AN EXAMINATION OF PRICE DISCREPANCIES, TRANSPARENCY, AND ALLEGED UNFAIR PRACTICES IN CATTLE MARKETS

HEARING

BEFORE THE

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HOUSE OF REPRESENTATIVES

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SUBMITTED MATERIAL

AN EXAMINATION OF PRICE DISCREPANCIES, TRANSPARENCY, AND ALLEGED UNFAIR PRACTICES IN CATTLE MARKETS

WEDNESDAY, APRIL 27, 2022

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Committee met, pursuant to call, at 10:00 a.m., in Room 1300 of the Longworth House Office Building, Hon. David Scott of Georgia [Chairman of the Committee] presiding.

Members present: Representatives David Scott of Georgia, Costa, McGovern, Adams, Spanberger, Hayes, Delgado, Kuster, Maloney, O'Halleran, Khanna, Correa, Harder, Axne, Schrier, Panetta, Thompson, Austin Scott of Georgia, Crawford, DesJarlais, Hartzler, LaMalfa, Davis, Allen, Rouzer, Kelly, Bacon, Johnson, Baird, Jacobs, Balderson, Cloud, Mann, Feenstra, Miller, Moore, Cammack, Fischbach, and Letlow.

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OPENING STATEMENT OF HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

The CHAIRMAN. Welcome, everyone, and I want to thank all of you for joining today's hearing. The Committee will now come to order.

After brief opening remarks, Members will receive testimony from our witnesses today, and then the hearing will be open to questions.

Good morning. I would like to make my opening statement. And first, I want to thank our House Agriculture Committee staff for pulling together this important and historic hearing. And I want to thank each of my Committee Members and of course our witnesses for appearing today before the Committee.

Now, we are holding this very critical hearing to discuss cattle markets, concentration in the meatpacking industry—and may I also remind everyone to mute yourself so that we don't have noise interference.

We are holding this critical hearing, very important, to discuss cattle markets, concentration in the meatpacking industry, and allegations that the big four meatpackers have partaken in unfair practices that have driven down prices for cattle producers and left distorted markets.

Now, the one point I want to make up front is that I, as Chairman, am coming into this hearing with an open mind, and I hope and I am sure that my colleagues on the Committee are, too, because hearings provide us with opportunities to facilitate open discourse and get public answers to some very difficult questions. And I do not have any foregone conclusions on the subject of today's hearing, but I am alarmed at the serious allegations that are out there and concerning stories about what has been happening in our packing industry. So my goal for this hearing is to get answers to those questions and have the packers speak about these allegations.

Since the 1980s, we have seen a steady increase in the concentration in the packing industry, and this consolidation has coincided with a steady decrease in the number of cattle ranchers over that same period. In one analysis that I read, the authors noted that over ½ million ranchers have gone out of business since the 1980s. This threatens the food security of our great nation. That averages out to about 17,000 cattle operations a year. This statistic is highly worrisome, and it is a direct and alarming threat to our nation's food supply, our nation's food security. And the family cattle farmer is an essential part of our country and its food system. And this hearing was inspired by what has been happening to those family cattle farms. And the purpose of this hearing is so that we can hear what our cattle farmers have to say.

And in that line, I would like to enter into the record a well-researched article from *The New York Times* by Peter Goodman that describes in a very impactful way the circumstances that our ranchers are facing. And it was this article when I read it, I felt compelled to have this hearing. That is why I want entered into the record, and I would encourage everyone to read this article, to examine the passion and the difficulties of our farmers, our ranchers, those who produce our cattle.

[The article referred to is located on p. 127.]

The CHAIRMAN. And so my concern is the nation's concern about these family ranching farms shutting down, and I believe this hearing will be a catalyst, a key for turning this trend around. And that is why we are having this hearing. We on this Committee want the information so that we can determine how we in Congress can play our part in this.

I am concerned that in the last 40 years this country has lost its grip on the free market component of capitalism. Fair and competitive markets should engender opportunities for many and not just benefit for the few at the top. We created antitrust laws for a reason, and unfortunately, we have gotten away from enforcing these anticompetitive practices. And we have moved toward a system that prioritizes efficiency at all costs.

I was very glad to see President Biden's Administration reprioritize enforcement of competition laws through their Executive Order on promoting competition in our American economy. And I hope that this is a sign of more action to come. As we move through this hearing and examine this issue, I think we should keep in mind the idea of how competition and markets increase equity and fairness.

Another issue with consolidated industry is that it can create less resiliency in our supply chains. We saw this directly during the Holcomb fire in 2019. And then the COVID–19 pandemic when a small number of companies control an entire link in the supply chain, it makes it more susceptible to shocks and less resilient when black swan events occur. And in that vein, consolidation doesn't just hurt our ranchers, it also hurts our consumers who face supply bottlenecks, higher prices, and limited choices.

Today's witnesses bring together many years of experience in the cattle industry and also different perspectives, and I thank all of our witnesses for being here. Unfortunately, we were supposed to have a fourth witness, a rancher on our panel, but due to intimidation and threats to this person's livelihood, to this person's reputation, they chose not to participate out of fear. Witness intimidation is unacceptable, and it is not conduct befitting this treasured institution, the Congress of the United States. And I never want to hear about a witness choosing not to come before our Committee because of fear again. We are looking into this. Fear cannot run our Congress. Fairness runs our Congress. Openness runs our Congress. And so I'm saddened and disappointed that we reached that point. And of course we will be following up with the incident. We have folks looking at it.

I expect today that there will be differences of opinion, even disagreements. We are looking forward to it. That is why we are having this hearing. But I also expect civil discourse for our discussions from everyone, and I look forward to hearing our witnesses' testimony and leveraging the insights and solutions they offer to work towards a better future for our industry that we all care about.

Thank you again for coming. We are in for a very, very important and significant moment in the history of agriculture in the United States.

[The prepared statement of Mr. David Scott follows:]

PREPARED STATEMENT OF HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

Good morning. I'd like to thank our House Agriculture Committee Members for joining us and our witnesses for appearing before the Committee today. We are holding this critical hearing to discuss cattle markets, concentration in the meatpacking industry, and allegations that the big four meatpackers have partaken in unfair practices that have driven down prices for cattle producers and led to distorted markets.

One point I want to make up front is that I am coming into this hearing with an open mind—and I hope my colleagues are too. Hearings provide us with opportunities to facilitate open discourse and get public answers to difficult questions.

I do not have any forgone conclusions on the subject of today's hearing, but I am alarmed at the serious allegations out there and concerning stories about what has been happening in the packing industry. My goal for this hearing is to get answers to those questions and have the packers speak about those allegations.

Since the 1980s we have seen a steady increase in concentration in the packing industry. This consolidation has coincided with a steady decrease in the number of ranchers over that same period. In one analysis that I read, the authors noted that over ½ million ranchers have gone out of business since the 1980s, that averages out to about seventeen thousand cattle operations a year. This statistic is highly worrisome.

The family farmer is an essential part of this country and its food system. This hearing was inspired by what has been happening to those family farms and the purpose of the hearing is so that we can hear what those farmers have to say. In that light, I would like to enter into the record an article from *The New York Times* that described the circumstances that our ranchers are facing. I also hope to hear from the CEOs today on what they believe has led to so many small farms shutting down and how we can turn that around.

In the early 20th century, the country saw what concentration did to small business and how it hurt the everyday American. In 1921, Congress passed the Packers and Stockyards Act because of concern around concentration in the packing industry and anticompetitive practices.

I am concerned that in the last forty years this country has lost its grip on the "free market" component of capitalism. Fair and competitive markets should engender opportunities for many, and not just benefit a few at the top. We created antitrust laws for a reason, and unfortunately, we have gotten away from enforcing anticompetitive practices, and we have moved toward a system that prioritizes efficiency at all costs.

I was glad to see the Biden Administration reprioritize enforcement of competition laws through their Executive Order on promoting competition in the American economy and I hope that is a sign of action to come. As we move through this hearing and examine this issue, I think we should keep in mind the idea of how competition in markets increases equity and fairness.

Another issue with consolidated industry is that it can create less resilient supply chains. We saw this directly during the Holcomb fire in 2019 and then the COVID–19 pandemic. When a small number of companies control an entire link in the supply chain it makes us more susceptible to shocks and less resilient when black swan events occur. In that vein, consolidation doesn't just hurt ranchers, it also hurts consumers, who face supply bottlenecks, higher prices, and limited choices.

Today's witnesses bring together many years of experience in the cattle industry and different perspectives. And I thank all of our witnesses for being here. Unfortunately, we were supposed to have a fourth witness on our producer panel but, due to intimidation and threats to this person's livelihood and reputation they chose not to participate.

Witness intimidation is unacceptable, and it is not conduct befitting this institution. I never want to hear about a witness choosing not to come before our Committee because of fear again. I am saddened and disappointed that we reached that point, and I will be following up on the incident.

I expect today that there will be differences of opinions and even disagreement—but I also expect civil discourse from everyone involved in this discussion. I look forward to hearing our witnesses' testimony and leveraging the insights and solutions they offer to work toward a better future for an industry we all care about.

Thank you and I now recognize the Ranking Member, Mr. Thompson.

The CHAIRMAN. And with that, I now recognize my good friend, the gentleman from Pennsylvania and our Ranking Member, Mr. Thompson.

OPENING STATEMENT OF HON. GLENN THOMPSON, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA

Mr. THOMPSON. Mr. Chairman, thank you so much. I would like to say I am pleased we are having this hearing today; but, I am little disappointed in the way it is coming together.

I also want to say today the U.S. Chamber of Commerce sent a letter to the Chairman and I urging Congress and this Committee to refocus attention on, quote, "the real underlying causes, namely, macroeconomic trends that include supply and demand shocks and monetary policies, rather than the strawmen of industry concentration or unfair business practices," end quote. And I have that letter here with me. I would like to submit that letter for the record.

The CHAIRMAN. Sure.

[The letter referred to is located on p. 140.]

Mr. THOMPSON. Thank you.

As I have said on numerous occasions, we need to focus on preparing for the next farm bill. And while I acknowledge there has been modest progress starting in February on that front and I am very appreciative of that, we are inexplicably veering off course today. Issues surrounding cattle markets are really important, and I agree with you on that, Mr. Chairman, and I think that the importance is exemplified by the time that this Committee has already spent exploring and debating them. We have had a productive closed-door roundtable on the matter and an insightful subcommittee hearing where we heard from a slate of esteemed economists, not to mention a 5 hour full Committee hearing where Senator Grassley was given a platform to promote his legislative proposal. Secretary Vilsack weighed in with his views, and we heard from a diverse array of livestock stakeholders and a packer representative.

That work culminated in the bipartisan and ultimately bicameral passage of legislation to ensure the continued availability of crucial livestock mandatory reporting data and the establishment of a Cattle Contract Library to provide an additional layer of market transparency.

As cattle markets continue on a steady trajectory and we await USDA's implementation of the Contract Library Pilot, I have to wonder why today's hearing was so urgent, so urgent that I wasn't even consulted in scheduling it. Rather, I was told it was happening as letters were drafted to send to packers' CEOs, and the threat of subpoenas began to fly. And that is just not the way this Committee should conduct its business.

I do appreciate the Chairman's opening remarks, noting his open-mindedness, and I trust and enjoy a great relationship with the Chairman, and so I appreciate hearing that in your comments, being open-minded in this hearing as you gaveled us in.

I said it before and I think it bears repeating, if there has been collusion, manipulation, or other wrongdoing by packers, then the law should be enforced under the existing authorities at USDA and DOJ. Absent such findings, it is time to stop demonizing the packing industry out of political convenience. And like the rest of us, the packers are dealing with, not causing, the record levels of inflation that are plaguing our economy with skyrocketing input costs across the board, not to mention severe labor shortages and continued transportation and supply-chain challenges. Despite these enormous obstacles, the packers continue to provide an invaluable service and do so with incredible efficiency.

We know we need greater competition, and I think we are committed to doing the right things to help small processors become medium-sized, medium-sized processors become larger, and to have greater competition. Yet at every turn this Administration has pointed the finger at the packing industry, blaming them almost single-handedly for rising food costs. They have done so via blog posts, contrived public events, and press briefings, all without any acknowledgment of the culpability of their own reckless spending and heavy-handed regulatory agenda. And I fear that today's hearing is nothing more than perpetuating the Biden Administration's attempt to continue that desperate, baseless narrative.

Now, if we are generally trying to better understand beef pricing dynamics, you would think we might benefit from having the heads of packing companies, beef units testify today. I know several of the companies proposed that alternative, and their suggestions were repeatedly denied. Perhaps a trusted economist or a seasoned market analyst would be a key to that conversation? Despite a bipartisan request from several of our Members, I understand that that idea also was rejected. Mr. Chairman, I am hoping I am wrong, but this hearing reeks of political point scoring on behalf of the Administration in an effort to justify drastic, unvetted, or controversial legislative action. The hearing title alone suggests the decks were stacked long ago in favor of a predetermined outcome.

The Senate Agriculture, Nutrition, and Forestry hearing yesterday served as yet another reminder of the lack of agreement on proposed cattle market mandates. It also brought to light serious questions about the purpose, intended scope, and the need for special investigator legislation.

So despite my concerns with today's hearing, I really want to extend my sincerest thanks to our witnesses who have come here from a great distance and at great expense, both producers and packing industry leaders alike. Thank you for taking the time to be with us and sharing your perspectives. I am looking forward to that insight, and I intend to make the best of the situation. I look forward to what, in the end, I am hoping will be a productive and insightful discussion.

With that, Mr. Chairman, I yield back.

The CHAIRMAN. The chair would request that other Members submit their opening statements for the record so witnesses may be able to begin their testimony and to ensure that there is ample time for questions.

Our first witness for our first panel today is Mr. Coy Young, a cow-calf producer from Blythedale, Missouri.

Our second witness today is Mr. Gilles Stockton, who is testifying on behalf of the Northern Plains Resource Council and the Western Organization of Resource Councils. He is from Grass Range, Montana.

And to introduce our third and final witness for this panel, I am pleased to yield to the gentlewoman from Minnesota, Mrs. Fischbach.

Mrs. FISCHBACH. Thank you, Mr. Chairman. I am very honored to introduce our witness today, Mr. Don Schiefelbein, President of the National Cattlemen's Beef Association and one of my constituents. Mr. Schiefelbein has a long history of industry service most recently as Chairman of the Beef Industry Long-Range Planning Committee. He has also held several positions on committees and the board of directors for the American Angus Association and was past President of the Minnesota Cattlemen's Association. He served as the Executive Director of the American Gelbvieh Association, and early in his career after graduating from Texas A&M University he worked for the North American Limousin Association. Mr. Schiefelbein also owns and operates a large, diversified farming operation in Kimball, Minnesota, along with his father Big Frank, seven brothers, and three nephews. His wife of 32 years and his three daughters are also active in the industry.

And thank you so much for being here today. We really appreciate it. And I look forward to hearing your perspective on all of the issues. Thank you.

The CHAIRMAN. And I thank the gentlewoman for her comments.

Now, we are going to have swearing-in. If all witnesses would raise your right hands, thank you. And please jointly state your names for the record.

Mr. YOUNG. Coy Young.

Mr. STOCKTON. Gilles Stockton.

Mr. SCHIEFELBEIN. Don Schiefelbein.

The CHAIRMAN. Now, do you solemnly swear that this testimony you are about to give today before this Committee in the matters under consideration is the truth, the whole truth, and nothing but the truth?

Mr. YOUNG. Yes.

Mr. STOCKTON. Yes.

Mr. SCHIEFELBEIN. Yes.

The CHAIRMAN. Thank you.

Mr. Young, thank you for coming. And now I would like for you to be our first witness, and please begin your testimony when you are ready.

TESTIMONY OF COY YOUNG, COW-CALF PRODUCER, YOUNG ANGUS FARM, BLYTHEDALE, MO

Mr. YOUNG. Mr. Chairman and Members of the Committee, I really appreciate you selecting me to be here today. My name is Coy Young. I'm a fourth-generation cattle farmer from the rolling hills of northern Missouri. I come here before you today and try to save what is left of rural America because rural America is under attack by the greed and corruption of the big four that are in question here today.

For years, the packing industry has been concentrating more and more with fewer larger mega plants to process our proteins. The American cattle farmers and ranchers are tired, tired of being taken advantage of and losing money year after year while watching the big four post record profits every single quarter. The packers have manipulated the system with their alternative marking agreements or arrangements which is forming their own captive supply with the huge corporate-owned feedyards that control 87 percent of the fed beef in this country. AMAs have killed the cash market and competition within the beef industry, making the markets that cow-calf producers have to compete against so depressed for the times, bankruptcy rates continue to be on the rise and were at a 10 year high in 2019.

The Packers and Stockyards Act of 1921 was put in place to protect the cattle farmers and ranchers from the very thing that's happening within the beef industry today. I ask, why are we not enforcing the Packers and Stockyards Act? Is everyone in Washington on the payroll of the big four to let them continue their free reign without consequence? AMAs are legalized market manipulation practices that should not be allowed and enforced under the Packers and Stockyards Act of 1921.

There's an alarming number, the number is 40.27 cattle farms that call it quits every single day in this country for the past 3 decades because they can no longer make ends meet. Alone, that should grab the attention of leaders in Washington that there is a problem going on here. Family legacies and century farms are being ripped out of their hands and families are losing their loved ones from an unprecedented amount of suicides. Farming and ranching has the most suicides in any industry to distress a shrinking bottom line, and that's fueled by the greed and capitalistic nature that's everyday business in the big four that are in question here today. There's blood on the hands of the packers and leaders in Washington, and no one seems to care. No one seems to want to do anything about it. I know we live in a country where capitalism reigns supreme, and it's every man for himself, but packers take capitalism to a whole new level.

We as cattle farmers and ranchers just want an even playing field and be able to raise our families and live a decent life as our fathers and grandfathers did before us. Nowadays in rural America everyone in the farming community has one, two, or even three extra jobs outside of the farm to help pay their bills and make ends meet. The cows no longer pay for themselves and haven't for a very long time now. I never thought I would see the day when feeding America would become a part-time job. It's wrong and it's not fair.

There's enough money to go around in the beef industry. It's the distribution of profits that are proportionally unbalanced. That is the problem. I know I sound like a broken record, but it's from the manipulation of the big four packers that control 85 percent of the beef packing industry, but they also control 87 percent of all the fed cattle that are slaughtered.

Mandatory Country-of-Origin Labeling, also known as MCOOL, was repealed in December of 2015, which was just another slap in the face of the American cattle farmers and ranchers, which now cannot differentiate their superior product from cheap foreign beef that now floods 20 percent of the market in this country. The public and consumers no longer have the option to choose between our superior American-raised beef or foreign beef. Restoring MCOOL would help restore some competition to the marketplace so the consumer would be able to choose their product every time they go to the grocery store, and the consumer would drive the demand for American-raised beef.

Imagine waking up every single day and knowing that the cattle that you have birthed, fed, and raised are not going to make you any money because there isn't enough room in the rigged system for the small cattle farmer to make a buck. The share of the retail dollar of the complete disconnect from the farmer to the grocer is what's bankrupting the farmers and ranchers. We're only receiving 37 percent of the retail dollar as the farmer compared to 60 percent 30 years ago, now paying 200 percent increases in equipment costs and overall inputs, it's a complete recipe for disaster and a losing proposition to raise cattle in this country anymore.

My dad always said you could sell your calves in 1975 and go to the Chevy dealership and buy a new pickup. That still holds true today. You can go sell your calves and you can still go buy a 1975 Chevy pickup.

The market share that was once the cattle farmers has since been redistributed to the middlemen, the packers, and the grocers.

They make all the money and we pay all the inputs and go broke raising the very product they profit so handsomely from. And what's America going to do when there aren't any American family farms left to produce the most flavorful, juicy steak in the world? And that's all I have.

[The prepared testimony of Mr. Young follows:]

PREPARED TESTIMONY OF COY YOUNG, COW-CALF PRODUCER, YOUNG ANGUS FARM, BLYTHEDALE, MO

Mr. Chairman and Members of the Committee I appreciate you selecting me to be here today. My Name is Coy Young, I am a 4th generation cattle farmer from the rolling hills of northern Missouri. I come from a long line of family farmers on both sides of my family; my mother's father was a dairy farmer from Stacy Minnesota and my great grandfather, grandfather, and father were all farmers on my father's side of the family. I was born into this life of cattle farming and had come to love it, raising quality Black Angus seed stock starting in 2006 with my father, it's a way of life most people can't and don't understand. You become one with the animals you care for daily and it's a feeling only a cattle farmer can feel. Our way of life that we love so much is being infringed upon by the current system that is in place within the Beef industry by the multi-national packer Cartel known as the Big Four whom are here today.

Concentration and unfair practices in the beef industry in America is a huge and unprecedented problem and needs to be addressed before all the American cattle farmers and ranchers are no more. We have stood by for years and said nothing while watching our way of life disintegrate before our eyes. There have been historical amounts of family farms that have went by the wayside in the past 4 decades, losing on average of 14,700 family cattle farms annually; that's a staggering 40.27 family cattle farms per day that have to call it quits because they can no longer pay their bills or even break even. Billions of dollars have been stripped from rural communities that are dying in America only to further the concentration of the industry for the sole benefit of the multinational packer Cartel so they can post multibillion dollar profits quarterly. American cattle farmers and ranchers are resilient humble people; almost every person I have talked with over the years have had to tell their children and grandchildren there is no life on the farm when you grow up and you'll need to work outside of the farm to maintain it or even keep it in the family. The American cattle farmer has been taken advantage of for too long and it's come at hand of the multinational packer Cartel that controls 85% of the fed cattle industry in this Country.

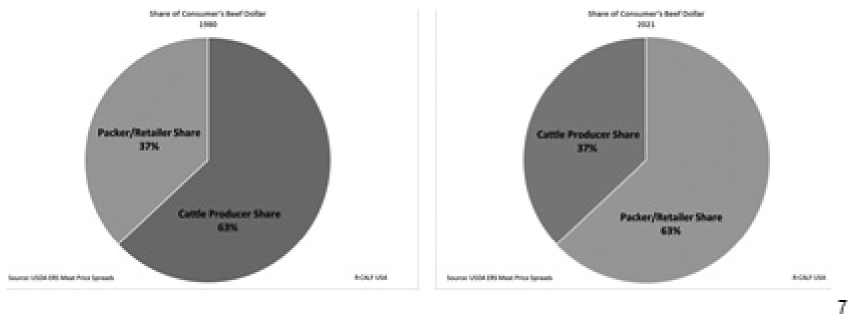
Our way of life that we love so much and have handed down for generations is under attack, and it is time for the American cattle ranchers and farmers to take back the industry they built many decades ago. First step would be reinstating MCOOL or Mandatory Country Origin of Labeling; it never ever should have been repealed in the first place. Once it was repealed it gave free reign of the market to the Big Four multinational packers to flood the United States with cheap foreign beef and slap Product of USA label on it as long as the mystery meat was processed and packaged in United States. The repeal of MCOOL came at about the same time as the collapse of the markets in the 2015. Since 2015 I and almost every single cow-calf producer I am friends with and have talked with have had nothing but a shrinking profit margin since coincidence, I think not! MCOOL would give the American consumer the chance to pick up a steak or package of hamburger from the meat case and make the decision if they want a steak from The United States of America or one from one of the other twenty different Countries it may be from, or a pound of hamburger that contains beef from more than one country in a one a pound package, hence the term mystery meat! Store bought hamburger contains beef from several countries, why do you think you can't see the meat in that pound of hamburger you buy from the big supermarkets labeled 80/20 it's not appetizing to look at and is served to our children on the government lunch program system because it's cheap. Reinstating MCOOL would give the American Cattle Farmers and Ranchers a fighting chance to compete with foreign beef that accounts 20% of all beef sold in this Country now days. But who I am kidding, the leaders in Congress and Washington D.C. will never allow such legislation to pass as long as they remain heavily influenced by the lobbyist of the Big Four to keep everything business as usual while the American Cattle Farmer and Rancher continue to go broke!

There's a recession of epic proportions coming in this Country, this year 2022 and the next few. It's going to be the American Cattle Farmer and Rancher Great Recession. With over inflated inputs and unfair calf prices the concentration of the industry will further play into the hand of the multinational packer's and they'll control more of the marketplace than ever before unless something changes. There is no competitive market in the cattle industry with the Alternative Marketing Agreements or AMA's the packers have in play with the corporate feed yards they control [] 80% of the fed cattle in this Country on AMA's. Family feed yards are going by the wayside because of AMA's the Big Four have and the control they have over the marketplace. There's no competition with AMA's because they're a steady stream of private contracts with the giant corporate feedyards that are in collaboration with the Big Four. All this is illegal under the Packers and Stockyards Act of 1921 which needs to be amended to completely eliminate Alternative Marketing Agreements so the Packers have to compete in a cash market and not control all of the prices, it's legal illegal activity the Packer Cartel gets away with every, single, day. Members of Congress need to enforce the Packers and Stockyards Act of 1921 to protect the family cattle farmers and ranchers but instead they listen to the NCBA and do nothing to enforce it. Maybe we should dig out The Original Packers and Stockyards Act of 1921 the NCBA uses as a door stop and take look at it and bring it into the 21st century so the American Cattle Farmers and Ranchers can possibly get an even playing field to sell their cattle in, rather than the rigged system that's in place today.

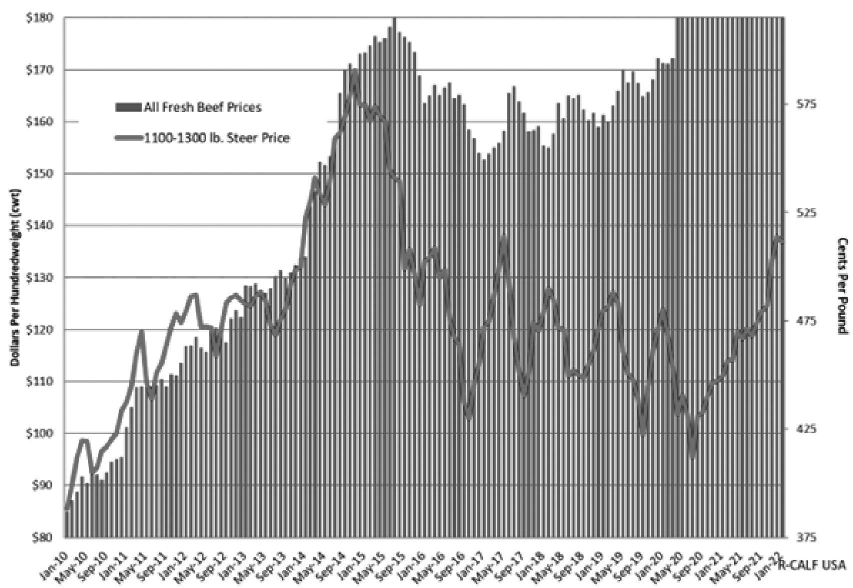
We may be at the end of a viral pandemic but there's a new pandemic about to take over in the American Cattle Farmer and Rancher's world, and that's an astronomical amount of farmer and rancher suicides that will happen this year and in the next few if something doesn't change. The Markets are so broken they're breaking people, breaking them to the point of ending their own lives, and those lives could have been saved if the Congressmen and -women of this country would do what needs to be done to fix a completely corrupt and rigged system. There's blood on the hands of the multinational packers and Washington, D.C. and you could have and can prevent it from further happening with the stroke of a pen. I almost called it quits completely, meaning completely and entirely by committing suicide in the spring of 2020. I had a gun to my head and waited for my wife to leave for work and I was going end the pain and suffering that I've lived with for years knowing that I'll be the last of my generation to be or have attempted to be a cattle farmer in a completely corrupt and rigged beef industry. I was at my end; I had the bank collector calling me daily after a private seed stock sale that took years to prepare for and was killed by the market manipulation in March of 2020. Luckily my wife had forgotten something at home that day and I saw her pull back into the driveway and I took that as a sign, and changed my decision. I am alive today because of my wife, and that gave me the chance to be here before you today to give this testimony for the thousands of Cattle Farmers and Ranchers that want an even playing field and to not be taken of advantage of any longer. Rural America is tired, sick and tired of being squeezed to death of their last penny so corporate America and the Big Four can post Billion dollar profits every single quarter.

