsened those hardships. We urge Congress to continue its vigilance and oversight in this important undertaking.

Conclusion

NCBA and its affiliate organizations greatly appreciate Congress' swift action to protect the cattle and beef industries, as well as our domestic food supply chain during these difficult times. We urge your continued attention to the issues raised above. Please do not hesitate to reach out to NCBA's Center for Public Policy at (202) 347-0228 with any questions or concerns.

Respectfully,

National Cattlemen's Beef Association

Alabama Cattlemen's Association
Arkansas Cattleman's Association
California Cattlemen's Association
Colorado Cattlemen's Association
Colorado Livestock Association
Florida Cattlemen's Association
Georgia Cattlemen's Association
Hawaii Cattlemen's Council
Idaho Cattle Association
Illinois Beef Association
Indiana Beef Cattle Association
Kansas Livestock Association
Kentucky Cattlemen's Association
Louisiana Cattlemen's Association
Maryland Cattlemen's Association
Michigan Cattlemen's Association
Minnesota State Cattlemen's Association
Mississippi Cattlemen's Association
Missouri Cattlemen's Association
Montana Stockgrowers Association
Nebraska Cattlemen
Nevada Cattlemen's Association

North Carolina Cattlemen's Association
North Dakota Stockmen's Association
Ohio Cattlemen's Association
Oklahoma Cattlemen's Association
Oregon Cattlemen's Association
Pennsylvania Cattlemen's Association
South Carolina Cattlemen's Association
South Dakota Cattlemen's Association
Tennessee Cattlemen's Association
Texas & Southwestern Cattle Raisers
Association
Utah Cattlemen's Association
Virginia Cattlemen's Association
Washington Cattlemen's Association
Wyoming Stock Growers Association
Wisconsin Cattlemen's Association