Imagine waking up every single day and knowing that the cattle you have birthed, fed, and raised are not going to make you any money because there isn't enough room in the rigged system for a small cattle farmer to make buck. The share of the retail dollar the complete disconnect from the farmer to the grocer is what's bankrupting the farmers and ranchers. With only receiving 37% of the retail dollar at the farmer compared to 60% 30 years ago. Now paying 200% increases in equipment costs and overall inputs, it's a complete recipe for disaster and a losing proposition to raise cattle in this country anymore. My dad always said, "You could sell your calves in 1975 and go to the Chevy dealership and buy a new pickup. That still holds true today, you can go sell your calves and still go buy a 1975 Chevy pickup." The market share that was once the cattle farmers has since been redistributed to the middlemen, the packers and grocers make all the money and we pay all the inputs and go broke raising the very product they profit so handsomely from. What's America going to do when there aren't any American Family Farms left to produce the most flavorful juicy steak in the world? You think Beef is high now, wait until the Multinational Packers own the entire industry from the farm, to the feeder, to the packer just like the pork industry. That's called a monopoly the last time I checked, the doorstop would be useful when that all happens. The Packers and Stockyards Act of 1921 that is.

Change in Producers Share of Consumer Beef Dollar: Complete Reversal in Four Decades



Cattle Prices Crash While Consumers Pay Record Beef Prices



Source: USDA Economic Research Service.

The CHAIRMAN. Thank you, Mr. Young.

And now I recognize Mr. Stockton.

TESTIMONY OF GILLES STOCKTON, COW-CALF PRODUCER, STOCKTON RANCH; PRESIDENT, MONTANA CATTLEMEN'S ASSOCIATION, GRASS RANGE, MT; ON BEHALF OF NORTHERN PLAINS RESOURCE COUNCIL; WESTERN ORGANIZATION OF RESOURCE COUNCILS

Mr. STOCKTON. I hope my voice is coming through. Mr. Chairman, Members of this Committee, thank you for the opportunity to address you today. My name is Gilles Stockton. I raise sheep and cattle near Grass Range, Montana. And today, I'm representing the Northern Plains Resource Council, the Western Organization of Resource Councils, and the Montana Cattlemen's Association for which I am President. These organizations' mission is to preserve family agriculture and the rural communities upon which we depend.

I took over the family ranch in 1975, the same year that I graduated from Montana State University with a master's degree in animal science. My wife and I started ranching with nothing except our degrees, the generosity of my parents, and a loan from the FHA. But if I had to start from scratch today, it would be impossible. We are losing an entire generation of motivated, talented, and trained young men and women because they cannot afford to take over the family farm or ranch. As Mr. Young has just testified, the economic realities just do not allow it.

In 1975, the concentration in the beef packing industry had four firms controlling 25 percent of the market. Today, they monopolize 85 percent. I lived and ranched through the entire period and have seen the beef industry become subservient to a monopoly cartel. In 1975, the year I started ranching, the farm-to-retail spread for beef stood at 71.3 percent. We ranchers and feeders were able to retain 71.3¢ of every dollar spent by the consumer at the grocery store. In 2021, the farm-to-retail spread was 36.5 percent. Over the course of my career in ranching, my income has been cut in half. In terms that are very concrete and just like Mr. Young had said, in 1979 I purchased a 1 ton, four-wheel-drive truck from the proceeds of selling 18 calves. The equivalent truck today would cost me 59 calves.

Now, I don't want to give you the impression that I'm looking for sympathy. I've made my life, and it was a good life. But my concern is for my community, the future of agriculture and the future of food security for this nation. My community has, over the course of my life as a rancher, dried up and blown away like a tumbleweed. Today, Grass Range, which was once a thriving small town has only one functioning business on Main Street, a tire repair shop.

And there is no part of U.S. agriculture that is not oppressed by monopolized dysfunctional markets. And this longstanding market dysfunction was laid bare by the COVID–19 pandemic when illness in the packing plants slowed the processing of cattle, which resulted in empty shelves at the meat counter, and the packing cartel profited by buying cattle for less and selling beef for more. And I'm sure that we're going to hear here today how this is all about supply and demand, but it is also about having an entire meat production system funneled through a very narrow bottleneck where packers can exploit both producers and consumers.

One tactic that the packers use is captive supply, also known as alternative market agreements, AMAs, which are cattle committed to packers through a type of forward contract that are never competitively priced. Recent research at Georgetown University reveals that for every one percent increase in the amount of cattle that's procured through AMAs, captive supplies, there is a 5.9 percent decrease in the price. Another study from Iowa State University shows that meatpackers are leveraging their market power across multiple plants, further eroding true price discovery in the cattle markets.

So what's to be done? Actually, it's really not that complicated. First, pass the American Beef Labeling Act (H.R. 7921). It is absurd that beef and pork are the only food or manufactured items that do not carry a country-of-origin labeling. So thank you very much, Representatives Gooden and Khanna, for introducing this legislation. American consumers have the right to know the origins of their beef purchases, and cattle producers have the right to a fair and transparent market.

Second, do what your colleagues did in 1921. Require that the beef packers buy their cattle in a competitive and transparent marketplace that they neither own nor control. This is what the consent decrees that accompanied the passage of the Packers and Stockyards Act required. It was a perfectly free market, free enterprise approach, and it actually worked.

I see I'm running long here, so thank you very much. Unless you, Congress, acts, the American people will find themselves with an unreliable, extremely expensive food supply, so thank you, Members of the Committee, and I look forward to your questions.

[The prepared testimony of Mr. Stockton follows:]

Prepared Testimony of Gilles Stockton, Cow-Calf Producer, Stockton Ranch; President, Montana Cattlemen's Association, Grass Range, MT; on Behalf of Northern Plains Resource Council; Western Organization of Resource Councils

Mr. Chairman and Members of the Committee, thank you for the opportunity to address you today on the urgent issue of price discrepancies, transparency, and unfair practices in our cattle markets.

My name is Gilles Stockton. I raise sheep and cattle near Grass Range Montana. Today, I am representing the Northern Plains Resource Council, the Western Organization of Resource Councils, and the Montana Cattlemen's Association, organizations that work to preserve family agriculture and the rural communities upon which we depend. I took over the family ranch from my parents in 1975, the same year that I graduated from Montana State University with a Masters Degree in Animal Science.

When my wife and I started ranching in 1975 we had no assets except for our degrees. We were fortunate to have support from my parents and a loan from the Farmers Home Administration. It was not easy but we were able to make it work. In 2022, a young couple starting with the situation that we had would find it impossible to make a living in production agriculture. The economic reality simply does not allow it. We are losing an entire generation of farmers and ranchers, the people upon which many of our Montana communities are built.

In 1975, 25% of the beef packing industry was controlled by four firms. Today, approximately 85% of the beef packing industry is controlled by four firms. This corporate concentration is underlying and shaping the economic reality that prevents farmers and ranchers from thriving. Monopoly power extracts wealth from rural communities and takes a larger share of the retail dollar away from producers like me. From 2012–2017, in Fergus County, Montana, where I am from and the number one cattle-producing county in the state, we have seen devastating losses. In these 5 years, our county reported a 14% decline in market value of products sold per farm, and a 54% decline of net cash farm income per farm. In my community of Grass Range, I've seen this play out as a main street which now has only one functional business.

In 1975, the farm to retail price spread for beef was 71.3%. That means for each $1 spent on beef at the grocery store, 71.3¢ made it back into the pockets of ranchers and cattle feeders. We spent that money in our communities, at truck dealers and farm suppliers, restaurants and grocery stores. In 2021, that spread is just 36.5%. This means that ranchers and feeders have lost half of the value of the beef that we raise, to the packing and retail cartels that have come to dominate the beef industry over the course of my lifetime as a rancher. Our profit share declined, and consumers pay higher prices for beef.

I carry with me in my own experience over 5 decades. For example, in 1979, I purchased a 1 ton four-wheel drive truck with the proceeds of selling 18 steer calves. The equivalent truck today would cost me 59 steer calves. No wonder our local businesses have not survived.

That share of the beef dollar we've lost does not come back to me and my fellow ranchers, or my community. Marginal rises in prices for cattle, if appearing at all, are seasonal and volatile at best, and cannot be relied upon for feeders and ranchers who struggle to make ends meet and cannot be guaranteed a fair shake at date of sale.

I do not want you to get the impression that I am looking for sympathy, far from it. I have had a wonderful life, working in an occupation that I love. I have had experiences as a routine part of my day, that many people can just dream of. I have been blessed, to have two wonderful women, willing to put up with me. My first wife passed away in 2003. Between us, we have three sons, one of whom has volunteered to look after my sheep, which are currently having their lambs. Without his help, I could not be here today.

My concern is for my community, the future of agriculture, and the future of food security for this nation. My community of Grass Range has over the course of my life as a rancher dried up and blown away like a tumble weed.

There is no part of the U.S. agricultural system that is not harmed by monopoly corporate power, but the beef sector and its experience during the pandemic may be the example of this that is most visible today. The disruptions during the pandemic revealed how vulnerable of beef and pork supply chain is. The lack of basic protections for workers that contributed to rampant illness in the packing plants slowed the processing of cattle with the result of empty shelves in the meat counter. Ranchers like myself and my neighbors were suddenly unable to sell our cattle, and were left desperately scrambling to find a buyer. Many could only find a "take it or leave it" price that was far below our cost. Prices to consumers skyrocketed, when they could find beef on the shelf at all. And the big four packers profited from buying cattle for less and selling beef for more.

The packers have said that this is all about supply and demand, but it is also about having our entire meat production system funneled through a very narrow bottle neck, where a few big packers can exploit both producers and consumers.

The big four packers exercise their concentrated market power to maximize their profits through the use of captive supplies: cattle that packers either own outright or have a commitment for delivery through formula contracts which are also called Alternative Marketing Arrangements or AMAs. Most of the remaining purchases are made on the cash market, referred to as the negotiated spot market.

These captive supplies, which at times amount to ¾ of the market, allow for packer price manipulation. When cattle are sold in an open, public market with multiple buyers on a level playing field, the competitive bidding results in "price discovery" that reaches a sale price that reflects the true value. Even smaller buyers will bid on many more cattle than they ultimately purchase, and are therefore important competitors to even the largest packers. Use of captive supplies also allows packers to offer sweetheart deals to select ranchers and feeders. Prices to these operators have declined over time as well, but they make incrementally more than independent ranchers and feeders, who often face uncertainty over whether they will be able to sell their cattle at all.

As increasing amounts of cattle are sold outside of an open market, prices decline. For every 1% increase in the level of captive supply, there is a 5.9% decrease in the price of cattle according to a study by Nathan Miller, *et al.,* of Georgetown University.[1] With captive supply levels now approaching 80% of all fed cattle, you can readily see how much ranchers and feeders are losing in this rigged market system. Another study, this case from Iowa State University shows that the big four packers are leveraging their power across multiple plants, further eroding true price discovery in the cattle market.[2]

The effect of captive supplies on U.S. cattle markets was demonstrated in 2003, when mad cow disease was detected in Canada, and imports of Canadian live cattle to the U.S. were banned. Canadian imports made up less than five percent of the U.S. slaughter at the time, and were all captive supplies. Within months of the Canadian border closure, U.S. fed cattle prices jumped an unprecedented $26 per cwt, or about $325 per head.

Last summer in a Senate Ag Committee hearing, Senator Grassley of Iowa revealed that packers were making over $1,000 per head profits, for owning the cattle for just a few days. Ranchers and feeders were losing money on each head raised, and consumers were paying more.

What to do? Actually, it is not that complicated, and the solutions can be executed through this Committee.

[1] *https://www.r-calfusa.com/wp-content/uploads/2022/03/220331-cattlemarkets.pdf.*
[2] *https://www.card.iastate.edu/products/publications/pdf/21wp630.pdf.*

The first solution is mandatory Country of Origin Labeling. Meatpackers oppose COOL because they don't think consumers should have the right to know where their beef comes from, and they want to be able to use international livestock trade to help keep the prices they pay producers low. With other markets food and manufactured items, consumers are able to exercise choice on where purchases are sourced, except for beef and pork. Consumers overwhelmingly support mandatory Country of Origin Labeling or COOL, and demonstrated that they are willing to pay more for U.S. beef and pork when COOL was fully in effect between 2013 and 2016. Consumer demand for U.S. beef and cattle prices increased. Unfortunately, after an adverse WTO ruling, Congress repealed COOL in 2015, before the dispute process had been completed, but it is still possible to negotiate a settlement that will allow mandatory COOL to be reinstated by passing the American Beef Labeling Act. We thank Rep. Gooden (TX–5) and Rep. Khanna for sponsoring this bill. H.R. 7291 will once again give consumers the ability to know where their beef comes from, which is a prerequisite in order to reignite competition at the retail level, and for cattle producers to have a fair and transparent market.

The second policy that's needed is require that the beef packers purchase their cattle in a competitive and transparent marketplace that they neither own nor control. USDA can do this through rules under the Packers and Stockyards Act, or Congress can do so by strengthening amendments to the Act to require this free enterprise approach to anti-trust enforcement. In fact, your colleagues from a century ago used this method to restore competition to the cattle industry. It is really just that simple. In order to have a market that works for producers, packers, and consumers you need to pass the two following provisions, as included in the Captive Supply Reform Act of 2007, which was sponsored by Senators Enzi and Tester:

1. That all forward contracts and alternative marketing agreements for slaughter livestock be offered or bid in an open, public market and contain a fixed base price (one that can be equated with a specific dollar amount on the day the contract is entered).
2. That all livestock owned and fed by packers more than 14 days before slaughter be sold through an open, public market.

The Cattle Price Discovery and Transparency Act, currently being considered in the Senate, is a step forward to increase the percentage of cattle purchased on the cash market, but falls short in restoring competition to cattle markets.

Creating a fair, open, and competitive marketplace for cattle producers is important because our food and economic security depend on it. We must act now for ourselves and future generations. As states across the West, including Montana, are dealing with a megadrought, wildfires, and economic devastation, we don't have time for baby steps and false solutions. We need bold and transformative change. Mr Chairman, I urge you and the Committee to pass the American Beef Labeling Act and reintroduce and pass the Captive Supply Reform Act.

Thank you for the opportunity to speak to these issues.

Member, Northern Plains Resource Council.
President, Montana Cattlemen's Association.

ATTACHMENT

Country of Origin Labeling: Restoring Power to the People

A report on Country of Origin Labeling looking at its progression through Congress and the Montana State Legislature, economic impacts and where it stands today.

[Northern Plains Resource Council, 2018]

Introduction

Agricultural producers in the United States today are subject to some of the most highly concentrated markets in the world. This is particularly the case for cattle ranchers. Once a cow is fattened for slaughter, it must be processed and packaged before it is ready for consumption. Yet, the meatpacking industry is becoming so concentrated that four meat packers have gained control of 84 percent of the market for fed cattle since the 1980's,[1] and that number is climbing. Not only do these pack-

[1] Western Organization of Resource Councils. 2016. *Growing The 16%.* Pg. 2.

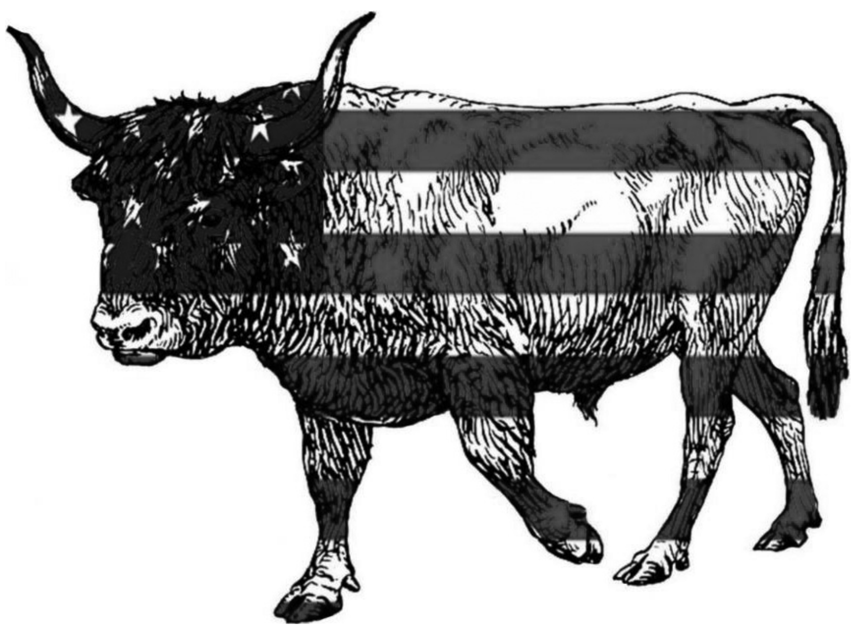
ers own their own cattle herds all over the world to flood the markets and depress prices for ranchers, they misrepresent the origin of meat. This gives American consumers no transparency or choice over what meat they want to eat. American ranchers have no opportunity to negotiate or receive fair prices for their livestock, nor can they distinguish their product in American markets.

Country of Origin Labeling (COOL) is one solution to give American producers recognition for their product, and consumers a choice about their food. COOL is a comprehensive labeling system that requires specific commodities sold in the United States to bear a label or placard indicating where a product was born, raised, and slaughtered, yet beef and pork are currently exempt.

Livestock Markets

Packers work internationally to import meat cheaply from other countries and commingle the product to make American-raised beef indistinguishable from foreign beef. Under current food inspection laws, as long as meat is processed or repackaged in the United States, it can be labeled as "Product of USA", regardless of how much of the production occurred in countries with standards different than that of the United States. Meat processors can thus pass off meat products as meeting USA standards entirely when, in fact, a large portion of production was dictated by varying safety, environmental, and labor standards. The current system undercuts the valuable work of American producers to meet high domestic standards in order to grow high-quality beef. It also forces family-scale domestic producers to compete with large-scale corporations abroad.

Trends of the last 20 years show that the American cattle herd is continuously shrinking. Without a strong American herd, the cattle industry is vulnerable to market changes and foreign disease. Country of origin labeling demands more transparency in our food system, which gives consumers free choice to support local and trusted producers. Increased support for U.S. beef would prompt packers to buy more domestic products. Competition would influence U.S. cattle prices, not meatpacking corporations. COOL is practical way to support the U.S. cattle industry and to give consumers their right to know where their food is coming from.



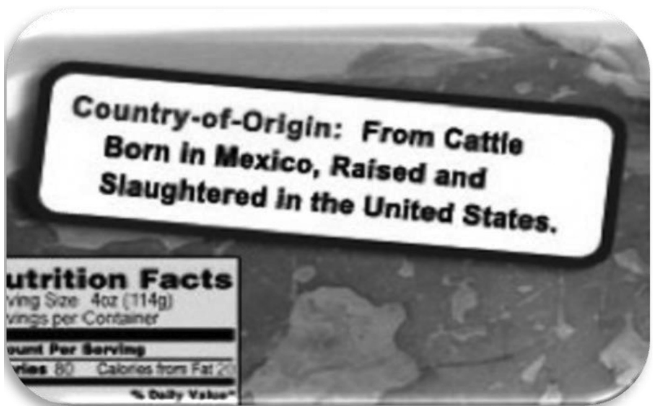
Why COOL?

COOL is essential to build a more robust domestic food and agricultural system. Mandatory COOL increases consumer choice by providing information to consumers that is necessary for a more efficient marketplace, supports U.S. farmers and ranchers, and establishes trade relations built on fairness. Ranchers benefitted when COOL was in place and have been losing profits since its repeal. Researchers also proved it to be cost effective if implemented in a way that maximizes use of existing labeling requirements. Additionally, COOL restores transparency in our trade policies and food system, which works in favor of local producers and economies. Implementation of COOL is a necessary step to promote economic and social wellness to U.S. consumers and producers.

COOL is important because:

(1) People have the right to know where their food is coming from.

COOL creates a more efficient marketplace where consumers have access to information that allows them to make purchases based on their individual concerns. This opinion has been reinforced by the Federal court. The United States Court of Appeals for the District of Columbia ruled in favor of COOL under the first amendment in *Am. Meat Inst.* v. *United States Dep't of Agric.,* 760 F.3d 18, 411 U.S. App. D.C. 318, (2014). The Federal court recognized the legitimacy of COOL and its usefulness to consumers worried about "production standards or contamination threats."[2] The court also determined COOL disclosed "purely factual and uncontroversial" information about covered commodities. This case was a milestone for COOL because the Federal court recognized government's right to disclose country of origin information and consumers' right to access it.



COOL promotes transparency in our food system which allows consumers to make more informed purchases based on their individual concerns.

Research supports a strong public approval of COOL. Consumers have shown a preference for COOL for reasons of traceability and access to information. In a study conducted with 273 consumers in Denver and Chicago in 2003, researchers found the most commonly cited reasons consumers prefer COOL to be:

- "food-safety concerns about imported beef,
- a preference for labeling source and origin information,
- a strong desire to support U.S. producers, and
- beliefs that U. S beef was of higher quality."[3]

Since information on country of origin is already being tracked in most cases, it is a matter of ensuring that this information is passed on to the consumers. A study reviewing 20 years of COOL-related research reiterated similar consumer motivations for COOL, explaining that these labels can serve as a "proxy" for consumers to get valued information such as "food safety, traceability, and health information."[4]

Consumers value COOL as a way to determine the safety of the food they eat. The country of origin of a product can be used alongside other food inspection laws

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[2] Anon. 2015. "*American Meat Institute* v. *USDA.*" *Harvard Law Review.* Retrieved August 2, 2018 (*https://harvardlawreview.org/2015/03/american-meat-institute-v-usda/*).

[3] Umberger, Wendy J., Dillon M. Feuz, Chris R. Calkins and Bethany M. Sitz. 2003. "Country-of-Origin Labeling of Beef Products: U.S. Consumers' Perceptions." *Journal of Food Distributional Research* 34(3): 104–116. Pg. 113.

[4] Newman, Christopher L., Anna M. Turri, Elizabeth Howlett, and Amy Stokes. 2014. "Twenty Years of Country-of-Origin Food Labeling Research: A Review of the Literature and Implications for Food Marketing Systems." *Journal of Macromarketing* 34(4) 505–519. Pg. 513.

to better inform consumers about the quality and growing practices of the source of their meat. Without COOL, decreased transparency increases the risk of the U.S. unknowingly importing diseased livestock and beef. In the case of a meat-borne illness outbreak in a country that imports meat to the U.S., meat can be easily avoided if bearing labels indicating where it came from. When consumers know exactly where their meat is born, raised and slaughtered, they can make informed decisions about the health and safety of the food they buy. This allows consumers to leverage their purchasing power to support trusted producers.

COOL creates niche markets for domestic producers and retailers to market local meat at higher premiums.

What about the Money?

Consumers have demonstrated they would pay more for COOL, specifically for beef products. The Denver and Chicago study from 2003 found that 73% of respondents were willing to pay a premium for COOL of about 11% for steak and 24% for hamburger.[5] Consumers were willing to pay more for products when they had access to information about where it came from. An additional study in the same year found that consumers were concerned about labeling issues and were willing to pay $184 more per household per year for COOL.[6]

Studies have also shown that consumers would choose domestic beef over imported beef and would be willing to pay more for it. In 2014, researchers found that consumers valued beef labeled "Born, Raised and Slaughtered in the U.S." nearly $1 more than beef labeled "Born in Canada, Raised and Slaughtered in the U.S."[7] COOL increases the competitiveness of domestic agricultural products and improves the bottom line of producers by providing consumers with accurate information.

> "Researchers found consumers valued beef labeled 'Born, Raised and Slaughtered in the U.S.' nearly $1 more than beef labeled 'Born in Canada, Raised and Slaughtered in the U.S.'"

While much research demonstrates positive impacts of COOL, there is some conflicting research about COOL's impacts. A 2015 USDA economic analysis of COOL explains that, "evidence does not support a conclusion that COOL significantly increases consumer demand even though consumers desiring such information benefit from its provision."[8] Researchers found that consumers did not make much difference in their purchasing patterns after COOL was put into effect. Another report, conducted by many of the same researchers involved in the USDA economic analysis

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[5] Umberger, Wendy J., Dillon M. Feuz, Chris R. Calkins and Bethany M. Sitz. 2003. "Country-of-Origin Labeling of Beef Products: U.S. Consumers' Perceptions." *Journal of Food Distributional Research* 34(3): 104–116. Pg. 113.

[6] Loureiro, Maria L. and Wendy J. Umberger. 2003. "Estimating Consumer Willingness to Pay for Country-of-Origin Labeling." *Journal of Agricultural and Resource Economics* 28(2): 287–301. Pg. 287.

[7] Lusk, Jayson and Susan Murray. 2014. *Food Demand Survey*. Retrieved July 26, 2018 (*https://www.usda.gov/oce/about_oce/corrective_action/Attachment13FoodDemandSurvey.pdf*).

[8] Office of the Chief Economist. 2015. *Economic Analysis of Country of Origin Labeling (COOL)*. Washington, D.C. Pg. 8.

of COOL, similarly found that there was no change in demand for meat products following the implementation of COOL.[9] The exact effects of COOL are highly debatable and unclear.[10] Whether a majority of consumers are willing to put their money where their mouth is and buy local beef or not, their ability to choose should be nonnegotiable.

(2) COOL requires minimal costs to implement when it works with existing labeling requirements. These costs are outweighed by the benefits.

Before mandatory COOL was passed into law, USDA researchers projected high costs of implementation. Research has proven, however, that COOL can be implemented in a way that requires minimal changes to existing labeling infrastructure and requirements. This would alleviate potential burdens to producers, processors and retailers.

Ranchers move pasture with their cattle in the winter. COOL supports long-standing ranching communities.

Projected COOL Implementation Costs

When COOL was first added to the 2002 Farm Bill, the USDA published an estimate of record keeping costs in the *Federal* [*Register*]. The total cost was calculated to be $1.96 billion, with producers bearing $1 billion in record keeping costs.[11] These estimates faced opposition from groups like Northern Plains Resource Council and Western Organization of Resource Councils who felt this cost of implementation was largely over estimated. Their opposition was supported with a 2003 economic analysis of COOL by the International Agricultural Trade and Policy Center (IATPC). IATPC researchers found the cost of record keeping from COOL to be 90–95% less than the USDA projection, at between $69.86 million and $193.43 million.[12] The researchers assert that the benefits of COOL substantially outweigh the cost, which comes out to less than 1⁄10 of 1¢ per pound for covered commodities. They also highly recommend the cheapest system of labeling to assume U.S. origin of all products unless it is carrying a mark from another country. This eliminates a need for a costly third party verification rule as well as a self-verification rule. A self-verification rule requires all entities to report country of origin, which is largely unnecessary and possibly unlawful.[13]

[9] Tonsor, Glynn T., Jayson L. Lusk, Ted C. Schroeder, and Mykel R. Taylor. 2012. *Mandatory Country of Origin Labeling: Consumer Demand Impact.* Kansas State University. Retrieved July 26, 2018 (*https://www.r-calfusa.com/wp-content/uploads/cool/121113Tonsor_KSU_FactSheet_MCOOL.pdf*).

[10] Newman, Christopher L., Anna M. Turri, Elizabeth Howlett, and Amy Stokes. 2014. "Twenty Years of Country-of-Origin Food Labeling Research: A Review of the Literature and Implications for Food Marketing Systems." *Journal of Macromarketing* 34(4) 505–519. Pg. 515.

[11] John J. VanSickle. 2003. *Country of Origin Labeling—A COOL Update*. International Agricultural Trade and Policy Center Washington, DC: University of Florida. Pg. 3.

[12] VanSickle J., R. McEowen, C.R. Taylor, N. Harl, and J. Connor. 2003, "Country of Origin Labeling: A Legal and Economic Analysis." Policy Brief Series. International Agricultural Trade and Policy Center. University of Florida. PBTC 03–5. *https://www.iatp.org/sites/default/files/Country_of_Origin_Labeling_A_Legal_and_Economi.pdf*. Accessed July 12, 2018. Pg. 3.

[13] VanSickle J., R. McEowen, C.R. Taylor, N. Harl, and J. Connor. 2003, "Country of Origin Labeling: A Legal and Economic Analysis." Policy Brief Series. International Agricultural Trade

Continued

The International Agriculture Trade and Policy Center estimated COOL record keeping costs to be 90–95% less than USDA projections.

Differing cost estimates of implementing COOL comes down to the method. Lower estimates are based on implementation that works with existing labeling requirements while more costly estimates create new systems of regulation which would be resource intensive to establish. The 2002 USDA economic analysis of COOL estimated large expenditures in employee time to create new labeling systems. The USDA estimated high job wages along the supply chain to perform more work than would be needed to implement labeling systems for producers, handlers and retailers. The IATPC argues this report is inaccurate because:

- **For Producers:** Due to state and Federal animal ID laws, livestock producers already maintain records sufficient to prove origin of their animals and no new record keeping would be necessary.
- **For Handlers:** The large majority of commodities covered under COOL are produced within the U.S. and only the few dominant processing firms for each commodity are likely to import from foreign countries. These firms that import goods must already keep records on country of origin for custom regulations. As a result, the burden on record keeping for imports will be minimal.
- **For Retailers:** Retailers will mainly need to pass country of origin information onto customers, which they will be required to get from suppliers. This would require small changes to display processes and existing record keeping.[14]

Actual COOL Implementation Costs

When implemented in 2008, COOL was proven to cost much less than estimated. It allowed anyone who visually appraises cattle to issue a U.S. origin if there was not branding for Canada or Mexico found. Producers signed an affidavit indicating that the cattle were of U.S. origin. This essentially removed the need for all record keeping for U.S. producers.[15] This was a change from the intended implementation strategy from 2003 where all cattle, foreign and domestic, would have needed to be labeled country of origin. An assessment by Informa Economics compared estimated costs to implement COOL in the beef industry from 2003 to costs in 2009.[16] Costs of COOL from 2009 turned out to be ½ of $1 billion less than expected in 2003. This largely has to do with the fact that under COOL, beef supply chain workers opted to handle more U.S. only origin beef and cattle, meaning born, raised and slaughtered in the U.S., because of lower costs, opposed to handling beef and cattle from mixed countries of origin. *Figure 1.* shows how costs were significantly cheaper along the supply chain for U.S. only origin cattle and beef. Costs were estimated to overall be highest for retail distributors, who paid $.75 a head for U.S. origin beef and $35.00–$40.00 a head for mixed origin meat products.

Figure 1—Beef Supply Chain COOL Cost Estimates.

Table 1 Beef Supply Chain COOL Cost Estimates

	2003 $/head *	2009 U.S. Only Origin $/head	2009 Mixed Origin Animals/ Products $/head
Cow-calf Producer	4.88	.25	Not applicable
Feedlot/Backqrounder	3.75–5.75	.25	.50–1.00
Packer/Processor	15.00–18.00	.25	10.00–18.00
Retail distribution and Retail Store	23.00	.75	35.00–40.00
Total	46.63–51.63	1.50	45.50–59.00

* Costs reported in the Sparks April 2003 analysis.

Informa Economics 2009. Costs of COOL implementation to the U.S. beef supply chain per unit costs compared from 2003 to 2009. Implementation

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and Policy Center. University of Florida. PBTC 03–5. *https://www.iatp.org/sites/default/files/Country_of_Origin_Labeling_A_Legal_and_Economi.pdf*. Accessed July 12, 2018. Pg. 7.

[14] VanSickle J., R. McEowen, C.R. Taylor, N. Harl, and J. Connor. 2003, "Country of Origin Labeling: A Legal and Economic Analysis." Policy Brief Series. International Agricultural Trade and Policy Center. University of Florida. PBTC 03–5. *https://www.iatp.org/sites/default/files/Country_of_Origin_Labeling_A_Legal_and_Economi.pdf*. Accessed July 12, 2018. Pg. 15–19.

[15] Peel, Derrell S. 2008. "Implementation of Country of Origin Labeling (COOL) in the Beef Industry." *Choices,* 35–38. Pg. 37.

[16] Informa Economics. 2009. "Update of Cost Assessments for Country of Origin Labeling—Beef & Pork." Retrieved July 13, 2018 (*http://www.informaecon.com/coolstudyupdate2010.pdf*).

costs are lowest along the supply chain for cattle and beef of U.S. only origin compared to those of mixed country of origin.

Opposition to COOL

The USDA has generated data, unsurprisingly, that conflicts with this research. The 2015 USDA economic analysis of COOL determined economic effects of mandatory COOL when in place to be consistent with the costly projections from the USDA 2002 economic analysis. This 2015 report found that "the economic benefits of implementing COOL regulations would be insufficient to offset the costs of requirements".[17] The researchers evaluated the first-year implementation costs to be $305 million for beef producers, $373 million for beef intermediaries and $574 million for beef retailers. Research on COOL produced by the USDA repeatedly uses models run on grossly overestimated costs. Other research has found COOL to increase overhead costs along the beef supply chain, which could reduce profits if consumers are not willing to pay more.[18] It has been noted, however, that with these higher overhead costs in some parts of the supply chain comes the opportunity for producers, processors and retailers to benefit off of niche markets worthy of higher premiums.

Opponents argue that if COOL is beneficial to the market, than it would be more widely used when in place as a voluntary model. Yet, once COOL was repealed, a standardized voluntary COOL program also failed to pass for beef and pork. Now, some brands label origin, but with no specific standards as originally envisioned with COOL. This leaves room for fraud. Voluntary COOL is not widely used because consumers are less likely to trust a private entity's labeling quality, giving retailers less motivation to implement a self-created COOL marketing system.[19] It is also in meat packer's best interest not to label country of origin on products when they can repackage imported meat and label it of USA origin for higher premiums. This makes it nearly impossible for retailers to track COOL information on their own. COOL being mandatory is the only way to fully understand its cost effectiveness. Since COOL has been in place already, these costs have been taken on so they will not be as significant.

(3) COOL boosts profits for U.S. ranchers.

Cattle prices have fluctuated in correlation with the implementation and repeal of COOL. *Figure 2.* shows the relationship between the enactment of COOL and feeder cattle prices between 2002 and 2018. Created by the Ranchers—Cattlemen Action Legal Fund United Stockgrowers of America (R–CALF USA), this graph emphasizes a strong correlation between the gradual implementation of COOL and an

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[17] Office of the Chief Economist. 2015. *Economic Analysis of Country of Origin Labeling (COOL).* Washington, D.C. Pg. 2.

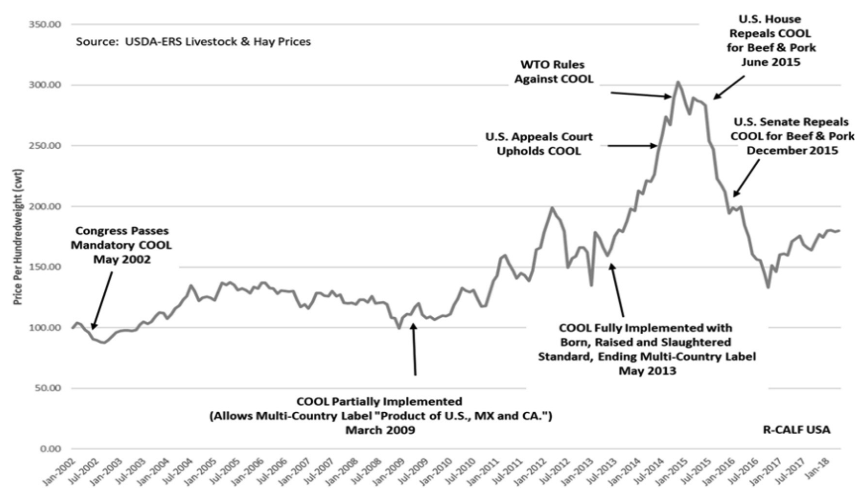
[18] Newman, Christopher L., Anna M. Turri, Elizabeth Howlett, and Amy Stokes. 2014. "Twenty Years of Country-of-Origin Food Labeling Research: A Review of the Literature and Implications for Food Marketing Systems." *Journal of Macromarketing* 34(4) 505–519.

[19] Lusk, Jason L., Jason Brown, Tyler Mark, Idlir Proseku, Rachel Thompson, and Jody Welsh. "Consumer Behavior, Public Policy, and Country-of-Origin Labeling" *Review of Agricultural Economics* 28(2) 284–292 Pg. 286.

increase in cattle prices, with cattle prices reaching their peak in the beginning of 2015, just before COOL was repealed by Congress in December 2015. The fact that cattle prices started falling before COOL's official repeal can be explained by opponents strong attack on COOL that made it clear COOL was going to be repealed before it actually was. Cattle prices continued to fall after COOL was repealed in December 2015, falling an additional $61 per cwt from Dec. 2015–Oct. 2016. The Organization for Competitive Markets (OCM) supports these claims by reporting that, "Pricing research clearly demonstrates that the 2016 fall in the price cattle producers receive for their calves, of almost 50%, can be tied to the abandonment of COOL. U.S. calves are now worth half of what they were prior to COOL being repealed."[20] U.S. ranchers saw a boost in profits with COOL in place and have been losing money since its repeal.

Montana rancher Jeanie Alderson and her community experienced significant price cuts from the repeal of COOL first hand. Alderson notes that before COOL was repealed, prices for feeder cattle were going up. After COOL was repealed, the price per pound for feeder cattle dropped a full dollar. Montana ranchers generally sell their feeder calves by the semi load, with one semi load carrying around 60,000 pounds. A drop in feeder cattle prices by $1 translates into a $60,000 loss for every truck leaving the community. A loss this large is crippling, considering ranchers make all of their money selling calves in just a couple of days a year at shipping time. Most of that money is also already spent on bills and other expenses throughout the year, leaving ranchers with limited options to make back their expenses. Large meatpacking corporations are benefitting from cheaper cattle prices while rural communities are devastated by it. Alderson explains that these price cuts were not widely spoken about even though many ranchers shared the experience. Mandatory COOL clearly benefited United States ranchers while in effect and the repeal of COOL has lost Montana ranchers and rural communities significant amounts of money.

Figure 2. COOL & Feeder Cattle Prices (500 to 550 lbs) Oklahoma City, January 2002 to April 2018.



R–CALF USA. Feeder cattle prices were going up with COOL in place and have dropped since its repeal.

Opponents argue that drought is the cause for drop in feeder cattle prices around the repeal of COOL.[21] Regardless of the root cause of this market crash, it shouldn't happen and can devastate any industry. It is proof that the United States need stronger agricultural and trade policies to better support ranchers and beef production workers.

[20] Anon. 2018. "Country of Origin Labeling." Organization for Competitive Markets. Retrieved July 11, 2018 (*https://competitivemarkets.com/cool/*).

[21] Lusk, Jayson. 2016. "Country of Origin Labeling and Cattle Prices." Jayson Lusk. Retrieved July 13, 2018 (*http://jaysonlusk.com/blog/2016/11/13/country-of-origin-labeling-and-cattle-prices*).

(4) COOL allows for more fair globalized trade.

COOL protects domestic cattle markets by reducing incentives for transnational processors to import cheap meat from abroad. U.S. cattle are proven to bring in more money than Canadian cattle, but without labels there is no market distinction. Because meatpackers are sourcing cheaper cattle from Canada in order to meet demand shortages in the U.S., our domestic prices are falling. COOL would allow more consumers to buy locally produced beef. This would stimulate and strengthen the U.S. cattle herd diminishing packers need and ability to outsource cheap foreign meat. Currently, global trade is dictated by transnational corporations who do not advocate for fair and free trade. COOL would shift power to consumers by providing information they need to support local economies.

COOL and Current Trade Agreements

When mandatory COOL was in place, Canada and Mexico alleged it violated the WTO Technical Barriers to Trade (TBT) Agreement because domestic products were treated more favorably than foreign products. Both countries claimed that COOL would cost them $2.1 billion from loss of exports because U.S. consumers would buy more domestic goods.[22] The WTO ruled in their favor in 2012.

With the investor-state dispute settlement (ISDS) provisions in NAFTA, which allows investors to sue countries for alleged discriminatory practices, Canada and Mexico were able to threaten the U.S. through the WTO for the loss of profits they projected to experience from COOL. Though the volume of meat the U.S. imports from Canada and Mexico is small in relation to the total U.S. import market, these imports represent significant shares of these country's exports.[23] These financial loss claims by Canada and Mexico are extremely high, however, considering the total hog and cattle exports from both of these countries amounted to $2.5 billion in 2014. Canada and Mexico alleged that eliminating COOL when it was in effect would increase the value of their livestock exports by 77 percent.[24] More research should be done to confirm the market effects in Canada, Mexico and the U.S. since the repeal.

ISDS provisions in NAFTA give transnational corporations the power to fight for policies that work in their favor and takes the power to pass policy away from local communities. Though COOL may lead to a higher demand for U.S. meat, it does not apply different labeling requirements to foreign imports and domestically produced goods. Advocates argue COOL can be implemented in a neutral manner and is compatible with WTO trade agreements.

NAFTA has also historically hurt domestic cattle ranchers and put the rights of transnational corporations over the viability of local communities. While COOL may affect international trade flows,[25] R–CALF USA estimates the U.S. cattle and beef trade deficit with NAFTA countries contributed more than $1.04 billion annually to the trade deficit during the past 22 years.[26] The U.S. cattle industry is losing money because of NAFTA, which is also preventing the U.S. from creating policies to protect the cattle industry. COOL would restore a sense of sovereignty over our food system in the U.S. Renegotiating NAFTA to eliminate ISDS and include COOL would improve trade policies to work for family-scale producers, rather than against them.

[22] Food and Water Watch. 2005. "Trade Damages from WTO COOL Case Massively Overstated."

[23] Pouliot, Sebastien and Daniel A. Sumner. 2014. "Differential Impacts of Country of Origin Labeling: COOL Econometric Evidence from Cattle Markets." *Food Policy* 49: 107–16. Pg. 107.

[24] Food and Water Watch. 2005. "Trade Damages from WTO COOL Case Massively Overstated."

[25] Newman, Christopher L., Anna M. Turri, Elizabeth Howlett, and Amy Stokes. 2014. "Twenty Years of Country-of-Origin Food Labeling Research: A Review of the Literature and Implications for Food Marketing Systems." *Journal of Macromarketing* 34(4) 505–519.

[26] R–CALF USA Presentation to the U.S. Trade Representative on the Columbian Free Trade Agreement, *U.S Cattle/Beef Trade Deficit with NAFTA Countries Contributed More than $1.04 Billion Per Year to the Trade Deficit During Past 22 Years;* April 18, 2011 slide 4.

Western Organization of Resource Councils advocates for NAFTA renegotiations to include COOL and eliminate ISDS provisions.

An alarming loophole that is surfacing today is that, without mandatory COOL in place, meat that is imported can be passed off as a "Product of USA" under current USDA Food Safety and Inspection Services' (FSIS) Standards. While 91% of U.S. beef consumption is from domestic production, the grass-fed beef market in the U.S. is largely imported. 75% of grass-fed beef sold in the U.S. is imported from Australia, New Zealand and South America. This imported meat can be stamped as "Product of USA" if processed or repackaged in the U.S.[27] This labeling loophole gives consumers a false notion that their beef is born, raised and processed in the U.S., when none of that may be true. This false advertising may be just one more loophole that erodes trust in our labeling systems that are so critical to consumer choice.

Domestic grass-fed beef shares the same "Product of USA" label as grass-fed beef that is imported from [overseas].

COOL Today

Grassroots groups are recognizing the importance of COOL and are working to reinstate it today. Several states have seen COOL bills since the repeal of a national mandatory COOL policy. Wyoming, Colorado, and South Dakota have tried to pass legislation in 2017 with limited success. United Food and Commercial Workers International Union (UFCW) is currently prioritizing efforts in Iowa and Oklahoma to pass state COOL bills. They are looking at other states to work with as well.

Recent Efforts for State COOL Bills

- Wyoming
  - **Introduced:** 2017
  - **Bill:** House Bill 198 would have required Country of Origin Labeling for beef sold in the state of Wyoming.
  - **Outcome:** Passed the House Ag Committee. Committee of the Whole opted to not consider this bill and it died for not meeting the deadline.
  - **Introduced:** 2018

[27] Anon. 2018. "A New COOL Debate." *DTN Progressive Farmer.* Retrieved July 11, 2018 (*https://competitivemarkets.com/cool/*)

  - **Bill:** House Bill 0090 was a Country of Origin Placarding law for beef.
  - **Outcome:** This law is on the books but it is not being implemented. Bills in Wyoming have died by pocket veto in that last couple of years due to fears of Federal preemption.
- Colorado
  - **Introduced:** 2017
  - **Bill:** House Bill 17–1234 was a placarding act. It would have required retailers to post signs next to displays of fresh beef indicating if it was a "Product of the USA" or imported. Imported meat was to be indicated what country it was from.
  - **Outcome:** Political disputes caused democrats to vote heavily against the bill. It was postponed indefinitely by House Agriculture, Natural Resources and Livestock Committee.
- South Dakota
  - **Introduced:** 2017
  - **Bill:** Senate Bill 135 would have required grocery stores to label country of origin of beef and ground beef sold in grocery stores. Beef originating in U.S. would bear a "Product of USA" label, imported meat would bear a label of all countries of production and meat of unknown origins would be labeled "Country of Origin Unknown".
  - **Outcome:** The bill made it out of the Senate State Affairs Committee on a 5–3 vote, only to be killed on the floor.
- Oklahoma
  - **Introduced:** 2018
  - **Bill:** Senate Bill 1486 requires food labels indicating country of origin for muscle cut and ground beef and pork.
  - **Outcome:** Status is pending in a second reading in the Senate Agriculture and Wildlife Committee.
- Iowa
  - **Introduced:** 2018
  - **Bill:** H.F. 2357 mandates that muscle cut and ground beef and pork have a label stating the country of origin. Regulations are based on 2009 COOL rules.
  - **Outcome:** Status is pending in the House Agricultural Committee.

Major Players Today

Prominent groups in the fight for COOL today have been focusing efforts to prevent meat from being labeled "Product of USA" if imported from abroad. R–CALF USA and Cattle Producers of Washington (CPoW) filed a lawsuit against the USDA in 2018 alleging that the USDA was unlawful in allowing imported beef to be sold without a country of origin label and as a "Product of USA" if the animal was born, raised, or slaughtered in a foreign country. They also argued that lack of COOL regulations in place causes financial harm to U.S. producers. The U.S. District Court Eastern District of Washington acknowledged that the ranchers faced financial harm from lack of COOL requirements on imported beef and that the harm was "fairly traceable" to USDA actions.[28]

[28] Campbell, Chris. 2018. "When It Comes to Labeling, COOL Is No Longer the Rule." The Food Institute Blog. Retrieved July 25, 2018 (*https://foodinstitute.com/blog/cool-is-no-longer-the-rule*).

R–CALF USA.

The court did not rule in the cattle producer's favor, however, arguing that they were time-barred from challenging regulations because regulations removing COOL on imported beef were promulgated in 1989 and the statute of limitations expired in 1995.[29] This lawsuit succeeded in validating the financial harm cattle ranchers' face from lack of COOL regulations and highlighting ways national COOL can be reinstated. The court determined that only executive or legislative action could pass COOL legislation. President Trump can issue an Executive Order requiring the USDA to reinstate COOL on imported beef and pork or include COOL in NAFTA renegotiations.[30]

In a similar vein, The Organization for Competitive Markets (OCM) and American Grassfed Association (AGA) have filed a petition with the USDA to close the FSIS loophole. Grassroots groups around the country are rallying support for the petition to put pressure on the labeling loophole and raise public awareness. The petition will end August 17th 2018.

The United Food and Commercial Workers International Union (UFCW) is pushing COOL because it rebuilds the U.S. cattle herds, improves consumer choice and safety, and supports high quality jobs for working Americans. UFCW is advocating for a renegotiation of NAFTA to meet these goals. In 2014, the U.S. cattle herd reached its lowest level since 1941. The weakened beef industry has prompted growth of the poultry industry, which has lower labor standards. According to UFCW, red meat employment in slaughter fell by over 14,000 jobs between 2008–2017. Rebuilding the U.S. cattle herd is an important step to restore good paying and union protected jobs that guarantee hard-working families a better quality of life. UFCW sees COOL as an important way for consumers to ensure they are buying beef from safe and reliable domestic sources, which would provide ranchers with a premium for their products and ultimately stimulate growth of the U.S. cattle industry.

Conclusion

COOL is necessary to promote consumer choice, support local producers, and foster more fair and free global trade. Opponents of COOL are using strong tactics to convince the public and elected officials that COOL is not good for the American people. The facts are clear. Consumers place higher value on meat that they know originated from safe and reliable sources, which boosts markets for local producers. Domestic producers benefit from higher premiums and niche markets. COOL can also be implemented in an affordable and efficient way when it is assumed that all meat is domestic unless labeled otherwise. Last, renegotiating COOL into NAFTA would reverse the substantial economic losses the U.S. cattle industry has faced over the years and restore a sense of national sovereignty over our food system. A strong network of allies are pushing for COOL to restore power over the food system back to the American people and away from large meatpacking corporations.

The time is ripe for Montana to bring back COOL legislation in the 2019 Montana State Legislature. The Trump Administration runs on an American-First narrative,

[29] Anon. 2018. "R–CALF USA Urges Origin Labels on Beef so Consumers Can Choose to Respond to Canada's Retaliatory Tariffs." *News.MikeCallicrate.com* | A NoBull News Service. Retrieved July 24,2018 (*https://news.mikecallicrate.com/r-calf-usa-urges-origin-labels-on-beef-so-consumers-can-choose-to-respond-to-canadas-retaliatory-tariffs/*).

[30] Muraskin, David. 2018. "Trump Can Guarantee a Win for Farmers: Country-of-Origin Labeling." *TheHill*. Retrieved July 25, 2018 (*http://thehill.com/opinion/energy-environment/391046-trump-can-guarantee-a-win-for-farmers-country-of-origin-labeling*).

which COOL is a fundamental part of. Reinstating a COOL bill in Montana could get the ball rolling on more widespread COOL legislation, open conversations about how to improve trade policies, and determine which elected officials in the state are serious about supporting local producers.

COOL Timeline

1976

Judicial

- *American Meat Institute* v. *B. Dale Ball, Director of Michigan State Department of Agriculture and Ronald M. Leach, Chief of Food Inspection Division.* 424 F. Supp. 758, 1976 U.S. Dist.
  - The court ruled that placards or notices placed near products are not "labels" and do not violate the Federal Meat Inspection Act (FMIA) (which regulates labels on meat). This ruling distinguished placards from labels under the Michigan Comminuted Meat Law, which imposed greater requirements to the content and labeling of meat products than FMIA . The case did not address country of origin information.

2001

Montana

- Montana's Country of Origin Labeling Bill (SB 196) passed the Senate with a 49–1 vote. The bill required placards declaring the country of origin be displayed for all meat.
  - Meat needed to be segregated by country of origin in display cases clearly marked with placards stating one of three things about product:

    (1) that it was produced in Montana; or

    (2) that it was produced in the USA; or

    (3) that its country of origin is unknown.
  - The bill was sponsored by Senators Jon Tester (D-Big Sandy) and Ric Holden (R-Glendive), Chairman of the Senate Ag Committee.
- SB 196 survived the House Agriculture Committee 10–9 with opposition led by Kraft Foods, Inc. (Phillip Morris), Anheuser-Busch, Montana Chamber of Commerce, Montana Food Distributors Association and Montana Retailers Association.
- SB 196 passed the House 63 to 37, minus the penalties section, with a 2 year delayed effective date, and with exemptions for grains and blended meats. The bill would not go into effect until 2003, and an amendment removing the penalties section makes the labeling provisions in the bill unenforceable.
- With a 5–1 vote, the house's amendments to the bill were accepted. Only Sen. Tester voted to reject the amendments. The committee consisted of Sen. Ric Holden (R-Glendive 01), Sen. Pete Ekegren (R-Choteau 44), Sen. Jon Tester, Rep. Don Hedges (R-Antelope 97), Rep. Karl Waitschies (R-Peerless 96), and Rep. Matt McCann (D-Havre 92). Sen. Tester proposed a number of amendments. Four of those amendments would have returned the bill to the state in which it entered the house. All four of those amendments failed.

2002

Congress

- The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) and 2002 Supplemental Appropriations Act (2002 Appropriations) amended the Agricultural Marketing Act of 1946 to require retailers to notify customers of covered commodities origin with country of origin label.
  - Mandatory COOL regulations were to be implemented in 2004.
  - This amendment includes regulations for muscle cut and ground beef, pork and lamb; wild and farmed fish, perishable ag. commodities (fruits and veg.) and peanuts.
  - Labels stating "United States Country of Origin" are needed only if animals were "exclusively born, raised and slaughtered in the U.S." The amendment

did not speak to covered products derived from animals born, raised or slaughtered outside of U.S.[31]

Administrative

- ○ AMS issues guidelines for the voluntary country of origin labeling of covered commodities.

2004

Congress

- FY 2004 Consolidated Appropriations Act delayed mandatory COOL for all commodities except wild and farmed fish until 2006.

2005

Congress

- The Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act of 2006 delayed mandatory COOL for all commodities except wild and farmed fish and shellfish until 2008.

Montana

- Montana Legislature enacts Country of Origin Placarding Act (HB 406), which establishes placarding requirements for beef, pork, poultry and lamb. If meat is produced in a country outside of the U.S. it must be placarded. If meat is produced in Montana or the United States than placarding is voluntary. Effective 2006.

COOL benefitted Montana ranchers when in effect 2006–2008.

- ○ Sunset provisions are included in the bill for when a Federal COOL bill takes effect.

2006

Montana

- COOL put into effect April 2006.

2008

Congress

- The Food, Conservation and Energy Act of 2008 (2008 Farm Bill) amended COOL to:
  - ○ Include chicken, goat meat, [macadamia] nuts, pecans and ginseng.

[31] Butler, J. Dudley. n.d. "The Story of COOL: The Saga Continues." The National Agricultural Law Center. Retrieved July 13, 2018 (*http://nationalaglawcenter.org/wp-content/uploads/2013/11/Discussion-Points-Butler.pdf*). Pg. 2.

- ◦ It further defined what the country of origin would be based on where the various production steps for meat (beef, lamb, goat, chicken and pork) animals took place.
  - Three additional country of origin designations were added: multiple countries of origin, imported for immediate slaughter, and foreign countries of origin.

A label from the initial implementation of COOL. Multiple countries of origin are listed.

Administrative

- AMS published an interim final rule for the remaining covered commodities, not including fish and shellfish.

WTO

- Canada and Mexico brought suit against the United States' COOL requirements for beef and pork.[32]

Montana

- COOL repealed because Federal rule enacted.

2009

Administrative

- The provisions of the Final Rule (FR) for the mandatory country of origin labeling of lamb, chicken, goat meat, wild and farm-raised fish and shellfish, perishable agricultural commodities (fresh and frozen fruits and vegetables), peanuts, pecans, ginseng, and macadamia nuts were passed.
  - ◦ Mandatory COOL for all covered commodities in effect.

2011

WTO

- WTO issues initial ruling that COOL is inconsistent with the United States' obligations under the WTO Agreement on Technical Barriers to Trade (TBT) because COOL:
  - ◦ Favored domestic livestock production over imported livestock from Canada and Mexico;
  - ◦ COOL did not achieve its purpose of providing specific information to consumers about the country of origin for covered commodities.[33]

2012

WTO

- The WTO Appellate Body issued a ruling that COOL requirements were detrimental to imported livestock industries because costly record keeping and

[32] Anon. n.d. "Country of Origin Labeling Overview." The National Agricultural Law Center. Retrieved July 13, 2018 (*http://nationalaglawcenter.org/overview/cool/*).

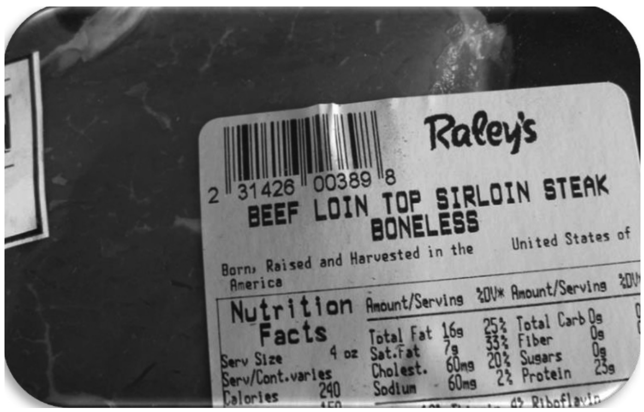
[33] Carter, Colin A. 2014. "Some Trade Implications of the 2014 Agricultural Act." *Choices.* Retrieved July 13, 2018 (*http://www.choicesmagazine.org/choices-magazine/theme-articles/3rd-quarter-2014/some-trade-implications-of-the-2014-agricultural-act*).

verification requirements incentivized producers to use exclusively domestic livestock. The United States government was given until May 2013 to rework COOL regulations to meet WTO directives.[34]

2013

Administrative

- AMS issued a final rule that made changes to the labeling provisions for muscle cuts of covered animals to provide consumers with the specific countries where that meat was "Born, Raised and Slaughtered". Commingling of muscle cut commodities was prohibited.



A label from the full implementation of COOL indicating where meat is born, raised and slaughtered.

Judicial

- A lawsuit was filed by Meat Packer Trade Associations, the National Cattlemen's Beef Association (NCBA), the National Pork Producers Council (NPPC) and Canadian and Mexican cattle associations in U.S. district court alleging that COOL law is unconstitutional.
  - WORC and other groups joined Federal lawsuit as interveners to support USDA's defense of COOL;
  - The U.S. District Court upholds the COOL law by rejecting the request by the meatpackers and their allies for a preliminary injunction against the 2013 amendments to COOL.

2014

Judicial

- *Am. Meat Inst.* v. *United States Dep't of Agric.,* 760 F.3d 18
  - The Court of Appeals for the D.C. Circuit sitting en banc held 9–2 that the meat labeling requirement was constitutional.

WTO

- The WTO compliance panel ruled that the changes the United States made to COOL regulations in 2013 were inadequate.

2015

WTO

- The WTO authorizes Canada and Mexico to institute retaliatory tariffs against the U.S. in the amount of approximately $1.1 billion based on the WTO's determination that the COOL law violated U.S. trade obligations.[35]

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[34] Anon. n.d. "Country of Origin Labeling Overview." The National Agricultural Law Center. Retrieved July 13, 2018 (*http://nationalaglawcenter.org/overview/cool/*).
[35] Anon. n.d. "Country of Origin Labeling Overview." The National Agricultural Law Center. Retrieved July 13, 2018 (*http://nationalaglawcenter.org/overview/cool/*).

Congress

- Country of Origin Labeling Amendments Act of 2015 (H.R. 2393) is introduced to repeal mandatory COOL for beef, pork and chicken.
    - Rep. [K. Michael] Conway sponsored the bill and it was supported by Montana Representative Ryan Zinke;
    - Congress voted 300–131 to repeal mandatory COOL.

The CHAIRMAN. Thank you, Mr. Stockton, for your excellent and very informative testimony.

And now Mr. Schiefelbein—I hope I got that right.

Mr. SCHIEFELBEIN. You did pretty well, sir.

The CHAIRMAN. Thank you.

TESTIMONY OF DONALD K. SCHIEFELBEIN, CATTLE PRODUCER, SCHIEFELBEIN FARMS LLC; PRESIDENT, NATIONAL CATTLEMEN'S BEEF ASSOCIATION, KIMBALL, MN

Mr. SCHIEFELBEIN. Chairman Scott, Ranking Member Thompson, and Members of the Committee, my name is Don Schiefelbein. I am a cattle producer from Kimball, Minnesota. Together with my wife, my three fabulous daughters, parents, seven brothers, six nephews, and our spouses and children, we own and operate Schiefelbein Farms, an entirely family-owned diversified farming operation, which includes both seedstock production and cattle feeding.

Our livelihood is completely dependent upon the success of our customers, cow-calf producers from Iowa to Montana and others across the entire land. I have also served as President of both the Minnesota State Cattlemen's Association and the American Angus Association. I am appearing this morning as the President of the National Cattlemen's Beef Association or NCBA, the oldest, largest national trade association representing U.S. cattle industry. Our direct membership of over 26,000 and roughly 178,000 members of our 44 state affiliate organizations are comprised of a wide array of seed stock producers, cow-calf operators, stockers, backgrounders, and cattle feeders. My testimony today is rooted in policies submitted, debated, voted on, and adopted by cattle producers through NCBA's century-old policymaking process.

It has been said many times over the cattle industry is home to the most complex markets on Earth. The intricacies of this system have been highly scrutinized over the past years, but the fundamental dynamics at play have been consistent through times of plenty and hardship. Let me be clear. Cattle producers know best what they do and do not need to do in order to be successful. I implore you to listen to what producers are telling you.

The hearing focuses on meatpackers. We share the Committee's concern about the consolidation, but we would have preferred to discuss a host of more pressing challenges with you today. Make no mistake, curbing rampant inflation and skyrocketing input costs, addressing urgent labor shortages, and increasing market transparencies are the true immediate needs of producers. I urge you, do not let today's proceedings disguise that fact.

Producer leverage with packers has been a hot topic for over a century. However, of greatest concern to NCBA is the current shortage of adequate beef packing capacity not seen in several decades. NCBA supported measures both in Congress and with the Biden Administration to increase packer capacity. Most importantly, we have continued to advocate for those new facilities to be small, regionally focused small businesses.

Following both the Holcomb fire and COVID–19, packer capacity losses resulted in the highest recorded spreads between boxed beef and live cattle, $67.17 per hundredweight and $279 per hundredweight respectfully. This behavior is rooted in basic laws of supply and demand, but given the magnitude of these price disparities, it would have been imprudent not to further scrutinize the packers. That is precisely why NCBA called upon the Department of Justice to investigate the four major packers. The results of this investigation have yet to be released, but I urge Congress to proceed carefully as we await the findings. I ask that you continue to engage with the Attorney General as he continues this investigation and hold off on crafting new legislation until a determination has been made.

NCBA strongly supports robust enforcement of the Packers and Stockyards Act and believes the Department of Agriculture has adequate legal authority to enforce it properly. We support the Biden Administration's effort to streamline collaboration between the Packers and Stockyards Division and the Justice Department, but we do not believe creating a new office within the USDA is the proper way to enhance enforcement.

Briefly, I would like to address the Cattle Price Discovery and Transparency Act, Senate Bill 4030 and its House companion H.R. 5992. NCBA opposes this legislation. Freedom to market matters. It has allowed cattle producers like myself to respond directly to consumer needs. If the government were to erode this freedom or completely take it away, everyone suffers. I will elaborate further on these highly complex issues in my written testimony.

In closing, Mr. Chairman, I ask you and this Committee to listen to cattle producers and address the real threats to our industry. For too long Congress has been gridlocked by a handful of controversial policies while a host of widely supported measures await enactment. It is time to move on and focus on areas where agreement can be met. Thank you for your time to testify. I look forward to your questions.

[The prepared testimony of Mr. Schiefelbein follows:]

PREPARED TESTIMONY OF DONALD K. SCHIEFELBEIN, CATTLE PRODUCER, SCHIEFELBEIN FARMS LLC; PRESIDENT, NATIONAL CATTLEMEN'S BEEF ASSOCIATION, KIMBALL, MN

Introduction

Chairman Scott, Ranking Member Thompson, and Members of the Committee, on behalf of America's cattle producing families, thank you for inviting me to provide a producer perspective to today's proceedings.

My name is Don Schiefelbein, and I am a cattle producer from Kimball, Minnesota. Along with my father, seven brothers, and five nephews, I own and operate Schiefelbein Farms, a diversified farming and ranching operation. I have also worked to advance beef quality through my previous staff roles at the American Gelbvieh Association and the North American Limousin Association. In addition, I am a past President of both the Minnesota State Cattlemen's Association and American Angus Association.

I am appearing today on behalf of the National Cattlemen's Beef Association, where I currently serve as President. NCBA is the oldest and largest national trade association representing the U.S. cattle and beef industry. In addition to our over 26,000 direct members, NCBA represents forty-four state affiliate organizations whose members number some 178,000 cattle farmers and ranchers.

The testimony I am submitting today is based on policies submitted, debated, voted on, and adopted by cattle producers through NCBA's century-old grassroots policymaking process. Each of our members has a voice in the discussion, and everyone has a vote. Our membership includes seedstock producers, cow-calf operators, stockers, backgrounders, and cattle feeders from all fifty states. The vast majority of these small businesses—each of which are crucial to their respective rural communities and local economies—are, like my own, family owned and operated. This diversity of business models, production practices, and unique regional challenges inherently results in a wide range of thought and opinions. Our role at NCBA is to facilitate a dialogue between those viewpoints and provide a platform for consensus-building. Since 1898, we have taken that responsibility seriously and are proud to continue that time-honored tradition today.

Background

It has been said many times before, including in this very room before the Members of this Committee, that the U.S. cattle industry is home to some of the most complex commodity markets on [E]arth. The intricacies of this system have been on full display in recent years, but the fundamental market dynamics at play have been present through bull and bear periods for decades. The 2019 Holcomb fire, the COVID–19 pandemic, cybersecurity breaches, and supply chain disruptions have troubled cattle producers nationwide. As they work to problem-solve and innovate new ways to capture value and cut costs, Congress is debating a number of legislative proposals which would substantially impact their day-to-day dealings.

Let me be clear, the only people who know exactly how cattle producers should navigate these uncertain times are the individuals who work around the clock, day in and day out, to raise the safest and highest quality beef in the world—in other words: cattle producers themselves. They have used their voice through their involvement in organizations like NCBA and the American Farm Bureau Federation to tell Congress exactly what they need and, perhaps more importantly, what they do not need to be successful. As you consider various ideas in the coming days, I implore you to listen to what they have said and not be distracted by fringe elements or those who claim to speak on their behalf. The overwhelming majority of cattle producers are trying to tell you how to help them and how to avoid adding to their difficulties.

The purpose of this morning's hearing is to examine the relationship between cattle ranchers and meatpackers. This issue has been the subject many hearings during the 117th Congress, including in both the House and Senate Judiciary Committees which also have legitimate jurisdiction over such matters. While NCBA shares the concerns of many Members of Congress regarding consolidation in the packing sector, we would have preferred to discuss a host of immensely more pressing needs with you today. Curbing runaway inflation, arresting soaring input costs, resolving on-going supply-chain vulnerabilities, addressing labor shortages, and increasing market transparency are the true immediate needs of cattle producers. Please do not allow today's proceedings to disguise that fact. I urge you to take action on these issues as expediently as possible.

The Relationship Between Cattle Producers and Meatpackers

From very beginnings of NCBA, producer leverage has always been top of mind. In fact, it was the subject of many of our association's first meetings. The situation in the marketplace today is strikingly similar to the landscape which existed over a century ago, during the tenure of our ninth President. Consolidation at the packing sector had captured the attention of cattle producers even then. John B. Kendrick, who wrote the original draft of the Packers and Stockyards Act and was later elected Governor of Wyoming and U.S. Senator, told a gathering of the American National Live Stock Association in 1919, "this squall between the packers and the producers of this country ought to have blown over forty years ago, but we still have it on our hands." In the hundred years since that time, cattle producers have experienced times of great profit and times of immense hardship—all with little change to the market power structure of the packing sector.

Cattle producers rely on the services provided by meatpackers of all sizes to convert livestock into a consumer product. Without access to beef processing, raising cattle would not be a profitable enterprise. This problem has been on full display since 2016, when our industry realized a shortage of adequate packing capacity for the first time in decades.[1] As a result, cattle producers have experienced reduced negotiating leverage in pricing negotiations with meatpackers. Cattle herd inventories fluctuate over the course of a fairly consistent 10 year cycle, and the value

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[1] Aherin, Dustin. *The Case for Capacity.* RaboBank: 2020.

of cattle is further influenced seasonally within the calendar year. The relationship between cattle supplies and the availability of processing (or "hook space") is the primary factor in determining the price of fed cattle. The best solution to improving producer leverage is to increase hook space with more independent processors controlling more diversified hook space, and NCBA has long supported processing capacity expansion through investments in small to midsize, regional packing ventures.

NCBA supported *the Butcher Block Act* (H.R. 4140) when it was introduced earlier this Congress. The legislation would establish loan and grant programs for prospective entrants to the meat and poultry processing sector. These resources are intended to increase the diversity of processing options available to producers by helping small and very small meatpackers meet capital needs. We were also pleased by this Administration's actions to direct approximately $1 billion in Federal resources to this effort via the authorities granted to the U.S. Department of Agriculture (USDA) in the *American Rescue Plan Act* (Pub. L. 117–2). USDA programs like the Meat and Poultry Processing Expansion Program, Food Supply Chain Guaranteed Loans, and Meat and Poultry Inspection Readiness Grants programs help to alleviate the overwhelming costs associated with construction or expansion of these small packers. Many of our members have expressed an interest in these programs, and we anticipate additional opportunities will be announced in the near future.

Disruptions at the packing sector have a ripple effect on cattle prices as evidenced most recently by the Holcomb fire and pandemic-related closures of high-throughput plants. Congress must do everything in its power to prevent further volatility due to packing capacity reductions. Innovative solutions are needed to address labor recruitment and retention, reduce arduous regulatory red tape, and increase resiliency within the food supply chain, and I ask Members of the Committee to seek those bipartisan answers out.

Exertion of Meatpacker Market Power

The price disparities recorded between boxed beef and live cattle following the most recent black swan events were some of the most drastic in the over twenty year history of Livestock Mandatory Reporting (LMR). In the case of the Holcomb fire, the price spread reached $67.17/cwt.—the highest ever recorded at the time.[2] Months later, temporary plant closures and line speed slowdowns resulting from the COVID–19 pandemic took roughly 40% of domestic beef processing capacity offline. The resulting shockwaves caused the fed cattle and boxed beef price spread to jump to a new high of $279/cwt.[3] Despite the fact that this market behavior was rooted in basic laws of supply and demand, the impacts to family farmers and ranchers was abrupt and brutal, and the magnitude of the disparity warranted further scrutiny.

In response, NCBA called upon both the Packers and Stockyards Division (PSD) at USDA and the U.S. Department of Justice to (DOJ) investigate the four largest meatpacking companies to ensure that anticompetitive practices did not artificially depress cattle prices to increase their profits. Both agencies promptly responded to our requests, and PSD released a report detailing the market reactions to both events in July 2020. That report, however, did not elaborate on any potential findings of corporate malfeasance on the part of the packers. As of this writing, we are still awaiting the results of the DOJ investigation. NCBA greatly appreciates the bipartisan and bicameral efforts of our friends on Capitol Hill to urge DOJ to provide an update on their findings. However, before attempting to fix a problem, we must know if things went awry, if so then whether or not it was illegal, and if it was unlawful how to prevent it from happening again. It is essential that DOJ conclude their investigation and report their findings to the public in order to ascertain this information, and we ask you to continue your engagement with the Attorney General to that end.

Meat Packing Special Investigator Act

NCBA policy strongly supports robust enforcement of the *Packers and Stockyards Act of 1921* (Pub. L. 67–51). This landmark law, which recently observed its hundredth anniversary, is designed to secure a fair and transparent environment for all participants in the cattle marketplace. Through various amendments over the past century, it has been adjusted and improved upon to accommodate the ever-changing dynamic of the livestock marketing complex. NCBA is confident that the current enforcement authorities provided by the Act are adequate to realize its objectives and maintain fairness, provided adequate resources are allocated to PSD. We don't need

[2] *Boxed Beef & Fed Cattle Price Spread Investigation Report.* USDA–AMS: 2020.
[3] *Ibid.*

another enforcement agency; we need action from that entity which currently has the power to enforce.

Largely in response to the aforementioned price disparities, some Members of Congress have introduced legislation to establish an Office of the Special Investigator for Competition Matters within USDA. While well-intended, the *Meat Packing Special Investigator Act* (H.R. 4103), and its Senate companions S. 3870 and S. 2036, would divert critical resources from other mission areas at USDA and blur the jurisdictional lines between such an office and the PSD. At a time when oversight of the marketplace is so important, it is redundant and misguided to create an entirely new entity. Further, NCBA has grave concerns with the latest Senate proposal to establish a special investigator's office as a politically-appointed position completely separate from the PSD. If such an unnecessary office were to be established, its goal should be to exercise objective enforcement of relevant statutes, not frivolous investigation for political gain.

NCBA supports the Biden Administration's efforts to increase collaboration between PSD and DOJ, including the newly launched online portal which allows producers to submit tips to both agencies at once. However, we do not believe that granting USDA new prosecutorial and subpoena power would improve enforcement capabilities, and I urge you to oppose this legislation.

Cattle Price Discovery and Transparency Act

While not the specific subject of today's hearing, it is appropriate to address the *Cattle Price Discovery and Transparency Act* (S. 4030) and it's House companion H.R. 5992. This legislation is often billed as a means to give the cattle producer more leverage by forcing packers to compete in the negotiated market. In reality, it does nothing to change the underlying supply and demand dynamics and would empower the Federal Government to arbitrarily choose winners and losers in cattle pricing negotiations. If enacted, the bill would restrict cattle producers' economic freedom to market cattle in a manner best suited to their unique needs.

The bottom line here is that freedom to market matters. It is this very economic freedom which has allowed cattle producers, like myself, to respond directly to consumer demands. Consumers use their purchasing power to communicate back to us precisely what they want and do not want—and if we want them to continue buying beef it is critical that we maintain our ability to communicate directly in this manner. We are paid based upon how well we have responded to those demands. This direct consumer interface has literally transformed the beef market both in terms of traditional metrics, such as quality and yield grade, and newly emerged ways to differentiate products like branded programs, breed affiliations, and production techniques.

I can speak firsthand to the importance of this economic freedom based on my experience as both a seedstock producer and cattle feeder. For generations my family has sought to develop top-quality beef genetics which are both economical for the producers who buy our breeding stock and prone to yield those beef qualities desired by the public. Through trial-and-error, we have seen successes in striking that balance over the years. Consequently, it is not uncommon for the offspring of our bulls and females to fetch premiums when they are sold by our customers. We know this because, like many others in the beef genetics business, Schiefelbein Farms maintains a customer buyback program. In order to improve upon our role as seedstock producers, and provide our customers with consumer-level insights to improve their operations, we buy feeder calves back from those commercial cow-calf operators who have integrated our genetics into their herd. We then grow the cattle to market weight at our feedlot, and market them as fed cattle. By utilizing a value-based grid, we are able to collect performance data on each individual animal we market. This information is critical, both to us and our customers, as we try to remain responsive to the consumer's evolving demands.

While I am proud of my family's continued commitment to improvement, I want to be clear: it is cow-calf producers across this entire country, including our customers from Iowa to Montana, who have put in the hard work to achieve near-record beef demand both domestically and in our major export markets. They are the ones who deserve the credit for utilizing land and water resources more efficiently, improving livestock handling, and tending most closely to animal wellbeing—all of which makes the United States the most food secure nation in the world with the most choices available to consumers. Those cow-calf producers deserve to be rewarded in the market for these improvements, and I implore you not to impose measures which could jeopardize their ability to be so rewarded.

Please do not stifle our innovation and our hard work by taking economic freedom away from me and my fellow cattle producers. A marketing system mandated by the Federal Government, which would constrain our industry to a less transparent and less consumer-focused enterprise, is not the solution to our needs as cattle producers. I urge you to oppose the *Cattle Price Discovery and Transparency Act.*

Conclusion

Congress should focus its efforts on finding solutions to the real threats facing our industry, and it should consult with genuine stakeholders like NCBA to identify them. Broadly supported proposals have seen tremendous legislative success in this chamber recently. We supported, and continue to, the extension of LMR authority and the establishment of a cattle contract library, both of which passed this Committee and the full House with ease. However, repeatedly belaboring the same divisive issues has detracted from that collaborative work to the benefit of no one.

It is time to move on and focus on areas where agreement can be reached. NCBA stands ready to aid in that effort, and I encourage you to reach out to our Center for Public Policy if you have ideas or questions.

The CHAIRMAN. Thank you, all three of you, and your testimonies reflect why we are here and the urgency and the critical challenges that the meat industry is facing right now. And so with that, I just want to say thank you. We are going to move now to questions.

And at this time, Members will be recognized for questions in order of seniority, alternating between Majority and Minority Members. Everyone will be recognized for 5 minutes each in order to allow us to get in as many questions. And again, please keep your microphones muted until you are recognized in order to minimize the noise.

And now I want to start by recognizing myself for a few minutes here. As I said before, this issue is urgent, and each of your testimonies express the urgency of it. Our food industry is without question our single most important industry. We can all do without a lot of things, but the one thing we cannot do without is food. And so this is why we are here. And you all have expressed the problems and the challenges, and we are here to help solve the problem, not to spread blame.

But you mentioned the point about legislative action. And, as I said to my friend Senator Grassley, who came over and asked to speak with me, and we met. And we expressed our concerns. There are legislative pieces moving, but I said, let us hear from the people who have to solve the problem so we will know what we need to legislate on. And that is why I believe we are doing it the correct way. And this Committee is going to take your testimonies here and the testimony of the meatpackers. We are going to put this together and be able to show and point a direction for solving the problem that is multidimensional. And so I wanted to get that out of the way.

Let me start with you, Mr. Young. As I said, *The New York Times* article hit me right in my heart. And when I read about your story, all I can say is I thank God for your wife returning. And I want to hit on this, Mr. Young, because you said not only were you contemplating suicide, but you said that there are others. How serious is this? Please express this to our Committee.

Mr. YOUNG. Yes, thank you. I mean, as we all know, one percent of the population feeds the world, and farmer suicides are 2.5 percent of that one percent. And that's an alarming rate. There's roughly only, the last time they checked in 2017, 720,000 cattle farmers left, and we're being squeezed, pressured, and that has in turn caused a lot of people to not see another way out. They're so far in debt that it would take them years to get out of debt. And, like I say, it's 2.5 percent of the one percent. This is an alarming number of, like I say, the 729,000 that were in the Census in 2017. And that's all.

The CHAIRMAN. And I just want to say—and I think your wife has joined you here as well. And that is a very dramatic story, and it shows us the seriousness of this issue. And now, I think it was Mr. Schiefelbein. I'm going to get it right in a minute. You mentioned some things that you would like to see as far as a legislative movement in this. Would you share with us what you feel we should do as we are moving with additional legislation to address this problem?

Mr. SCHIEFELBEIN. Yes, thank you very much. Congressman Johnson knows full well there there's a group of agricultural entities that got together in Arizona, and we laid out a pretty clear plan on items that we thought would move the industry forward. They included things that I'm pleased that you acted upon, and that is the Contract Library, which is crucial. The other thing we agreed on is the fundamental support we need is more packing capacity. And I know the Butcher Block Act (H.R. 4140) is going through Congress, but those are very, very important to the well-being of our industry.

The other item that we discussed, I think it's very important, given the concentration that's been discussed, and that is that we have proper and effective oversight of the packers. Those are the three big areas I think that we agreed on, and to me, fundamentally that is the role of government in solving those three issues.

The CHAIRMAN. Thank you. I appreciate that. And now I recognize the Ranking Member, the gentleman from Pennsylvania, you are recognized for your 5 minutes.

Mr. THOMPSON. Thank you, Mr. Chairman.

Mr. Schiefelbein, thank you so much. My first question here is for you. I mean, we are talking about what government can do but also it is important within industry we look at innovation, right? I mean, the solutions come from many different places. I am very proud in Pennsylvania we have an initiative, there is a grocery store, it is a moderate-sized grocery store chain, it is not huge actually, but they have been working with ranchers, beef farmers, and they have actually put together a Karns beef program consisting of 15 farms. It is not huge compared to some of the places where you all are from 40 to about 170 head, but they are working together with this grocery store chain to be able to provide a great steak experience, right? These grocery stores, that is what they sell, and so they have been working together collectively. And it is kind of a unique model. It is just one of probably many innovations that we need to see out there.

My question for you, in your opinion are there more pressing issues or proposals that we should be working on? Thank you for the kind words for the work that we have done. We have our Livestock Subcommittee Chairman sitting here and our Livestock Subcommittee Ranking Member. Under their leadership, we have been able to get some success. And you have named a few things. Is there anything additional that we should be focused on and spending our time on exploring?

Mr. SCHIEFELBEIN. Well—made sure it was on. The other thing that's awfully crucial, and again, it's the role of government as I see it. When people are in desperate need, that's when government comes in and provides them a safety net.

Mr. THOMPSON. Right.

Mr. SCHIEFELBEIN. What you've done with the drought assistance is superb, and the immediacy that you provided that here just in the last week, I can't tell you how many phone calls I received saying thank you very much. You're probably clearly aware that there's a portion of our country that is still suffering the drought, but there's also a portion just north of you, Congressman Johnson, that is dealing with a horrible blizzard. If you have not seen the photos of what these producers are experiencing, you need to get hold of them and see. And to me, providing that safety net is really a critical function of government when Mother Nature or things outside your own control cannot be managed.

Mr. THOMPSON. Yes, correct me if I am wrong, but I think we had a significant number of cattle that went to market prematurely and not at the best price point, because of the lack of feed and forage over the past couple years, given the drought conditions. From your perspective, what are the benefits of alternative marking arrangements to cattle feeders? And do these benefits trickle down to their cow-calf suppliers?

Mr. SCHIEFELBEIN. Yes, and again, you mentioned it just a moment ago, and I think it's important for the whole Committee to hear this. Innovation is the engine that drives agriculture. Drive across this country, go to any other foreign country and you'll see the manner in which we adopt innovation and make things better is really what drives our competitiveness. My father, who Congresswoman Fischbach mentioned, Big Frank, he gets asked a lot of questions. He says how does your family succeed in a family of that many members, yet how can you be successful? His quote that he is quoted on saying, and I think it's a lesson everybody could learn, my dad's quote is, "The reason our family is successful is because we don't raise cattle the way I used to." And I want you to absorb that just for a moment. That is critical and it plays exactly into AMAs and new ways of doing business and new ways of marketing. We've got to evolve, and you've got to allow innovation to enter your business.

Mr. THOMPSON. Well, I always appreciate the grassroots efforts of both NCBA and quite frankly the American Farm Bureau Federation that are able to tell Congress and the Administration what producers need to be successful, but maybe more importantly what they don't need. And so can you also share with us a little bit more about some of the things that, as you suggest, producers don't need that we shouldn't do?

Mr. SCHIEFELBEIN. Yes, and again, I—and this is where government should be involved. I am a strong believer, government, please stay out of our markets. We mentioned earlier that the marketplace is an incredibly complex situation in agriculture. I don't know how many of you recall the 1986 dairy buyout when the government decided to put its finger into the marketplace. I was a victim of that. That was the most awful disruption of beef cattle prices in the history of the beef cattle industry. And again, it's those points when you say I know the marketplace needs some adjustment to get back into play, but the last thing we want to do is inject the government into the marketplace in a manner where we can't get it back out.

Mr. THOMPSON. Thank you, sir. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. And now the gentlewoman from Connecticut, Mrs. Hayes, who is also the Chairwoman of the Subcommittee on Nutrition, Oversight, and Department Operations, is recognized for 5 minutes.

Mrs. HAYES. Thank you so much, Mr. Chairman. Thank you for hosting this hearing today, and thank you to all our panelists for being here. My first question is for Mr. Young. I first would like to thank you for your very moving testimony and for all of the very important information that you have added to this hearing today.

Alternative marketing arrangements, or AMAs, arose in the 1970s and are increasingly used in cattle market transactions. The meat packaging industry has consistently championed AMAs, claiming that they allow farmers to secure better prices with less risk. Mr. Young, cattle farming has clearly been in your blood for generations. Can you explain to us how your farm's experience with AMAs has evolved over time?

Mr. YOUNG. Yes. I mean, I don't deal directly with AMAs because I'm not a feedyard. I raise the calves from birth, sell them at market, and feedyards are the ones that set up the AMAs and the arrangements with the packers. And, it's come to my attention several years ago, I mean, they are bad for the cash market. And the cash market is what I sell my calves in. Well, if you keep the cash markets suppressed by contracting 87 percent of the beef and nobody knows what the price is, you're basing the cash calf market off 13 percent of the cash market that some beef is sold on. But everything through the AMAs is directly from the feeders to the packers and then on from there. Like I say, I raise the calves that you will consume from birth, up at midnight, digging them out of snowbanks, saving their lives, and giving you the next best steak.

Mrs. HAYES. Thank you. I think that is very important because as we have been talking a lot about inflation and food prices, and I think as a Committee we have to look at the entire continuum. And just like you said, the cash markets affect that.

Mr. Schiefelbein, in your testimony you voice support for the newly launched *Farmers Fairness Portal* * that allows producers to submit antitrust complaints to the U.S. Department of Agriculture and DOJ at the same time. How has this system been working for farmers in the National Cattlemen's Beef Association, and do you see any room for improvement?

Mr. SCHIEFELBEIN. Yes. The bottom line is when you look at it, we've asked the DOJ to do an investigation on beef packers almost 2 years ago, right? Where are we today? We have not heard boo or squat. We don't know what the situation is, what the response ought to be. So what cattle producers need more than ever is answers to the questions, is everything being done correctly? And if not, how can we adjust it to make sure things are done fairly? And to me the laws are on the books. It's enforcement that matters and making sure that we're carrying out the rules that are already in place to ensure that we have a fair market system.

* *https://www.usda.gov/farmerfairness.*

Mrs. HAYES. Thank you. Mr. Schiefelbein, one last question for you. I know there has been a lot of conversation surrounding country-of-origin labeling. I just would like to know, in your role on the NCBA, how has that product of USA labeling system impacted the market?

Mr. SCHIEFELBEIN. Well, it's hard to say, but the bottom line is country-of-origin labeling—I am a huge supporter of U.S. beef. I travel the world telling them how good U.S. beef is. The rub with country-of-origin labeling has nothing to do with labeling beef as made from the United States and has everything to do with the government mandating—that's what the *M* stands for in MCOOL—mandated country-of-origin labeling where you're forcing the government to get into the marketing of your product and not the retailers or the purveyors or others who will have a cash incentive. So we want to make sure it's a market-driven innovation, and that's why we're opposed to MCOOL but we're 100 percent supportive of labeling beef properly as U.S. beef.

Mrs. HAYES. Thank you. That's very helpful. Mr. Chairman, that's all I have. I yield back.

The CHAIRMAN. Thank you. And now the gentlelady from Missouri, Mrs. Hartzler, is recognized for 5 minutes.

Mrs. HARTZLER. Thank you very much, Mr. Chairman. As a fellow cattle producer, I feel your pain, and I appreciate you all being here today and advocating for our industry and feeding the world because that is what you do.

I wanted to start with fellow Missourian, Mr. Young, very compelling testimony. You mentioned in there that you think the Packers and Stockyards Act is not being enforced. Could you expand on that a little bit, please?

Mr. YOUNG. I feel a little unprepared because I don't have it here before me and I have read it multiple times, but within the Packers and Stockyards Act, everything that's happening in the industry that shouldn't have happened is here, concentration of the packing industry and the fair prices to the American cattle ranchers and farmers are not there. And, the legislation and everything in that Packers and Stockyards Act has been there for 100 years and it just needs to be enforced.

Mrs. HARTZLER. Right. Okay. Thank you. I appreciate that. I recently introduced with Representative Panetta, who was here a little bit ago, the Amplifying Processing of Livestock in the United States Act (H.R. 7438), which works to fix the regulatory roadblocks to increasing meat processing capacity and allowing livestock auction market owners to invest in small and regional packing facilities. So, Mr. Schiefelbein, you discussed processing capacity and the relationship between cattle producers and meatpackers. In fact, you state in your testimony about how without access to beef processing, raising cattle would not be a profitable enterprise. So can you share your thoughts about the A–PLUS Act and ways Congress can work to increase processing capacity and competition for livestock?

Mr. SCHIEFELBEIN. Yes, absolutely. And we are 100 percent supportive of the A–PLUS Act. We believe anytime you can allow another group of individuals to come in and help add hook space, it's a good solution for the industry. And I think what we're living with, the current situation is just an antiquated law, a law that defined an industry much differently than what it is today. And I think allowing those sale barn operators to participate in owning a packing processor, provided it's small, makes a great deal of sense and I commend you for your efforts.

Mrs. HARTZLER. Well, thank you. You would think this would be a no-brainer, something that we could get passed very easily. Hopefully, the Chairman and others and the Ranking Member maybe can help support this because it just makes sense to allow these sale barn owners to be able to invest in meatpacking plants and start one locally there.

And last summer, I introduced the Optimizing the Cattle Market Act of 2021 (H.R. 3766), which, among other things, included the creation of the USDA-maintained Cattle Contract Library and I was very, very pleased to work with Representative Johnson and others to get that passed. So do you believe that establishing a Contract Library for cattle similar to establishing the Swine Contract Library would provide more transparency to cattle producers in my state as well as others, Mr. Schiefelbein?

Mr. SCHIEFELBEIN. Yes, well, I hope so, and that's why it's a pilot project, and that's why I actually like the way it's played out is you can learn as you go. And we want to make sure, as you carefully construct that library, that it's done in the right way. And sometimes the devil's in the details, right, and that's why this pilot project makes a great deal of sense in that we want to make sure that, as we enlighten everybody into what the contracts look like, we don't enlighten the packers more than we enlighten the producers. So there needs to be a balance to make sure it's written correctly and make sure it's done correctly and initiated correctly so that it benefits the right people. So yes, we're in favor of it, but the devil's in the details on the Contract Library.

Mrs. HARTZLER. I am hopeful that that will be helpful. I think it is time to empower the cattle producers themselves to know what some of the deals are that the meatpackers are giving and maybe leverage that a little bit more so they can get a better deal in the process. So I am hopeful for that.

And I appreciate your comments about the DOJ investigation. I just want to say on the record I am very frustrated with the Department of Justice in that it has been over 2 years, and we have heard nothing. I cosigned a letter with Representative Johnson and many others in this room asking the Department of Justice, several months ago, can you give us an update? When can we anticipate this will be done? We just got this generic letter back basically saying, well, we can't comment on any investigation. We deserve to know as Members of Congress but certainly as cattle producers what happened and if there was any collusion, if there was any price-fixing. It really hurt not only consumers with these high costs but the boxed beef spread that you shared, those cattle producers, those of us weren't receiving an adequate price. So I just hope that the Department of Justice is listening and will wrap up that investigation as soon as possible so that we can have the information that we deserve. So thank you. With that, I yield back.

The CHAIRMAN. Thank you. And now the gentlewoman from New Hampshire, Ms. Kuster, is recognized for 5 minutes.

Ms. KUSTER. Thank you, Mr. Chairman. I very much appreciate you holding this hearing this morning. It is a timely discussion to have as costs for food are rising while many Granite State families are still working to financially recover from the COVID–19 pandemic.

The price of beef has climbed 16 percent just in the last year, and the price of bacon has risen over 18 percent. There are many reasons for this, and of course many existing challenges facing the food and agriculture sector were further aggravated by the pandemic. But it is incumbent upon Congress to ensure our markets are fair and competitive. I believe everyone along the supply chain can be fairly compensated while still producing food that consumers can afford.

And for me a critical piece of the solution here is strengthening local food networks wherever possible. When consumers have access to locally-produced and grown food, we foster a healthy climate for small and midsize farms and businesses, and we reduce the pollution from the trucking of getting our food across the country, and we help to save our planet. It also helps to shrink our strained supply chains and offers greater certainty for those on both ends of the chain.

In New Hampshire, we are fortunate to have numerous farmers' markets and agricultural businesses that market directly to consumers. I was gratified to hear from producers in my state about how they are able to remain connected to their local consumers despite the logistical hurdles that the pandemic presented. With that said, much more can be gained from cultivating more of these local food opportunities in New England and across the country, including meat processing. Growing the number and capacity of local small meat processing facilities like those we have in New England will help diversify the processing industry and reduce supply chains.

I am grateful to President Biden for his Executive Order last summer initiating efforts to increase competition in the meat processing sector. The USDA's new Meat and Poultry Processing Expansion Program builds perfectly upon the President's goals by teeing up loans and grants to meat processors for startup and expansion operations. For New England livestock and dairy farmers facing long wait times at meat processing facilities around the region, this new capacity will be most welcome.

To that end, I am also proud to be an original cosponsor of Representative Pingree's Strengthening Local Processing Act (H.R. 1258), which would support meat processing training and incentivize state inspection programs. By taking a holistic approach to building out our local meat processing capacity, I am convinced that we can help reinforce our food and ag sector for decades to come.

I appreciate the opportunity to say a few words, Mr. Chairman. I yield back.

The CHAIRMAN. And now the gentleman from California, Mr. LaMalfa, is recognized for 5 minutes.

Mr. LAMALFA. Thank you, Mr. Chairman. I appreciate having this hearing today and to hear from our cattle growers who face so much turbulence these days here. And my understanding is they were told to swear in before this Committee today, the cattle growers here, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. LAMALFA. Because that seems kind of——

The CHAIRMAN. That is correct.

Mr. LAMALFA. That is kind of unprecedented to me. What was that about?

The CHAIRMAN. It is very important that we do that for this critical hearing.

Mr. LAMALFA. Yes. All right. Well, I——

The CHAIRMAN. And we will be doing it for the second panel as well.

Mr. LAMALFA. Okay. I understand. I know many of these folks in my home district, and they don't need to be sworn in. I trust them, and I know they are going to give good testimony, and in this case, very heartfelt testimony. And we talk about their struggles and even suicide rates is what Mr. Young had mentioned there. So I hear you loud and clear, Mr. Young. And 1975 Chevys were available back, 45 years ago, and you still have to buy them now. I am fixing up now an old 1974 F250 just to make things a little better around my place. In looking at my 1977 model 8630, I need a 619 engine for it because $600,000 combines and $350,000 tractors doesn't really pencil great these days.

But that all said, in California and the West we are facing drought levels partly because of nature and partly because of mankind's poorly managed water resources. So much of it is being flushed out of the delta in northern California to save a fish that doesn't exist anymore.

Mr. Schiefelbein, would you talk about cattle operations that are downsizing, having to cut down the size of their heard, selling off their herds? And what is the longer-term effect of rebuilding that herd? What are they going to be looking at in 2 or 3 years if they are selling their herd early and they are not able to be replaced? Talk about that a little bit for me, please.

Mr. SCHIEFELBEIN. Yes, and as you know, the—cattle is a cyclical business, and so this goes through ups and downs. And right now, we are going through a liquidation phase, and it's driven exactly based on the economics that say I can't afford to raise them so it weans off some of the cattle and then, as the markets get higher because there's fewer head involved, the markets respond and get higher, expansion reoccurs, and you go through this expansion, reduction cycle every 10 years. And it's almost 10 years on the year that cycle exists.

Mr. LAMALFA. So that is a lot of mayhem and your ability to plan or not take a bath on if you are overstocked or maybe have to pay premiums in order to build your herd back up. Is that pretty fair?

Mr. SCHIEFELBEIN. Yes, sir. And again, the other important issue is there's also this big variable called weather that comes into it, right? And weather can disrupt all the plans in the world. So you can have the best business plan for beef cattle and have a weather function hit you and just destroy that plan entirely.

Mr. LAMALFA. Understood. I mean, I feel like weather, we can roll with the punches to some level. It is rolling with government punches of whether it is taking water like they are in California or taking your vehicles away or trying to turn them into electric tractors and combines and stuff they are talking about. I mean, I don't know how much more people can put up with. But we also understand there is a concerted effort. I was just looking at a grazing permit, one of the entities decide, well, we don't think we can do that grazing permit here in a portion of California because it might be an environmental problem, yet we burn the forest down, we burn half the landscape down where grazing would be a very helpful asset towards making things a little more fire-safe, not to mention the Forest Service has been busy hiring helicopters with snipers in them to shoot wild cattle down in New Mexico. Mr. Chairman, I think we need to have a hearing about that one day on Forest Service practices instead of fixing the problem of burning down a million acres like what happened in my district last year or chasing a few cattle down there because an environmental organization is offended they might be getting in the river, like elk and deer and other stuff do.

So the priorities around here are really messed up, and our food source is in great peril. Prices are up, and it is not the growers seeing the high prices. It's somewhere in the middle of all that. And when we are seeing freezer shelves in the store empty in the United States of America, this isn't Russia. Why are we moving towards Russia in what we are doing? It is crazy.

And so you guys, God bless you and hang in there because some of us understand the value you provide our communities even though I think a part of the effort around here is to have you be pushed out because everybody wants to become a vegan now or something. So we appreciate you, and we want you to continue——

Mr. SCHIEFELBEIN. And I just appreciate you re-addressing food security because it is paramount to the success of the United States of America.

Mr. LAMALFA. Absolutely. We are in a perilous world, and we are cutting our own throat with this, so thank you. Hang in there.

The CHAIRMAN. The gentlewoman from Washington, Ms. Schrier, is now recognized for 5 minutes.

Ms. SCHRIER. Thank you, Mr. Chairman. And welcome to our witnesses.

Not for the first time on this Committee I want to discuss access to slaughter and processing for small- and medium-sized producers, which is a top concern for ranchers in my district. Most small producers in Washington State are served by slaughter and processor services operating under custom exempt licenses granted by the state, yet Washington has a shortage of inspected processing plants, and many producers are not able to pay the cost of those processors or to upgrade their own businesses to meet inspection requirements. As a result, many producers that want access to retail markets are currently unable to do so. To address the market access issues for local producers in Washington, better access to slaughter and processing would make the biggest difference, in addition to a pipeline of workers in that field.

And let's be clear, a concentration of power in ownership for slaughter creates challenges for small farmers who are unable to access these facilities. And we need to have more USDA processing available to producers outside of just the big guys. If we want to better improve our food supply chains and create local food systems that better serve both producers and consumers, it is essential to increase our processing capacity and access to that.

So I want to ask you, Mr. Stockton, what is your experience with slaughter and processing like?

Mr. STOCKTON. Thank you, Madam. I have a number of friends in Montana who are doing direct-to-consumer marketing of their cattle, but it's a very, very tough business to get into. It's very hard to develop a client base and get in front of the consumers with your product. It's an expensive way to do so because of the lack of marketing infrastructure at that level.

One of the concerns that I have about the movement here to produce more—to have more small packing plants is just exactly that. How do you get your product in front of the consumer when the meat case that's in Albertsons and Walmart and stuff is already committed to JBS or Tyson or Cargill? I mean, this is part of the dysfunction that we have in the cattle industry.

So it's all very nice to say we want to produce more food locally, but those people also can't be competitive because the overall market is not competitive. I mean, you need to look at these issues holistically. Until you start addressing really the competitiveness of the cattle market, these direct-to-consumer things will be a struggle for people. God bless them for doing it and God bless the consumers who buy from them, but it's an uphill battle.

Ms. SCHRIER. I am hearing very similar things from farmers in my district where even inspected and even looking for places outside of the big supermarkets, a small neighborhood supermarket or even a farmers' market or online sales is very hard to find those consumers, and there is a lot of education that has to happen with what it means to be a small local rancher. So thank you.

I just want to close my remaining time by saying that we need, our ranchers need more transparency around what other ranchers are being paid. That would help them tremendously and give them a negotiating edge. And small family-operated ranches in my district need that kind of fairness because the margins are so thin, the distances to travel are so great, and the inputs to raise cattle are so high. And so setting prices from the top down has led to the farmers' percentage of final product falling for some time now, and that means producers can't get the income they need for certainty to make ends meet and to have a whole new generation of ranchers.

So thank you, and I yield back.

The CHAIRMAN. The gentleman from Illinois, Mr. Davis, is recognized for 5 minutes.

Mr. DAVIS. Thank you, Mr. Chairman. I want to say thank you to the witnesses, very compelling testimony. I appreciate your willingness to be here. Although today's hearing is very compelling, hearing from each of you, but at the same time this Committee has disappointed me in the process because we have yet to talk about meaningful farm bill oversight. And more importantly, I don't think our discussion today actually gets to the root cause of the issues that most Americans are facing. "Inflation: It's what's for dinner" would actually be a more appropriate name for this hearing. After all, the latest CPI report showed the largest 12 month increase in the price of food since 1981. And here is the spoiler. I don't think it is all due to rising beef costs. I am certain it has a lot more to do with this Administration's reckless spending and policies than it does consolidation in the beef industry as the White House and the Chairman so desperately seem to want us to believe.

In a good-faith effort to make this a more productive hearing, I teamed up with a bipartisan group of colleagues and sent a letter to Chairman Scott requesting an economist or a market analyst familiar with beef pricing dynamics to be able to testify today to give this Committee a more holistic view of the market situation. Unfortunately, that request was not granted even after one of the Majority's witnesses pulled out.

I have that letter here with me, Mr. Chairman. I would like to submit it for the record.

The CHAIRMAN. Without objection.

[The letter referred to is located on p. 143.]

Mr. DAVIS. Thank you. I know that the Minority was only offered one witness today and found it necessary to use that opportunity to hear from a more balanced producer panel. It seemed prudent for a representative from the nation's largest organization of cattle producers to have a seat at the table during discussions of ideas and legislation that could have enormous industry impacts. In a Committee that is used to being so bipartisan and solutions-oriented, it is really unfortunate that this bipartisan request couldn't be granted today.

Meanwhile, inflation is up 8.5 percent. We are sitting here pointing fingers, and the Biden Administration demands more and more spending. There are so many things we should be addressing in this Committee when we talk about the market and consumer prices like work requirements; supply-chain issues; the waste, fraud, and abuse we continue to see in pandemic spending; the refusal to engage in new, free, and fair trade deals; and refusing to hold China accountable for the trade deals that we already have.

So with that, I do have a question. I will start with you, Mr. Schiefelbein. To any of the producer witnesses starting with you, what do you think your operations would look like in terms of cash flow and bottom line, absent these record levels of inflation?

Mr. SCHIEFELBEIN. Oh, they would be incredible. So the market prices have gone up. It's just that costs are huge. We call it the three F's, right? It's *f*eed, it's *f*uel, and it's *f*ertilizer. But if you look at those three components, the inflation marks on those three components which drive the engine of our farm are up incredible amounts, and it makes, regardless of almost the selling price, an almost impossibility to recover your initial cost. So those inflationary pressures are real, they're huge, and given everything we're talking about today, I couldn't agree more with you that that is fundamentally the most economic impactful thing that's occurring on the farm.

Mr. DAVIS. I missed some of my colleagues' questions. I wonder if climate change came up, carbon issues or—have they?

Mr. SCHIEFELBEIN. No, they have not.

Mr. DAVIS. That is a shock because usually that is the discussion this Committee has been discussing at our hearings previously instead of inflation, instead of the issues that you talk about that are impacting your ability to survive as a producer. So I appreciate the opportunity. Any more comments that you might want to make that would——

Mr. SCHIEFELBEIN. I just want to reiterate, you're right on track, Congressman. Refocus on the issues that are impacting us daily and are huge. I always focus on the big things. My dad always says successful people get the big things right, but the first thing you have to do is figure out what the big things are and then attack them. So I think you're right on track, so thank you.

Mr. DAVIS. Well, thank you. I do have a few seconds left. Mr. Young, did you want to address the inflationary issues? How would your operations fare?

Mr. YOUNG. I mean, they're not—just from a year ago when I sold my calves to this year, there's only an 18 percent increase in calf prices that have remained stagnant for years. This is the first time it went up forever, I mean, as long as I can remember, and——

Mr. DAVIS. Is it covering your other costs related to raising those calves?

Mr. YOUNG. Well, yes, and the cost to raise those calves have went up exponentially, especially you said the three F's of farming, they are your biggest expenses. I mean, they literally account for 35 to 40 percent of your overall expense, feed, fuel, and fertilizer. And, right now with the feed markets and everything going astronomically high, $10 corn to raise a buck-45 feeder calf, it doesn't pencil out very well.

Mr. DAVIS. Well, I yield back. I am out of time. Thank you.

The CHAIRMAN. The gentleman from California, Mr. Costa, who is also the Chairman of the Subcommittee on Livestock and Foreign Agriculture, is recognized for 5 minutes.

Mr. COSTA. Thank you very much, Mr. Chairman, for holding this hearing today. I think the examination of price discrepancies, transparency, and alleged unfair practices in cattle markets is something that clearly is on the minds of many. I appreciate our testimony by the witnesses on this first panel and look forward to the second panel.

I think we all agree on this Committee that food is a national security issue. And I am one of the, I guess, handful of Members of Congress that actually derives my primary income from farming, three generations. And we like to say that farmers and ranchers, dairymen and -women, and the cattle producers are price-takers not price-makers. I am wondering based upon the testimony that you have made here on terms of the factors that we are trying to deal with today, how much that goes into account? I mean, there are a lot of factors of increased prices, and I think the incredible ingenuity of American agriculture has been the fact that change is constant and agriculture understands that and that innovation toward change. I don't farm the way my father farmed, and he didn't farm the way my grandfather did. It is a different operation. We had over 20,000 dairies in California 40 years ago. Today, we have a little over 1,200 dairies. We were milking less than 200 cows per dairy over 40 years ago. Today, the average size is almost 2,000 cows per dairy. That is just one of many examples.

Let me get to some of the questions here. Mr. Delbodic, you indicated that AMAs are often credited with incentivizing improved quality. Where do you think that really takes place? I know the genetics are much different today than they were in my father's generation.

Mr. SCHIEFELBEIN. Sir, were you addressing me?

Mr. COSTA. Yes.

Mr. SCHIEFELBEIN. Okay. I didn't catch the name, my apologies.

Mr. COSTA. I am sorry.

Mr. SCHIEFELBEIN. Yes, AMAs basically is the—allows the transmission of what consumers want to producers. So it is basically a roadmap that says if I want a certain product, let's say non-hormone-treated beef, it sends the signal backwards and all of a sudden an AMA is written that says, you know what, I got some of my customers, some of my Schiefelbein Farms customers who have cattle that fit that need for those consumers. I am able then to procure those cattle, feed them in such a way with the understanding and realization that I will get paid to do the practices that are necessary to meet those consumer needs. So it's basically that transmission of what is necessary to be done, and then because some of these things are so costly up front, not having an agreement before you put them into production is very detrimental because you're giving away so much cost——

Mr. COSTA. Yes, well, I have family in the cattle business, a cow-calf operation and family in the dairy business, although I am not directly involved in that anymore, but I thank you, Mr. Schiefelbein, for your comments.

Mr. Stockton, you talked about the difficulty of trying to get on the market shelf, and I think you spoke very well of that difficulty, having had some experience with that. How do you propose or how do you think the proposal to mandate regional cash minimums and cattle transactions would impact the cattle market?

Mr. STOCKTON. Could you rephrase that? I didn't hear you completely, sir.

Mr. COSTA. The mandate for regional cash minimums that has been discussed in cattle transactions, how do you think that would impact cattle markets?

Mr. STOCKTON. Well, that proposal was put forward because it—kind of an emergency proposal in order to get better prices, more confidence in the price that spot markets were giving to what Mr. Schiefelbein here says is so important, the AMAs, the captive supply cattle.

Mr. COSTA. Price finding is all part of the challenge.

Mr. STOCKTON. Excuse me?

Mr. COSTA. I said trying to determine the prices in these markets is part of the challenge, right?

Mr. STOCKTON. Right, yes, the confidence that you have that it's actually the price. The problem with—that I—it's my personal thing that—the problem with that position, that proposal is that it does not really go to the heart of what's dysfunctional in the cattle market, the lack of competition. And until that's being addressed directly, everything else is kind of just kicking the can down the road I'm sorry to say.

Mr. COSTA. Thank you, Mr. Chairman. My time has expired.

The CHAIRMAN. The gentleman from South Dakota, Mr. Johnson, is now recognized for 5 minutes.

Mr. JOHNSON. Thank you, Mr. Chairman. And for Mr. Schiefelbein, I thought you were right to bring up the Phoenix meeting because it gave us a sense of what are the consensus items for the marketplace. I think in your testimony you alluded to the fact that sometimes because the cattle industry can't agree, we don't get as much done as we should. And there are some consensus items. The Phoenix meeting had three areas of agreement, number one, the importance of transparency. We have made progress on that with the Cattle Contract Library, also about adding capacity, the Butcher Block Act has made progress. But then three, critically important, oversight, which you mentioned. And I don't know that we have made progress on that front. You mentioned that enforcement is important. Of course I agree with you.

So a little thought exercise for you, sir. Let's say the President calls you, says that you are going to be the next head of Packers and Stockyards. I mean, give us a sense of what is your vision for the agency. How do we do it better, and what is your advice to Congress about what tools we can give you as the head of the agency to do a better job?

Mr. SCHIEFELBEIN. Yes, and to me, it's all about enforcement. And I don't know if the funding's not there. I don't know the intricacies to be quite honest. But to me, the laws are on the books. We just need to make sure enforcement is occurring, and knowledge is also power. If we knew what was occurring and why it occurred, if it occurred, it would be so helpful to my membership, right? They're demanding answers. They're saying our lives are on the line here, okay? Our lives depend on fair markets. How come we can't get answers on what has happened and what has transpired and where we are today? So that's the push I would get is there's a lot of movement towards adding a new agency, a new oversight agency, but the reality is from a government standpoint, why don't you get the one that you have working first? That's my dad's thought process. Fix the tractor that you have before you buy another tractor.

Mr. COSTA. Mr. Johnson, would the gentleman yield?

Mr. JOHNSON. Yes, sir.

Mr. COSTA. I think this is a very good question, and with your experience over the years, how would you say enforcement has changed one way or the other over the last 3 decades? You go back to your father and grandfather. Has it gotten more enforcement, less enforcement? Have you noticed?

Mr. SCHIEFELBEIN. And again, I'm—I look older than I am, so I am actually not that big a span of ages. But the reality I believe is that it just seems like the wheels of the Department of Justice have gotten slower and slower and slower. Now, maybe that is just my perspective, but it seems—I understand justice takes time, but the progress is so slow that you cannot have a system in place to protect people if the timing on the process can put them out of business. And that's what I'm getting at.

Mr. JOHNSON. And reclaiming my time, I think that is exactly right. And for me, we talk about transparency and transparency in the marketplace. I think it would be helpful to have some transparency within the government as well. I think we all understand the rationale of why they don't release a report if they haven't found any wrongdoing. But that silence is not good for the producer, it is not good for the consumer. I would submit it is not good for the packer. It makes everybody think something is going on behind the veil.

So when we talk about—you mentioned earlier that we haven't heard boo or squat, which is exactly the right phrase, sir——

Mr. SCHIEFELBEIN. Sorry.

Mr. JOHNSON.—about the investigations in the wake of the Holcomb fire and COVID. I mean, let's set this information free. It seems to me that that is one key thing we could do to bring a higher level of understanding to what is going on from an enforcement perspective and tell those of us in this room maybe what we could be helping the DOJ do better with regard to enforcement. I will give you an opportunity to react.

Mr. SCHIEFELBEIN. Yes, and again, it's—it goes back to a pretty simple principle you learn raising kids, right? The bogeyman disappears when you turn the light on, right? And there's a bogeyman out there. We don't know if it's real or not real because the light's off. We need the light flipped back on to know whether or not the bogeyman exists.

Mr. JOHNSON. Anything else, Mr. Costa, before I yield back?

Mr. COSTA. No, I thank the gentleman for his good questions, as always.

Mr. JOHNSON. Sounds good. Well, thank you. I think you are exactly right. Let's turn the light on, and that is something I think we could find robust bipartisan agreement on. With that, Mr. Chairman, I would yield back.

The CHAIRMAN. The gentlewoman from Iowa, Mrs. Axne, is recognized for 5 minutes.

Mrs. AXNE. Thank you, Chairman Scott. Thank you so much for holding this hearing on such an important issue. I would first like to request unanimous consent to submit to the record a letter and a statement from Bob Noble, President of Iowa Cattlemen's Association.

The CHAIRMAN. Without objection.

[The documents referred to are located on p. 139.]

Mrs. AXNE. Thank you. In the letter, I see President Noble expresses the need for price discovery and transparency to make sure that we can combat the meatpacking industry consolidation, its captive supply, and price manipulation issues. And I appreciate his call to support my bipartisan legislation, the Cattle Price Discovery and Transparency Act (H.R. 5992), and share his urgency that it is now time for Congress to act on this on behalf of our nation's cattle producers. And after listening to some of the testimony this morning, I am sure many of my colleagues would agree that something has to be done.

Mr. Young, thank you so much for being here. I am glad to have you here with us today, and thanks for sharing your story. And if there are others who are watching this hearing in a similar situation, please know it is okay to ask for help, and you can reach the 24/7 National Suicide Hotline Service at 800–273–TALK. And this summer you will be able to reach that by calling 988. And the sad part is I am sitting here at a hearing for our cattle producers having to put out information like that because it is so rough on our producers in Iowa and other places to get ahead.

So here is my first question. I share many of the concerns raised in your testimony. And, Mr. Young, can you describe the value that cash trades have in the cattle market?

Mr. YOUNG. Yes. As a cow-calf producer, we base everything off the Chicago Board of Trade, and that's based off of what's supposed to be the free market, there's only, like I say, 13 percent cash cattle on the market that are sold, and everything else is through AMAs and those are all private and you don't know what the pricing is. And the cash market if it was—everybody in the beef industry should be able to buy on the cash market, and all that information would be out there and you would know exactly what everything is selling for. And there would be more competition between the packers and they wouldn't have nearly as much control.

And that's where we know it will never happen. We hope and pray it will but AMAs are not going to go away and they're going to continue to dominate the marketplace and keep the price of beef to the cow-calf producers suppressed.

Mrs. AXNE. So is it fair to say then that all producers benefit from a robust cash trade market?

Mr. YOUNG. That is correct.

Mrs. AXNE. Thank you. And, Mr. Stockton, in you're nearly 50 years as a rancher, how has the value of your product changed, and what has that led to within your community?

Mr. STOCKTON. Ma'am, as I said in my oral statement, my income has been halved. The retail price spread over the life of myself as a rancher has been halved over that 47 year period. And my community is devastated. There are less than half as many ranches every day taking up the, bought up the smaller ranches, consolidated them. One of the most disturbing things that's happening in my community is that millionaires and billionaires are buying huge ranches just for private hunting reserves, and all of us locals are simply locked out of that. And of course those people have no interest at all in the health of our community and the children in school and all of the things that it takes, the businesses that you can have a thriving group of people working together for a good life.

So no, we call it the cheap food policy and the cheap food policy of the United States Government has been extraordinarily successful. It's hollowed out rural America all the way from Grass Range, Montana, to Lumpkin, Georgia, where—I was told not to use this word and I'm sorry but I can't think of another word. Rural America is one huge *slum,* and this is a result of the lack of antitrust enforcement.

Mrs. AXNE. Mr. Stockton——

Mr. STOCKTON. And we've elected to conduct rural and agricultural policy through the farm bills.

Mrs. AXNE. Thank you. And if we do nothing, what do you think the future looks like? If we don't act on this in Congress now, what do you think the future looks like?

Mr. STOCKTON. I think the food security of your children and your grandchildren is in jeopardy.

The CHAIRMAN. That is right.

Mr. STOCKTON. When you have—you know, it's—we're talking about the beef cartel at this hearing, but this isn't the only cartels or source of monopolization. It cuts across all of agriculture, but it cuts across a lot of the other most important industries of the United States. And until we start trying to deal with that and do something, we're simply vulnerable to every—vagaries of the weather, which I shouldn't call it vagaries because it's getting very pronounced, and things that are happening in other countries that—of which we have no control, for instance, this invasion of the Ukraine by Russia. I mean, that affects us. To use a phrase, America first here. When are we going to look after the interests of the people of the United States and their security and their needs?

The CHAIRMAN. The gentlelady's time has expired.

And now the gentleman from Mississippi, Mr. Kelly, is recognized for 5 minutes.

Mr. KELLY. Thank you, Mr. Chairman, and thank you, witnesses, for being here.

Mr. Schiefelbein, your testimony expresses clear opposition to the Cattle Price Discovery and Transparency Act, and you have answered a little bit why that is if you would like to expand on that. And further, what alternatives can we as Congress do that remedy this situation or aid cattle producers in the marketplace?

Mr. SCHIEFELBEIN. Yes, to me it's all about empowering producers. Let producers come up with the solutions, and let them innovate, as the Chairman suggested, in terms of making the next best things. And to me the best government is a government that stays out of the way when it comes to marketing and lets the good of the people come up with the great ideas and move an industry in the direction it needs to go. And that's what we've done over the last 20 years. If you look at the mandate that's putting—that they're trying to push, they're basically trying to cram our industry back into the bottle the way it was 20 years ago, 15 years ago. That's not healthy for an industry. Change is a part of the industry, and especially if you look at the impact it's had on meeting consumer preferences, nothing could be more advantageous for the industry than to listen to your consumer.

Mr. KELLY. And just some data, just according to the recent USDA Ag Census, we have lost over 32 percent of my home state's cow-calf producers over a 25 year time period from 22,097 to 14,000 in 2017. That number today is probably really much worse. It concerns me greatly, also, the timing of a negotiated cash market to the point that there may not be a cash market one day. Are there any solutions or do you have any ideas on that?

Mr. SCHIEFELBEIN. It's going to take innovation. I think—if I were to put on my crystal—look into my crystal ball, I would say there will be a time when the AMAs probably include a component of boxed beef price so that it allows you to share in the good and share in the bad with the person downstream so that if it's beneficial, everybody benefits, and if it's bad, everybody suffers. And to me it's those innovations we want to make sure continue to flow that allow the marketplace to figure out this awkward time and how do we distribute this money equitably.

Mr. KELLY. I am kind of old-school. I grew up—my granddaddy ran about 20, 25 head of cows in a cow-calf production, and so I grew up in that environment. There are not a lot of those guys left, just like there are not small dairies, there are not a lot of other small things. But we need to get back to that. It is good to have lower prices and to have the big guys, that is great, but at some point there is no redundancy in that. And we don't want this nation to be relying on two, three producers that can be taken out and then we have no producers. We lose the ability. So what do we do to get more small cow-calf producers engaged in the process? Is there anything we in Congress can do to help do that so that we have some redundancy and backup?

Mr. SCHIEFELBEIN. And I think some of the things you're doing is valuable. In terms of allowing local processings to occur I think is an absolute windfall for small producers. I was in Kentucky just a week ago and talked to two different guys who are now using the energy of being able to market their own products successfully to a consumer within 50 miles around them, right? And that invigorates them. That excites them. And I think we're doing something along those ways. So to me it's providing tools that allow them to be the best at what they do, not confining them or taking away tools that allow them to do the best possible.

Mr. KELLY. I want to thank you guys, every one of you all again, for what you do for America. I truly am one of those guys—I am on the Armed Services Committee and the Intel Committee and I am on the Ag Committee because I think all those things are national security because I truly believe that food security and the ability to produce in all conditions is national security, and I don't think there is anything greater. To the one percent who farm in America of which you are, I just want to thank you.

And with that, Mr. Chairman, I yield back.

The CHAIRMAN. Well-stated, thank you.

The gentleman from Arizona, Mr. O'Halleran, is recognized for 5 minutes.

Mr. O'HALLERAN. I want to thank the Chairman and Ranking Member for this hearing today and also for those who are participating as witnesses.

Cattle ranching is an important part of Arizona's economy. Earlier this month, I hosted a processing roundtable with beef producers from my district. I heard from a range of stakeholders, including rural producers, Tribal producers, and economic development specialists. The recent disruptions in capital markets have disproportionately harmed small and rural producers who were already at a disadvantage in competing in a highly consolidated marketplace. And because of an increase in the cost of fuel, feed, maintenance, land, and water, producers are dealing with a 75 to 80 percent increase in operating costs, making it nearly impossible for small family-run farms to compete, and this hearing today hasn't brought out anything to make my optimism grow.

I think that the other concerns that we heard from where our young producers are coming from, what about the families that have historically been there? The beef packing capacity, and I will talk about co-ops in a little bit. The real problem—I come from both a family in—our family's history of dairy farming and also have spent time—I heard the Board of Trade mentioned a little while ago, and I was a trader on the Board of Trade and came up with those and worked in that environment where we knew what transparency was about. And I am sorry to see that [inaudible] it is impossible to be able to meet the challenges [inaudible].

It came to my mind during the course of this that the word *monopoly* came to my mind, the word *cartel* came to my mind, and when I looked up the definition, it is the excessive possession or control of supply of trade——

The CHAIRMAN. Excuse me for one moment, Mr. O'Halleran. There may be someone that is not muted. We are having difficulty hearing the Congressman. Everyone except the Congressman, let's get muted. You may continue, Mr. O'Halleran.

Mr. O'HALLERAN. Thank you, Mr. Chairman. I will just continue on with the definition of a *trade* or a *commodity* or *service*. What we didn't talk about is the other powers, the economic powers, not only devastating economic powers to the producers, the smaller producers, but those powers that they are allowed to have economically to be able to overcome the type of costs that we have seen on the smaller market producers and that is feed, fuel, and fertilizer, also market control and many other aspects, and I do hope the Attorney General's office will go down a path of fairly identifying and working on these issues.

I would like to ask a question of Mr. Young. Have you considered this in the past the process of the idea of establishing co-op processing facilities to increase processing capacity, which is scarce in rural areas, especially my area also? And if so, what were the hurdles you faced? And can the USDA be helpful in this process?

Mr. YOUNG. I didn't quite hear what you said. I can barely hear you.

Mr. O'HALLERAN. I am sorry about that. I will try this again. Several Arizona producers brought up the idea of establishing a co-op processing facility to increase processing capacity, which is scarce in rural areas. Have you considered this in the past, and if so, what were the hurdles you faced, and can the USDA be helpful in this process?

Mr. YOUNG. I mean, yes, that idea has been out there for a long time. I've actually been talking about it recently. There were a lot of small processors that popped up during the pandemic. They saw the store shelves were empty so they took the opportunity to open their own small locker. The only problem they're having is getting USDA approval so they can sell their beef, as a farmer, directly to the consumer at a farmers' market, set up an online marketing system directly from their farm to the table, and that's the only hurdle that they face now is all the red tape associated with getting USDA approval for their small locker operations.

And they're so overregulated and, I mean, there's a lot of red tape to get through to get that USDA stamp of approval, which I understand. The sanitation standards in this world in which we live now are so high that it—some of the regulations and the approval of USDA facilities may not be negligent or required, but yet the smaller producers that's—more power to them. That would be great if they could get 10, 15, 20, 30 guys to invest in a co-op locally owned processing facility. That empowers them as producers.

Mr. O'HALLERAN. Thank you, Mr. Chairman. Thank you, Mr. Young, and I yield back.

The CHAIRMAN. The gentleman from Kansas, Mr. Mann, is now recognized for 5 minutes.

Mr. MANN. Thank you, Mr. Chairman, and on behalf of the farmers, ranchers, and agriculture producers in the 1st District of Kansas, thank you all for participating in today's full Committee hearing regarding beef markets.

This issue is especially near and dear to me since both sides of my family have farmed and fed cattle in western Kansas for the last 120 years. I grew up on a preconditioning feedyard, spent thousands of hours doctoring sick cattle, kind of the best of times and worst of times all wrapped into one, but good family time.

The Big First, my district, ranks number one in the country for the value of sales of cattle and calves at more than $9 billion annually. There are more than 4.4 million cattle and calves raised in my district and significant packing capacity with more than 20 percent of the nation's beef slaughter capacity. We see the entire beef supply chain in the Big First from cow-calf producers to cattle feeders to packers. More broadly, the beef sector supports grain producers, manufacturers, veterinarians, and many other businesses that populate rural towns across Kansas and across the country.

In a competitive cattle market, it is vital for producers to be able to differentiate their product to eventually suit the taste of the consumer. As seen by the growing demand for beef here in the U.S. and internationally, selective breeding and nutrition that have increased quality bring opportunities for producers to negotiate a premium for price for their cattle. These contracts allow feeders to benefit from making a value-added investment and provide some certainty in the volatile market.

Across the country, cattle producers continue to face challenging market dynamics, including historically wide gaps between wholesale beef prices and fed cattle prices, packing capacity regulation, and more. I have talked to hundreds of cattle producers in Kansas ranging from small cow-calf operations to some of the country's largest feedyards. Overwhelmingly, I have heard that we need to increase price discovery in the cash market, make sure that producers benefit when they provide a superior product, refuse to let the government interfere in the free market, and acknowledged regional differences.

There is currently discussion, here in Washington and around the Federal Government, about mandating a certain percentage of cash or spot transactions between the feeder and the packer, limiting the number of alternative marketing agreements. AMAs, are popular across the Big First and used by many because they cut costs, increase efficiencies, and reward producers for a higher quality product.

So a few questions, first question for you, Mr. Schiefelbein, and thank you for being here. Do you feel that the legislation proposed to limit the use of AMAs would negatively affect the beef market? And how do you think it will impact beef quality?

Mr. SCHIEFELBEIN. As I've mentioned before that AMAs and that transparency is basically the signals from the consumer to producers on what to do. So from that standpoint I know with certainty it's going to have an important negative impact, okay, because we need those signals strong and transparent and flowing freely from consumer to producer. The whole idea of mandating the packers, to me, is a misnomer because when you mandate one half of a dealmaker, you're also mandating producers, and that's where we get the rub. When you're mandating producers on how they ought to manage their cattle and market their cattle, I think bad things will occur and actually to the detriment of the people promoting it.

I think the largest concern occurs into small- and midsize producers like myself because when you're limited to a certain number, all of a sudden now you have a packer picking winners and losers. And it doesn't allow me to exert my thing that says because I have a superior product, choose me, choose me. Instead, you're deferring to a packer. So I think it goes down a very dangerous road, especially for mid- and small-sized feeders.

Mr. MANN. Okay. Thank you. Another question for you, sir. Do you believe the establishment of the Cattle Contract Library, that was done by this Congress really this year similar to what exists in the Swine Contract Library, do you think that is going to provide more transparency to the market, and how do you think it is going to impact producers in Kansas and around the country?

Mr. SCHIEFELBEIN. Well, the intent certainly is there. And again, I've mentioned before—I testified previously—the devil's in the details. And that's what raises some concern for our producers is the way it's put together may actually tell you whether it's favorable or it actually could be neutral to unfavorable depending on if the packers have more utility with the contract than the producers. So to me I really like their approach of the pilot project, but I think constructing it in a manner that is a benefit to producers is of utmost importance.

Mr. MANN. Okay, great. I see my time is expiring. Thank you for being here. And with that, I yield back.

The CHAIRMAN. Thank you. The gentleman from Georgia, Congressman Austin Scott, is now recognized for 5 minutes.

Mr. AUSTIN SCOTT of Georgia. Thank you, Mr. Chairman. And I want to apologize to the panel for being late. I was in the Armed Services Committee with the Secretary of the Air Force and a couple of generals going over their budget.

Mr. Stockton, I believe it was you that brought up the antitrust and Federal Trade Commission. Is that correct? And the monopolization if you will of what is happening in processing?

Mr. STOCKTON. Could you restate that for me, please? I have a little——

Mr. AUSTIN SCOTT of Georgia. I think I heard a statement from you that I very much agree with. The Federal Trade Commission has not been active enough in this and it has led to a significant amount of monopolization in the processing.

Mr. STOCKTON. Yes, Federal but also particularly lack of enforcement of the Packers and Stockyards Act. When the Packers and Stockyards Act was first initiated in 1921 and there was a consent decree that required that the packers—the cartel at that time had to purchase all of their cattle in a marketplace that they did not own or control, it was a free enterprise approach to solving that problem that worked beautifully because by the time I started ranching in 1975, the packer concentration was down to about 25 percent, the four largest firms.

Mr. AUSTIN SCOTT of Georgia. Mr. Stockton, can I ask you something on another law at the time? If I am not mistaken, and this is going back many years—my grandfather and I ran a few hundred head in Georgia. And back at that stage in the—it would have been in the early 1990s, there were several stockyards in the area, there were multiple places where you could take a calf to get it processed. Most of those don't exist anymore. Would——

Mr. STOCKTON. Exactly, yes.

Mr. AUSTIN SCOTT of Georgia. And it has been brought up as one of the problems. So there is not a whole lot of options for the farmers to sell their product. But there was a time when the packers were not allowed to actually own the animal up to and until maybe 2 or 3 days before the animal was processed if I am not mistaken.

Mr. STOCKTON. Yes.

Mr. AUSTIN SCOTT of Georgia. Am I correct in that? And those laws have all gone away. Most of them were at the state level if I am not mistaken, not necessarily a Federal law, do you think that—that that is an issue that if it were revisited——

Mr. STOCKTON. Well, yes. The Packers and Stockyards Act is very clear that there—a packer should not give an advantage or disadvantage to any buyer or seller. And if they are owning cattle, they are obviously giving an advantage to themselves. And yes, you need to revisit the consent decree that they had in 1921. If the packers were purchasing all of their cattle through some form of a competitive market, we wouldn't have any reason to be sitting here today. This whole problem would be solved.

Mr. AUSTIN SCOTT of Georgia. I do know that the Georgia cattlemen—and I am not saying all of them are in favor of this, but I do know there has been discussion with the Georgia cattlemen about them putting together some type of a co-op and the ability to slaughter and process. And *slaughter* is a word nobody likes to use, right, but the bottom line is our hamburgers come from an animal that has been slaughtered and processed.

But most of the places that, as a kid, if you could go to and have something slaughtered, I mean, today, if they are still in business, they are cutting boxed beef. Very few of them actually have the license to actually kill the animal. And it is hogs as well as cows, and so I have hog farmers that have to ship their hogs from south Georgia all the way to Tar Heel, North Carolina. Well, that is a lot of transportation cost when diesel is $5 a gallon.

Mr. STOCKTON. Yes.

Mr. AUSTIN SCOTT of Georgia. So I appreciate you all being here. I will tell you I am very concerned about some of the conduct I am seeing from some of the people that are about to testify in the differentials and what they are paying people based on race, and I am going to ask that question as we go forward with the next panel. But thank you for your time and your testimony.

Mr. STOCKTON. Yes, thank you for your question, Mr. Scott, because I agree with you completely. What we need is a multiplicity of market channels, and now that we've concentrated it through this one funnel, until we solve that problem——

Mr. AUSTIN SCOTT of Georgia. The retailers are not innocent in this.

Mr. STOCKTON. And the retailers are not innocent in this.

Mr. AUSTIN SCOTT of Georgia. I yield back.

The CHAIRMAN. The gentleman from Georgia, Mr. Allen, is recognized for 5 minutes.

Mr. ALLEN. Thank you, Mr. Chairman. And of course I presume the purpose of this hearing today is to deal with the cost of what we are paying for meat and who is responsible. Obviously, we are faced—I think it was a record 8.5 percent inflation in this last year. Obviously, one of the drivers of inflation is not only what the Feds are pumping into the economy to cover government spending but it is government spending, it is policy, and it is energy policy, and it is driving the cost of everything beyond anything we have seen probably in our lifetime, maybe even since the Carter presidency. So, that is the issue. That is why we are here. And of course what we have is apparently some allegations that we need to get to the bottom of as far as our industry is concerned.

Mr. Chairman, you mentioned in your opening statement that due to intimidation or threats to a person's livelihood, one of our witnesses chose not to participate today. You also mentioned that you will be following up on the situation, and I hope you will. These are very serious criminal allegations. I know many of our Members are curious to know additional details of this situation. If true, this is deeply concerning. Are there additional details you can provide our Members so we can address it? And I understand if there is a desire to protect this individual, but why do you choose to raise the matter in a public setting? And with that, Mr. Chairman, I yield back to you.

The CHAIRMAN. We are looking into it. It is a very serious situation. And the right thing for us to do is to address it so that it will not happen ever again.

Mr. ALLEN. And so you are not prepared here to disclose any——

The CHAIRMAN. Not until we get all the facts. It would be improper for me to discuss any details on it when I don't have the full facts.

Mr. ALLEN. Okay. All right. Well, with that, I will yield back.

The CHAIRMAN. Thank you. And now the gentlelady from Minnesota, Mrs. Fischbach, is recognized for 5 minutes.

Mrs. FISCHBACH. Well, thank you very much, Mr. Chairman, and thank you all for being here today.

Mr. Schiefelbein, as you know, the issues of price discovery, concentration, and market manipulation are serious issues, but I firmly believe that government mandates or strong-arming the private-sector when politically expedient is the wrong approach. The best solution in my mind is more transparency and more competition, and you mentioned some of that earlier in some other answers. Discussing these issues with you earlier, you clearly feel the same way. But we also discussed the grassroots effort that your organization took to get to this point, and I was wondering if maybe you could describe the voluntary 75 percent plan and the process that your organization uses to get your policy positions.

Mr. SCHIEFELBEIN. Yes, I'd be glad to. And basically, we know negotiated trade is important. We know it's important. We know it's important to our members. So the question then became within our membership is we have the control because a buyer and a seller must agree on a way to sell an animal for it to go forward. So how do we push more negotiated trade into the system? So what we did is we put together a voluntary approach that said, producers, we know negotiated trade is important. How can we elevate this and especially in key regions? And we set targets, so we put robust marketing targets at each region to say if we meet this goal, the likelihood of successful price discovery is high. And we implemented that. And the remarkable results where we doubled in the State of Texas the percent of negotiated trade and met that threshold 75 percent or more of the time all the way through. So it was an incredibly good experience.

Mrs. FISCHBACH. Thank you. And just, as I mentioned earlier, you are a constituent of mine. I have been out to the farm and visited with your family. But I just wanted you to maybe take a moment to briefly talk about the family and the farm so that we understand a little bit better about the company.

Mr. SCHIEFELBEIN. Yes, and one thing maybe that this group could take to heart is we're a family affair, a large family affair. Just like this body, we have differing opinions, and when you have differing opinions, respect each other, but you have to go forward with something. And what we found out is when a body disagrees on an item, we don't keep pushing that item and pushing that item and pushing that item. And I think that plays well into the mandate question. We have lots of potential solutions for our industry to go forward, yet we continue to come back and say how do we get government involved in marketing through mandates when clearly that's a divisive wedge issue. Why can't we move on to some outcomes that are positive just like in the family that say let's do this item that makes sense that we all can agree on? And I would share that's probably the most fundamental thing similar to our farm that would show value in the Congress.

Mrs. FISCHBACH. Thank you very much. And I appreciate that, and I yield back, Mr. Chairman.

The CHAIRMAN. Thank you very much. And now the gentleman from Nebraska, Mr. Bacon, you are recognized for 5 minutes.

Mr. BACON. Thank you, Mr. Chairman, and I hope you don't mind a guy named Bacon asking some good beef questions to you.

So in our district we have a lot of feedlots. We also have a lot of meat processing plants, so I think it is really important that we get this right for all involved with a balanced policy.

So the first question is to Mr. Schiefelbein. Can you briefly talk us through the recent fed cattle and beef price trends and, in your opinion, are those reflective of market supply and demand? And how do these prices compare to pre-pandemic?

Mr. SCHIEFELBEIN. Yes. And that's the perspective. That's a fantastic, fantastic question. From a perspective standpoint, everybody has to understand it's so hard to realize what you just lived through, but if you look at what occurred with a pandemic to the beef industry, there has never been anything like it before. When you talk about 40 percent of your market share disappearing overnight, I mean, the effect to the economy, to the beef industry is huge. And then you have to study on why it occurred the way it did, and that's where I think the question is really good.

From a simplicity standpoint, when you have cattle numbers like this and you have to push them through a processing pipeline this size, somebody has to decide which of these cattle make it through the pipeline. In America, capitalism does that through describing prices. And so you're basically forced to say, through pricing, how do we eliminate this many cattle to this many cattle? And that's a huge price fall that occurred in the fed cattle market.

Then I just want to say on the flipside people wonder why the beef price went so high. The beef price on the other hand went from that small funnel to all these producers who want good American beef, right? so that's why the discrepancy occurred. There was a funnel in the middle that had to ration on the left side and they had to ration on the right side and that's where the price discrepancy——

Mr. BACON. So it sounds like the answer is more capacity. And it takes a lot of capital investment to do that. What is the role for Congress in trying to facilitate more capacity?

Mr. SCHIEFELBEIN. And it's going to go contrary to a lot of what Congress likes to do and that is as you put on more regulations, red tape, and oversight, okay, as you put on all three of those, it actually hinders the ability of mid- to small-packers to compete with large packers who can put in an enormous amount of the top line if you will into that. So you have to be able to—how do we streamline getting these in the process with the least amount of red tape and allow them to function efficiently?

Mr. BACON. A follow-up question with you there, sir. You mentioned the importance of knowing the results of the DOJ investigation before we go forward attempting to fix some of these alleged problems. Do you worry that Congress or the Administration are rushing ahead to attempt to fix problems that don't exist or that we simply don't know enough about at this point? What are your thoughts?

Mr. SCHIEFELBEIN. I don't know. I wish I knew, and that's where, again, that—shining the light on that would be better. I'm hopeful. I'm an optimistic person at heart, so I'm hopeful that the answer is they just haven't come around to it yet and they're not trying to withhold information from us. So that's my optimistic nature.

Mr. BACON. So it is better to ready, aim, fire *versus* fire, ready, aim Feds first.

Mr. SCHIEFELBEIN. Yes, sir. Yes, sir.

Mr. BACON. To all the panelists, I am curious, are any of you or your businesses directly involved in the trade of fed cattle with at least one meatpacker? If so, how often and can you describe what your typical interactions might be with that packer, just—do you deal with one or more packers, and what has been your relationship?

Mr. YOUNG. No, I said earlier I don't deal directly with the packers. I'm a cow-calf guy. I breed them, raise them, then sell them off as calves at 7 to 10 months of age to either a feeder or whomever purchases them, and they feed them out and have to sell their cattle through a packer, so the consumer can purchase their product. But I don't deal with them at all.

Mr. BACON. Thank you.

Mr. STOCKTON. Yes, and I have probably sold calves to Mr. Schiefelbein.

Mr. BACON. Okay. Well, I appreciate your testimony today and we are learning from you, so I am grateful for your time. Thank you. Mr. Chairman, I yield back.

The CHAIRMAN. The gentlelady from Florida, Mrs. Cammack, is recognized for 5 minutes.

Mrs. CAMMACK. Well, thank you, Mr. Chairman, Ranking Member Thompson. I am very excited about this particular hearing as I come from a small cow-calf operation myself. I grew up on a small ranch in Colorado, so I appreciate and sympathize with a lot of our witnesses here today.

Livestock is one of the most important agricultural commodities in my district and certainly in our state. And what I hear on the ground from our producers in Florida is a far more nuanced and complex picture of the current challenges facing the livestock industry than this Administration and the Majority are willing to admit. The Florida cattlemen are adamantly opposed to a cattle market mandate, and when I hear from folks back home, they typically express their concerns about government intervention and overreach that jeopardizes their own futures. Many of the mandates that have been proposed, the attacks on packers of all sizes, and an all-out war on the livestock industry, our producers from this Administration that has chosen to wage war in the name of unfounded, unproven allegations will ultimately do more harm than good to the folks that I know back home but of course elsewhere. Honestly, this seems like an oversimplification of a very complex issue is going to do more harm than good.

Now, to that end, Mr. Schiefelbein—and I am so sorry, I am probably butchering that—I would like to pick your brain about what I perceive to be a very real threat to the industry. Cattle producers are the first line of defense in protecting the land, the environment, and our natural resources. Sadly or unsurprisingly, this Administration has ignored this fact and instead marshaled its regulatory agencies to stage an all-out assault on our livestock producers with a slew of burdensome regulations that lack both science and logic, for example, the April 11 SEC published rule talking about greenhouse gases emissions and the disclosures for publicly traded companies. Now, our producers may not immediately be impacted, but this may require these companies to disclose emission rates from their supply chain, which could include our cattle producers.

So how does regulatory dysfunction at the Federal level, as I just mentioned, impact our U.S. cattle producers? And are you concerned that this Administration may be pushing an agenda that is based far beyond real, credible scientific evidence?

Mr. SCHIEFELBEIN. To answer the question, yes, absolutely. There are times when facts don't matter, and facts should drive everything. If you look at the National Cattlemen's Beef Association, how we differ from many other organizations is we are fact-based. So what the truth is, is what the truth is, and when they start to hurtle around emissions that are way beyond the reality of what's occurring out there, boy, you start to diminish the case and diminish the reality of what we're dealing with. So to me it's all about getting the right information and the right people and promoting it correctly.

If you look at the environmental grab of like *Waters of the United States,* to me, that is an all-out grab to take away stewards of the environment and put the government in charge. And, just from my perspective I would encourage anybody who believes the government should have more say in managing resources to come out by me and look at the land that the government owns and manages, contrasted with the land that our private citizens own, and I think there would be not a soul in here who wouldn't say the movement towards more government control and reach over environmental controls is not healthy for the industry.

Mrs. CAMMACK. Thank you. Thank you, Mr. Schiefelbein. And I might just call you Don so that I don't continue to butcher your name——

Mr. SCHIEFELBEIN. That's fine.

Mrs. CAMMACK.—but I do appreciate that answer. And I do appreciate the fact that you have your hat sitting properly on the table. That is how I know that you are a true country boy.

Now, you just further proved my point that the regulatory environment has helped kill our small- and midsize processors and packers. And I know it is not just from your testimony today but I can name about a half a dozen of these operations that have dissolved and are up for sale. And, it is just because simply the margins aren't there. We know that the margins aren't there. And I can tell you from experience that we don't always know what our inputs are. And I would challenge our producers to check on what our inputs are.

Now, this is an ever-evolving situation, and we know that is in large part because of the government overreach that we are experiencing. When you have operations that are processing up to 2,500 cattle a week and they still can't make the numbers work and you would need at least 2,500 a week to make a regional dent in the marketplace, this isn't a mismanagement issue. This is a fact that this government and this Administration are doing more to harm our producers and by extension the industry and the very vertically integrated system that we have, and we cannot sustain the regulatory environment to make these operations work. So it is just not tenable, and I thank you all for being here today. I know that this is something that is a very complex and nuanced issue, but to our witnesses for appearing before the Committee, thank you for your testimony, and thank you to the Chairman and the Ranking Member for hosting a hearing on this very, very important topic. And with that, I yield back.

The CHAIRMAN. The gentleman from Iowa, Mr. Feenstra, is now recognized for 5 minutes.

Mr. FEENSTRA. Thank you, Chairman Scott, Ranking Member Thompson. Thank you to the witnesses concerning this very tough topic.

During my time today, I would like to ensure that Iowa producers have a seat at the table by discussing Iowa issues concerning market reform. I have three out of four packers in my district. I have traveled all 39 counties in my district at least twice a year, and I hear the critical concerns of my producers about the industry. My district ranks number one in pork, number three in poultry, number six in cattle and calves, and out of 431 Congressional districts that sell agricultural products, my district ranks second. With all this information, one can conclude that agriculture is truly the economic engine in my district.

According to the report from the University of Nebraska, the USDA cattle region with the highest cattle grading is the Iowa-Minnesota region. In fact, over 94 percent of the cattle in my region grade over 80 percent choice. This compares to less than 13 percent from Texas, Oklahoma, and the New Mexico region.

Midwest cattle producers are hurting. They see everyone in the supply chain making large profits while they are losing anywhere from $100 to $150 a head. Fairness and transparency creates a sustainable agriculture supply chain, which is critical to our producers.

The processing of cattle is mostly operated by four packers that control nearly 85 percent of the market. This market share lets them control the price through contracts, manage the amount of animals being slaughtered through line speeds, and the control of supply livestock to their satisfaction. The system is set up where the packers will never see a loss, creating massive guaranteed profits while rural farmers lose their livelihoods.

We noted this earlier with one of the witnesses, Don Schiefelbein, saying that several months ago in Arizona four of the large meatpackers agreed to provide information to a cattlemen's organization for a producer-led initiative to achieve 75 percent of the negotiated trade needed for robust price discovery in each reporting region. Feeders made an effort to meet this voluntary threshold, but the initiative failed due to the lack of packer participation. Packers can manipulate the regional supply of cattle by simply shifting their captive supply from one region to the next. Without more transparency in the market, we will continue to see these downfalls.

Senator Grassley said it best yesterday in their hearing in the U.S. Senate. In order to have a sustainable supply of meat, we need transparency in the marketplace and to protect the market from collapsing when there are supply chain disruptions. My producers in Iowa are constantly telling me that there is a lack of competition, an argument I often hear about the alternative marketing agreements increase efficiency. With the packers and the corporate feedyards that—they have relationships with only one, and that benefits them. The small producers don't, and certainly the consumers don't either.

I want to be very clear. Efficiency is not an excuse for exploitation, and what is happening right now is the exploitation of smaller independent producers for the benefit of the big four.

I taught economics at Dordt University. I am a strong champion of a fierce, competitive free market. However, open markets need free entry. It is clear that the cattle market is insufficient because there is no one that has access to the same information. It is because of this that I am a supporter of my Senate colleagues, Senator Grassley and Senator Fischer's Cattle Price Discovery and Transparency Act (S. 4030), and I intend to lead this bill with Congresswoman Axne to get it to the House Floor. The legislation has 19 bipartisan cosponsors in the Senate, and I am hopeful that we will receive the same support in the House.

We all agree that cattle production is one of the most important agricultural industries in the United States, consisting of over 700,000 farms with more than 90 percent being family-owned or operated. Any manipulation of the markets that would threaten this must come to light. As the voice of our country's producers, it is our job and our responsibility and our duty to expose any inequity. Iowa's small independent producers deserve a level playing field, and it is time for the big packers to play by the rules that were set long ago.

With that, I yield back.

The CHAIRMAN. Thank you very much, Mr. Feenstra. And let me just say we come to the end of our first panel, and I just want to thank you, each of you, Mr. Young, Mr. Stockton, Mr. Schiefelbein. I hope I got that right. This has been just so revealing. It has been helpful to open our minds and our eyes to much of what we have been only dimly aware. And that is why I wanted to have the ranchers here. And you spoke for them. And this helps us tremendously.

And now what I want to do, Mr. Young, Mr. Stockton, and Mr. Schiefelbein, is just to let you know that we are determined to bring some corrections so we can make sure that we don't have our cattle farmers not being able to make a profit in 4 years. We want to reverse the trend of them selling their farms, of their next generation, their children not being able to even go into the business.

The meatpackers and the farmers, the beginning of our beef supply line, and here at the end and then our consumers, these are the main features that this Committee is vitally concerned about. But at the heart of it are you all who produce the cattle, put the time in, the years in, and we have listened carefully and we understand what we need to do. And you all have been very helpful. God bless you, and you have inspired this Committee to respond and join with our next panel because we can't come to this solution without the meatpackers. We are all partners in this. We are the greatest agriculture system in the world, and you all have given us the information to correct this imbalance. So I thank you.

And right now, we are going to take a 5 minute break, get our other panel in of our CEOs while you all remove yourselves, and we will re-adjourn in 5 minutes. Thank you once again.

[Recess.]

The CHAIRMAN. Our hearing will now come to order. Thank you all. We now are going to start our second panel with the Chief Executive Officers of the four meatpacking companies. And I certainly want to—I see my good friend Senator Chuck Grassley has joined us in the back. Welcome, my friend. As I mentioned a little earlier ago, the Senator called me awhile back, came over and met with me in my office, shared the bill. So I think it is very important because we are moving both in the Senate and in the House to try to make sure that we bring together an effective piece of legislation to address this issue, to make sure that our ranchers are getting equity, to make sure that the next generation of farmers who are family members remain in the business. So we are going to address that right now, and thank you. Nice having you, Senator Grassley.

And right now, we are going to introduce our panelists. And our first witness for our second panel today is Mr. David MacLennan, who is the Chief Executive Officer of Cargill, Incorporated. Our second witness is Mr. Tim Schellpeper, the Chief Executive Officer of JBS USA Holdings, Incorporated. Our third witness is Mr. Tim Klein, the Chief Executive Officer of National Beef Packing Company, LLC. And our fourth and final witness today is Mr. Donnie King, the Chief Executive Officer of Tyson Foods.

And first, what I want to do is to ask our witnesses to please raise your right hand and please jointly state your name for the record.

Mr. MACLENNAN. David MacLennan.

The CHAIRMAN. Oh, you may need to unmute.

Mr. MACLENNAN. I am unmuted.

The CHAIRMAN. All right.

Mr. MACLENNAN. Can you hear me?

The CHAIRMAN. Yes, I can. And you are?

Mr. MACLENNAN. I am David MacLennan of Cargill.

The CHAIRMAN. Okay.

All right. Thank you. Mr. Schellpeper? You might want to unmute. Please state your name.

Mr. SCHELLPEPER. Tim Schellpeper.

The CHAIRMAN. Thank you. This was very important, this hearing. Our final witness is Mr. Donnie King. Please state your name, the chief executive officer of Tyson.

Mr. KING. Donnie King.

The CHAIRMAN. Great. It is important to have your names stated because we will now swear you in. Again, will all witnesses please raise your right hand?

Now, do you solemnly swear that this testimony you are about to give today before this Committee in the matters under consideration is the truth, the whole truth, and nothing but the truth?

Mr. MACLENNAN. Yes.

Mr. SCHELLPEPER. Yes.

Mr. KLEIN. Yes.

Mr. KING. Yes.

The CHAIRMAN. Thank you very much. I want to, first of all, express my deep appreciation for the CEOs to join us today because we cannot come together with solutions to deal with this important issue without the input and the discussion with the Chief Executive Officers. And so I want to thank you for taking the time to come and help us solve the issues that will be presented here today.

And so with that, let's get right to it. Mr. MacLennan, we will start with you. Please begin when you are ready.

TESTIMONY OF DAVID W. MACLENNAN, BOARD CHAIR, PRESIDENT, AND CHIEF EXECUTIVE OFFICER, CARGILL, INC., WAYZATA, MN

Mr. MACLENNAN. Thank you, Chairman Scott, Ranking Member Thompson, and Members of the Committee, and thank you all for inviting me here today to discuss the food system, the shared challenges we face to ensure that food is produced and delivered safely, responsibly, and reliably in the United States, as well as around the world.

The food system has been remarkably resilient through the challenges of the last 2 years. We've faced an ongoing pandemic, extreme weather conditions, and global disruptions. Still, food shortages have been rare, and we've maintained good supplies due to the essential work of those in the sector.

My name is Dave MacLennan, and I am the CEO of Cargill. Cargill is 155,000 people working across the globe to nourish the world in a safe, responsible, and sustainable way. Our operations are broad. We bring together people, ideas, and resources to deliver products, technology, and ways of operating that build successful businesses in communities. We produce a range of edible oils used in restaurant and home cooking, as well as ingredients for food and beverage companies. We provide biobased solutions across industries, including construction materials, paints, and beauty products. We support better animal health and nutrition with feed and premix options. We help farmers finance their operations, manage risk, and improve their soil. And we process beef, turkey, value-added meats, and egg products for retail, food service, and processing customers. We also innovate by producing alternative proteins, including plant-based proteins.

Today, I am here to talk about North American protein, one of Cargill's many businesses. It is headquartered in Wichita, Kansas, and it employs more than 28,000 people in 19 states. We operate facilities, distribution centers, feed mills, and hatcheries in rural communities across the U.S.

The jobs that Cargill employees do every day in these facilities put protein on the family table for millions of Americans. We recognize their contributions with competitive compensation and benefits like onsite medical care, nearby wellness clinics, and housing support. We increased base pay significantly over the past 2 years to recognize the critical role that they play during COVID and as frontline workers.

We acknowledge that the rising price of many goods, including food, poses significant challenges for consumers worldwide. The price for meat is not immune to the global factors that are causing inflation. Supply and demand, labor constraints, transportation challenges, and rising feed costs add even greater pressure, and it all leads to increased prices at retail.

Meatpacking is a complex and cyclical business. The size and scale of our operations provides the agility to help mitigate volatility and ensure that food is efficiently brought from farm to table. We are providing a consistent food supply and strengthening the resilience of the food system to mitigate disruptions. We are actively hiring to reduce labor shortages, increasing wages, and benefits for employees and investing in our plants so that they are run as efficiently and as safely as possible.

We welcome competition to the industry and support the dynamics of a free market. We believe in price transparency and fair, open markets. In our North American protein business, for example, Cargill consistently purchases ⅓ of our cattle on a cash basis. We are also committed to empowering and improving the livelihoods of the people who grow and raise our food. Our partnerships with farmers and ranchers are critical in delivering quality, affordable protein to groceries and consumers across the U.S. We know how hard and cyclical the cattle industry is. It is critical to all of us that ranchers sustain their operations and navigate market volatility.

Mr. Chairman and Ranking Member Thompson, we appreciate the work you and the Members of this Committee do to support America's farmers and ranchers. Cargill is a proud American company founded in 1865 in the farming community of Conover, Iowa, with the goal of providing markets for farmers. And from that day on we've known that if producers aren't successful, our company won't be. Thank you for the opportunity to address the Members of this Committee, and I look forward to answering your questions.

[The prepared testimony of Mr. MacLennan follows:]

PREPARED TESTIMONY OF DAVID W. MACLENNAN, BOARD CHAIR, PRESIDENT, AND CHIEF EXECUTIVE OFFICER, CARGILL, INC., WAYZATA, MN

Chairman Scott, Ranking Member Thompson, Members of the Committee:

Thank you for inviting me here today to discuss the food system and the shared challenges we face to ensure food is produced and delivered safely, responsibly and reliably in the United States and around the world.

The food system has been remarkably resilient through the challenges of the last 2 years. We've faced an ongoing pandemic, extreme weather conditions and global disruptions. Still, food shortages have been rare and we have maintained good supplies due to the essential work of those in the sector.

My name is Dave MacLennan and I am the CEO of Cargill.

Cargill is 155,000 people working across the globe to nourish the world in a safe, responsible and sustainable way.

Our operations are broad. We bring together people, ideas and resources to deliver products, technology and ways of operating that build successful businesses and communities.

We produce a range of edible oils used in restaurants and home cooking, as well as ingredients for food and beverage manufacturers and food service companies.

We provide biobased solutions across industries, including construction materials, paints and beauty products.

We support better animal health and nutrition with feed and premix options.

We help farmers finance their operations, manage risk and improve their soil.

And we process beef, turkey, value-added meats and egg products for retail, food service and processing customers. We also innovate by producing alternative proteins, including plant-based.

My understanding is that today's hearing is focused on North America protein, one of Cargill's many businesses. Cargill Meat Solutions Corporation is headquartered in Wichita, Kansas, and employs more than 28,000 people in 19 states. It operates facilities, distribution centers, feed mills and hatcheries in rural communities across the U.S.

The jobs Cargill employees do every day in these facilities put protein on the table for millions of Americans. We recognize their contributions with competitive compensation and benefits like onsite medical care, nearby wellness clinics and housing support. We increased base pay significantly over the past 2 years to recognize the critical role they play as frontline workers.

We acknowledge that the rising cost of most goods—including food—poses significant challenges for consumers worldwide. The price for meat is not immune to the global factors impacting inflation. Supply and demand, labor constraints, transportation challenges and rising feed costs add even greater pressure on supply chains and are resulting in increased prices at retail.

Meatpacking is a complex and cyclical business. The size and scale of our operations provides the agility to help mitigate volatility and ensure food is efficiently brought from farm to table.

We are providing a consistent food supply and strengthening the resilience of the food system to mitigate disruptions. We are actively hiring to reduce labor shortages, increasing wages and benefits for employees and investing in our plants so that they are run as efficiently and as safely as possible.

We also welcome competition to the industry and support the dynamics of a free market.

We believe in price transparency and fair, open markets. In our North America protein business, for example, Cargill consistently purchases a third of our cattle on a cash basis.

We also are committed to empowering and improving the livelihoods of the people who grow and raise our food. Our partnerships with farmers and ranchers are critical in delivering quality, affordable protein to groceries and consumers across the U.S.

We know how hard and cyclical the cattle industry is. It is critical to all of us that ranchers sustain their operations and withstand market volatility.

Mr. Chairman and Ranking Member Thompson, we appreciate the work you and the Members of this Committee do to support America's farmers and ranchers. Cargill was started in 1865 in the farming community of Conover, Iowa, with the goal of providing markets for farmers. From that day on, we've known that if producers aren't successful, our company won't be.

Thank you for the opportunity to address the Members of this Committee. I look forward to answering your questions.

The CHAIRMAN. Thank you, Mr. MacLennan.

And now Mr. Schellpeper, please begin when you are ready.

TESTIMONY OF TIMOTHY O. SCHELLPEPER, CHIEF EXECUTIVE OFFICER, JBS USA FOOD COMPANY, GREELEY, CO

Mr. SCHELLPEPER. Good afternoon, Chairman Scott, Ranking Member Thompson, and Members of the Committee. Thank you for having me. My name is Tim Schellpeper. I've been part of the U.S. beef, food, and agriculture industry for more than 35 years, dating back to my first job out of college in 1987. I joined JBS in 2017, and I became CEO of JBS USA this past January.

I'm also a proud fourth-generation farmer. My wife of 31 years and I operate the farm that I grew up on, which my great-grandfather originally settled in Nebraska in 1887. Our land sits in the heart of cattle country surrounded by farms and feedlots, many of which supply cattle to JBS. I am both a friend and a customer to many of my neighbors.

JBS USA [holds a majority interest in] Pilgrim's Pride, the second-largest poultry producer in the United States. We employ 67,000 team members, mostly unionized across the country, and we contribute millions of dollars each day to local economies through purchases of livestock, poultry, and plant supplies.

At JBS we strive to create a better future. Our success has allowed us to strengthen many small towns and give back to our rural communities. We are investing $100 million to support local projects through our Hometown Strong Program. We are building new recreation centers, improving access to affordable housing, and refurbishing schools and parks. We care about our team members and their families. We offer full benefits and recently dedicated more than $150 million in annualized wage increases to our employees in our beef division alone. Our average facility wages are nearly $24 per hour with starting wages at or above $20 per hour. We've increased wages by more than 40 percent since 2017 and on average our wages are 25 to 50 percent higher than many local businesses. We provide up-front free community college tuition for our team members and their dependents with the goal for our program to become the largest privately funded free community college initiative in America.

JBS is dedicated to improving the sustainability of our operations. We've committed to achieve net-zero greenhouse gas emissions by 2040 and will invest $1 billion to reduce emissions from our facilities. By 2030 we will invest $100 million in on-farm research to help producers reduce their emissions. In recent months we've contributed $1.3 million in climate change research projects in partnerships with NGOs and universities, including a $700,000 contribution to the University of Nebraska-Lincoln to help build a new Feedlot Innovation Center.

Now, I understand that one of the topics that this Committee would like to address today is the pricing in the cattle and beef industries. Historically, cattle were sold in lots, and every animal on the lot received the same average price. To achieve a better return on their investment, cattlemen created alternative marketing arrangements, or AMAs, with processors. AMAs allowed producers to realize premium prices for their investments in genetics, animal health, management, and marketing. They also help ensure consistent supply of quality cattle, which result in a consistent supply of high-quality beef for consumers.

For our part, JBS purchases from cattle feeders and producers of all sizes in cash markets, auction barns, video auctions, and under AMAs. We are active in the cash market every day, and we will compete for quality cattle in the market wherever and however producers wish to sell them.

As for the prices paid by consumers, inflation is a significant concern across the entire U.S. economy. The prices for beef are no exception. It is important to note, however, that we do not—at JBS we do not control retail prices for beef. We instead sell our products to wholesale groceries—wholesale prices to grocery stores, food service operators, and other intermediaries, and those prices have decreased this past year.

Nonetheless, despite increases in the cost of labor, transportation materials since the beginning of the pandemic, as well as increased costs, our facilities have largely returned to pre-pandemic processing levels. This has created higher returns for producers and lower wholesale beef prices as cattle supply and processing demand come closer in balance.

JBS is committed to supporting innovation, transparency, and enhancing incentives to keep the U.S. cattle industry competitive for all participants. We will continue to invest in our people, our facilities, and our communities to help ensure a sustainable, affordable, and resilient beef supply. Thank you for the opportunity to speak with you, and I look forward to your questions.

[The prepared testimony of Mr. Schellpeper follows:]

PREPARED TESTIMONY OF TIMOTHY O. SCHELLPEPER, CHIEF EXECUTIVE OFFICER, JBS USA FOOD COMPANY, GREELEY, CO

Introduction

Good afternoon, Chairman Scott, Ranking Member Thompson, and Members of the Committee. Thank you for having me.

My name is Tim Schellpeper. I have been part of the U.S. food and agriculture industry for more than 35 years, dating back to my first job out of college in 1987. I joined JBS in 2017, and I became CEO of JBS USA this past January.

I am a proud fourth generation farmer. My wife of 31 years and I operate the farm I grew up on, which my great-grandfather originally settled in Nebraska in

1887. Our land sits in the heart of cattle country, surrounded by farms and feedlots, many of which supply cattle to JBS. I am both a friend and customer to many of my neighbors.

JBS USA Food Company

JBS USA produces beef and pork, and we hold a majority interest in Pilgrim's Pride, the second largest poultry producer in the U.S. We employ more than 67,000 team members across the country and contribute millions of dollars each day to local economies through purchases of livestock, poultry, and plant supplies.

At JBS, we strive to create a better future. Our success has allowed us to strengthen many small towns and give back to our rural communities. We are investing $100 million to support local projects through our Hometown Strong program—building new recreation centers, improving access to affordable housing, and refurbishing schools and parks.

We care about our team members and their families. We recently dedicated more than $150 million in annualized wage increases to employees in our beef division alone. Our average beef facility wages are nearly $24 per hour, with starting wages at or above $20 per hour. We've increased wages by more than 40% since 2017 and, on average, our wages are 25–50% higher than other local businesses. We provide up-front, free community college tuition for our team members *and* their dependents, with a goal for our program to become the largest, privately-funded, free community college initiative in rural America.

JBS is dedicated to improving the sustainability of our operations. We've committed to achieve net-zero greenhouse gas emissions by 2040, and will invest $1 billion to reduce emissions in our facilities. By 2030, we will invest $100 million in on-farm research to help producers reduce their emissions. In recent months, we've contributed $1.3 million to climate change research projects in partnership with NGOs and universities, including a $700,000 contribution to the University of Nebraska-Lincoln to help build a new Feedlot Innovation Center.

Cattle Industry

I understand that one of the topics the Committee would like to address today is pricing in the cattle and beef industries. Historically, cattle were sold in lots and every animal in the lot received the same average price. To get a better return on their investments, cattlemen created alternative marketing arrangements, or 'AMAs,' with processors. AMAs allow producers to realize premium prices for their investments in genetics, animal health, management and marketing. They also help ensure a consistent supply of high-quality cattle, which results in a consistent supply of high-quality beef for consumers.

For our part, JBS purchases cattle from cattle feeders and producers of all sizes, in cash markets, auction barns, video auctions, and under AMAs. JBS is active in the cash cattle market every day, and we will compete for quality cattle in the market wherever and however producers wish to sell them.

Inflation

As for the prices paid by consumers, inflation is a significant concern across the entire U.S. economy. The prices for beef are no exception. It is important to note, however, that we at JBS do not control the retail prices that consumers pay for beef. We instead sell our products at wholesale prices to grocery stores, food service operators and other intermediaries, and those prices have decreased since last year.

Nonetheless, despite increases in the cost of labor, transportation, and materials since the beginning of the pandemic, as well as recent increases in costs, our facilities have largely returned to pre-pandemic processing levels. This has created higher returns for producers and lower wholesale beef prices, as cattle supply and processing demand come closer into balance.

Conclusion

JBS is committed to supporting innovation, transparency, and enhancing incentives to keep the U.S. cattle industry competitive for all participants. We will continue to invest in our people, our facilities, and our communities to help ensure a sustainable, affordable and resilient food supply.

Thank you for the opportunity to speak with you today, and I look forward to your questions.

The CHAIRMAN. Thank you, Mr. Schellpeper. And now Mr. Klein, please begin when you are ready.

TESTIMONY OF TIM KLEIN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL BEEF PACKING COMPANY, LLC, KANSAS CITY, MO

Mr. KLEIN. Chairman Scott, Ranking Member Thompson, and Members of the Committee, I'm the CEO and one of the owners of National Beef. We are the fourth-largest packer with a market share of 14 percent. I'm happy to be here today to answer your questions and tell you about our company. I believe our story is a great example of what the current Administration and others are encouraging to create additional competition in the beef packing industry.

First, I would like to provide a background of myself. I grew up in northwest Iowa and worked with hogs and cattle before going to college. I started my career in the industry in 1980. In 1992 I had the opportunity to team up with others to buy a small, outdated plant in Dodge City, Kansas, that accounted for one percent of the industry capacity. The plant was going to be shut down. We knew that to succeed in a highly competitive, low-margin business we had to develop a business model different from that of our larger competitors. Our vision was to create a unique alliance with cattle producers and link them with our customers who wanted a consistent supply of high-quality beef.

At the time, cattle were bought and sold in the cash market and brought the same price regardless of quality. There was no economic incentive for cattle producers to invest in genetics or to improve their feeding regimen to enhance the taste and tenderness of the beef. We developed a pricing grid that paid premiums to cattle producers who could deliver a higher quality animal than what we could buy in the cash market. Our business model worked. Although we were a smaller company with higher operating costs, we could compete effectively with the larger packers.

In 1997 we were approached by U.S. Premium, a group that today represents a network of 2,400 cattle ranchers, farmers, and feedlot owners across 38 states. Their vision was aligned with ours, and they became a partner in the ownership of National Beef. Over time, using cattle performance, data provided by us, their members improved the quality of the cattle they produced. Today, U.S. Premium beef provides us with over one million head of cattle per year, putting a premium on those cattle, and also sharing in the profits of National Beef.

The beef industry in the United States consists of four segments, the cow-calf ranchers, the backgrounders, the feedlots, and the packers. Profitability in each segment varies based on the timing of the cattle cycle and each segment's unique supply and demand dynamics.

The cattle industry is a commodity business in a free market system. Our objective is no different than that of the other segments. We strive to maximize our profits within the constraints of a competitive marketplace.

For more than 30 years, cattle supplies in the U.S. have been declining. Beef packing capacity has also been declining, although at a slower rate. As a result of overcapacity, beef packer profits have historically averaged only 2¢ for every dollar in revenue. The imbalance became most severe in 2014 and 2015 when cattle supplies declined to the lowest level in 60 years. Cattle prices rose to record levels, and industry capacity utilization dropped almost 80 percent. In the case of National Beef, we experienced record losses.

In 2016, cattle supplies began increasing cyclically, and by 2019, capacity utilization had risen to 95 percent, a level of efficiency not seen in this industry for decades. Profits also increased, just as the laws of supply and demand would predict. In the summer of 2019, a fire at a large beef plant temporarily reduced industry capacity. Then in the spring of 2020, COVID-related disruptions further reduced capacity by as much as 50 percent for several weeks. These events resulted in a backlog of almost one million head of cattle that were carried forward to the second half of 2020 and most of 2021. The excess supply has allowed National Beef to operate at 100 percent of capacity for the last 2 years.

On the demand side, COVID caused a change in consumer dining habits. Consumers made a choice of what protein they buy and what they were willing to pay for it. As they transitioned to eating more at home, their desire for beef increased and prices increased. When restaurants reopened in 2021, additional demand from food service buyers increased as they replenished their beef inventories, further adding upward price pressure. The combination of excess cattle supplies and unprecedented demand for beef resulted in record profits in 2020 and 2021.

Those dynamics are now changing, just as they have in previous cattle cycles. USDA data indicates that fed cattle supplies are peaking and will continue to decline over the next several years. There have also been indications of additional capacity being built, including our announcement of a new beef plant in Iowa. History teaches us that as cattle supplies decline cyclically and new capacity comes online, there will be a shift in profits to the cattle production segments of the industry.

Today, U.S. beef enjoys a reputation as the highest-quality beef in the world. Demand continues to grow both in the U.S. and globally. The opportunity for profit across all segments has never been better. Thank you for inviting me today, and I look forward to your questions.

[The prepared testimony of Mr. Klein follows:]

PREPARED TESTIMONY OF TIM KLEIN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL BEEF PACKING COMPANY, LLC, KANSAS CITY, MO

Chairman Scott, Ranking Member Thompson, and Members of the Committee, thank you for inviting me to join the discussion today. I have been working in the beef packing industry since 1980. I was one of the founding partners of National Beef in 1992 and have been Chief Executive Officer since 2009. As CEO, I am actively engaged in the day-to-day management of National Beef and lead a team of industry veterans that procure more than 3.5 million head of fed cattle and produce and sell more than 4.5 billion pounds of beef and beef byproducts annually.

The U.S. beef industry enjoys the reputation of producing the highest quality beef in the world and demand for U.S. beef continues to grow both domestically and across the globe.

Profitability in the beef industry is cyclical and highly dependent upon the cattle cycle and the resulting availability of fed cattle. For the reasons described below, in recent years National Beef has experienced exceptional financial results. We are pleased with our success and look forward to future opportunities to grow and improve our business. Our financial success directly benefits our employees, cattle suppliers, vendors, and the communities where we operate.

National Beef Background

National Beef was founded in 1992 by three partners, including me. Our vision was to develop a niche by creating a unique alliance with cattle producers and linking them with beef customers to provide a consistent supply of the highest quality beef available. Until that time, most cattle were traded in the cash market and brought the same price, regardless of quality. There was no clear economic incentive for cattle producers to invest in genetics or to change their feeding regimen to improve the taste and tenderness of beef. To compete against larger beef packers, we aligned our beef packing, marketing, sales, and distribution expertise with progressive cattle producers who were interested in earning a premium price for high quality cattle. Our strategy has proven successful. National Beef has grown from a small single-shift plant harvesting 1,500 cattle per day, which accounted for less than 1% of the total U.S. industry slaughter in 1992, to a diversified beef processing company with more than 9,500 employees. We process more than 13,000 head per workday in three plants, accounting for approximately 14% of the U.S. fed cattle market. We also operate further processing plants, a leather tannery, and a refrigerated and livestock trucking fleet. Our facilities are located in Kansas, Iowa, Missouri, Pennsylvania, Georgia, Ohio, and Texas.

The ownership group of National Beef includes me, U.S. Premium Beef, LLC and Marfrig Global Foods, SA, a publicly traded company.

U.S. Premium Beef, LLC (USPB) became our partner in the ownership of National Beef in 1997. Its membership includes more than 2,400 cattle ranchers, farmers, and feedlot owners across 38 states.

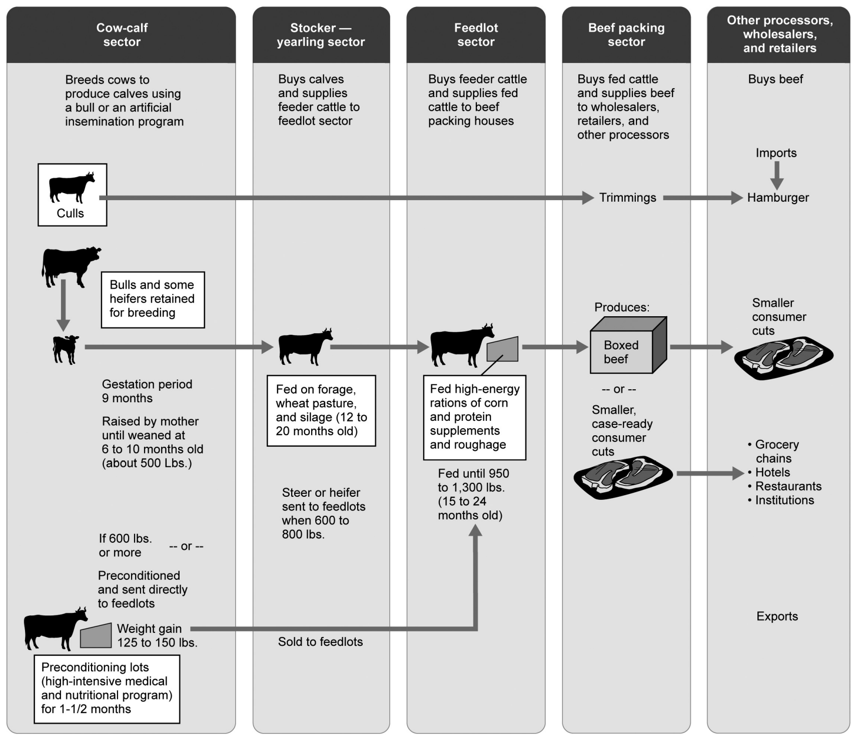
Over time, using data provided by us and our customers, USPB members have steadily improved the quality of their cattle. Today, USPB members provide National Beef with over one million head per year of the highest quality cattle in the U.S., earning a premium for those cattle and sharing in the profits of National Beef.

Since USPB partnered with National Beef in 1997, we have paid more than $1.6 billion in profit distributions and $650 million in cattle-quality premiums to USPB and its cattle producer members.

Beef Industry Segments

The infographic below shows that the cattle and beef production industry begins with the cow-calf sector. This is where key decisions regarding herd size expansion or contraction, quality genetics, and animal health are made by hundreds of thousands of individual farmers and ranchers. According to USDA data, in 2021 there were approximately 30.1 million beef cows in the U.S. held in more than 700,000 herds; the average size of a cow herd was about 43 cows.

Figure 1: The Beef and Cattle Industry from Animal Breeding to Consumption

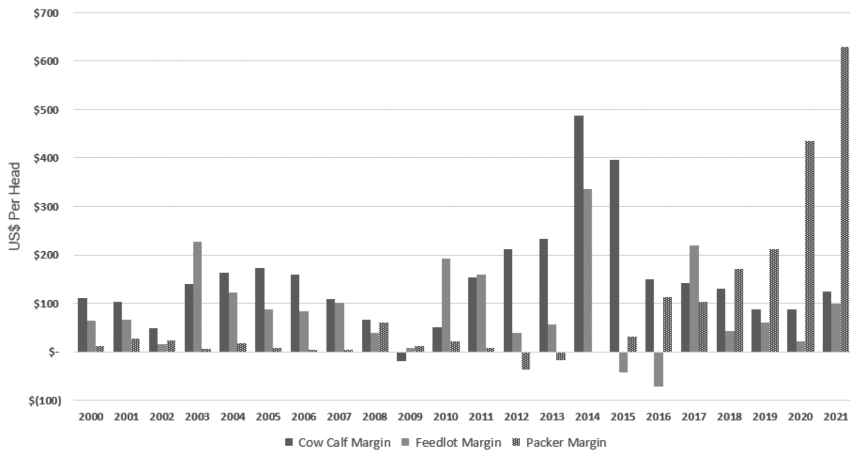


Source: GAO analysis of U.S. Department of Agriculture and industry information. |GAO–18–296.

After calves are weaned from the cow, they are typically sold to a cattle producer that grows the calves on pasture or other high-roughage feeds before selling them to a feedyard where they are fed a high-energy diet for approximately 180 days. When the cattle are finished and ready for slaughter, the feedyard sells the fed cattle to a packer. Cattle often change ownership multiple times throughout the process. Except for the cow-calf producer, all parts of the production chain derive their profitability from the margin difference between the buying cost and the selling price less the cost to produce.

As shown in the following chart, the profitability of each part of the cattle and beef production chain fluctuates cyclically. As one considers the relationship between cattle prices, beef prices and relative profitability it is important to note that the supply and demand dynamics are different for each segment of the industry. While the key raw material for the beef packing segment, fed cattle are not the only input—labor, packaging, transportation, technology, regulatory compliance, capital, and risk are all required to convert fed cattle into beef and beef byproducts products.

Historical Margins per Head by Sector

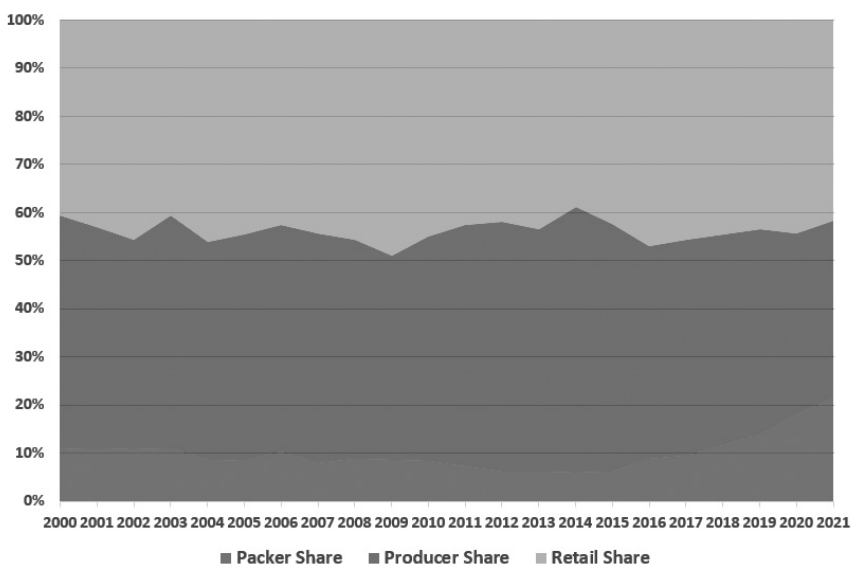


Source: Sterling Marketing, Inc.

Each head of cattle processed in our plants yields over 100 different beef cuts and beef byproducts. Wholesale prices fluctuate daily based on each product's unique supply and demand dynamic and move independently of each other. Each day, beef packers are required to report selling prices to the USDA for many beef and beef byproduct items. In turn, the USDA reports aggregated pricing data daily.

The prices that consumers pay for beef items at the retail level are determined by the retailer, not by the National Beef. Retail prices tend to be less volatile than wholesale prices. As shown in the following chart, most of the total retail value of beef flows to the cattle production and retail sectors, in contrast to the packing sector which gleans a significantly smaller percentage of the total value.

Share of Consumer Beef Dollar



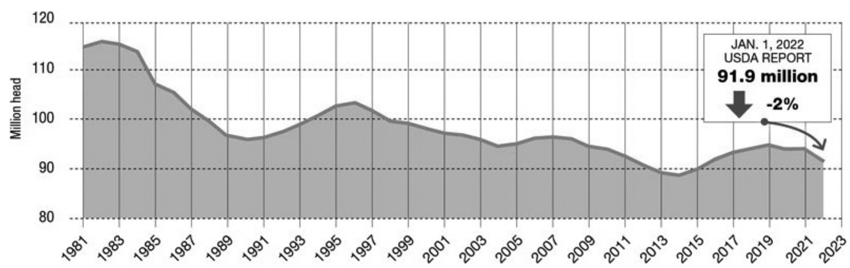
Source: USDA ERS.

Beef Cattle Cycle

Beef cattle production is a cyclical business similar to other boom-and-bust production agricultural enterprises. The number of beef cows tends to increase when there is ample pasture availability and good profitability and tends to decline when profits lessen or when drought leads to less abundance of pasture and roughage feeds.

As shown in the chart below, the cattle cycle tends to run about 10 to 12 years from peak to peak and trough to trough. While this periodic cycle has been persistent for more than a generation, each cycle high has been lower than the previous cycle's high. This shows that the U.S. cattle herd has been declining for many years. The decline in cattle production and historically low profitability in the beef packing segment explains why there has been no meaningful amount of new beef packing capacity added to the industry for many years.

U.S. Cattle Inventory



Peak inventories from the current cattle cycle are in, and declining supplies will be a key factor in driving higher prices for calves, feeder cattle and fed cattle over the next 2 to 3 years.

Source: Sterling Marketing, Inc.

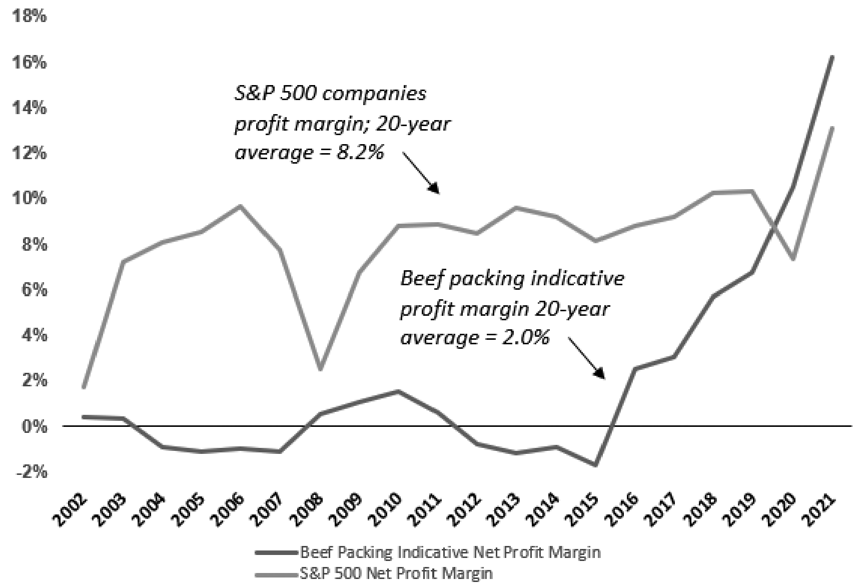
Due to reproductive biology and production constraints, the availability of fed cattle harvested and processed into beef lags the beef cow cycle by about 3 to 4 years. Therefore, the peak in cow herd numbers that occurred in 2017 was expected to result in a peak in fed cattle numbers in 2020–21. The subsequent decline in beef cow numbers that began in 2018 and is continuing at an accelerating pace today will result in fewer fed cattle being available for harvest for the next several years until the cow-calf segment halts liquidation and begins rebuilding the herd.

Beef Packing Segment Profitability

The U.S. beef packing industry has at least 30 participants operating more than 50 cattle slaughter and processing facilities. This number does not include the many very small "locker plants" operating under state inspection. As the fourth largest participant, National Beef operates approximately 14% of the total fed cattle slaughter capacity.

In 1998, the five largest beef packers accounted for 86% of fed cattle slaughter capacity compared to 84% today. Thus, any discussion about beef packer concentration and its impact on prices or profitability should be framed by the fact that the beef packing industry has been operating at about the same degree of concentration for more than 20 years. As shown in the below table, during this period, beef packing profits have varied based on the cattle cycle and have averaged 2% of revenue. All else being equal, when more fed cattle are available for harvest, National Beef's profits tend to be higher; when fewer cattle are available, our profits tend to be lower.

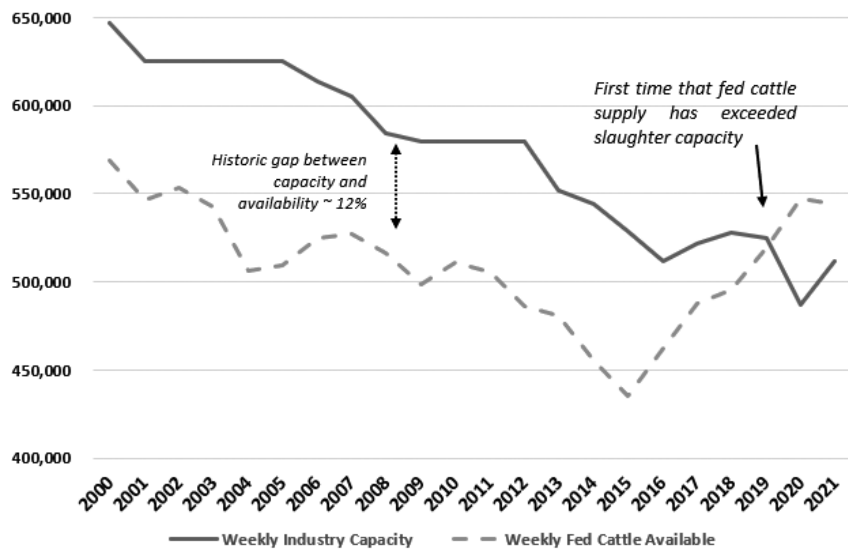
Beef Packing Indicative Profit Margin *vs.* S&P 500 Profit Margin



Source: NBP management estimate of industry average beef packing net income margin *versus* net income margin of S&P 500 companies; based on internal and publicly available information.

As described above, the U.S. cattle inventory has been trending lower for more than 40 years. Beef packing capacity has also been declining, although at a slower rate. For many years, industry capacity has exceeded the number of cattle available for slaughter. As a result of this excess capacity and the overall decline in the cattle inventory, the packing segment has been a historically low-margin business, typically earning about 2¢ for every dollar of revenue generated. The imbalance in processing capacity *versus* cattle availability became particularly severe in 2014 and 2015 when fed cattle supplies dropped to the lowest level in 60 years—even lower than expected due to back-to-back widespread droughts that impacted the key cattle growing areas of the United States. Fed cattle and calf prices rose to record levels, and capacity utilization in the beef packing industry dropped to nearly 80%. Several poorly located and inefficient plants were closed. In the case of National Beef, we experienced record losses and closed our Brawley, California plant. Since 2016, fed cattle supplies have increased sharply while processing capacity in the industry increased only slightly. At the same time, customer demand for beef has been improving, both in the U.S. and in key export markets. By early 2019, capacity utilization had increased to more than 95%, an efficiency level not seen in the beef packing industry for decades. As cattle supply and beef demand increased, National Beef's profits increased accordingly, just as the laws of supply and demand would predict.

Fed Cattle Availability *vs.* Industry-wide Weekly Capacity



Source: NBP estimate based on estimated 6 day week capacity; adjusted for disruptions and inefficiencies related to 2019 fire and COVID–19 pandemic.

The demand for fed cattle and the supply of beef was abruptly disrupted in August 2019 when one of the nation's largest beef slaughter and processing facilities, accounting for approximately 5% of total industry capacity, suffered a major fire that resulted in that plant going offline until early 2020.

Because of the fire, there was an immediate reduction in demand for fed cattle, but the available supply of cattle did not change. As would be predicted by a simple supply/demand equation, this resulted in a significant drop in fed cattle prices. At the same time, the supply of beef immediately declined while the short-term demand for beef increased as wholesale buyers scrambled to secure their product needs. This resulted in a significant increase in beef prices. Lower cattle prices and higher beef prices led to a temporary upward spike in National Beef's profits.

The coronavirus pandemic in March 2020 further disrupted the supply and demand balance for fed cattle and beef. But instead of just one plant, the entire industry that was impacted. In April and May 2020 many beef packing plants were closed or running at severely reduced capacity due to workforce absenteeism. The supply and demand dynamics were much the same as with the 2019 fire, but the overall impact was significantly greater and lasted longer.

As a result of coronavirus-related reductions to the labor force, industry capacity was significantly reduced, thereby lowering the demand for fed cattle, resulting in lower cattle prices. At the same time, overall consumer demand for beef increased—while restaurant demand declined, retail grocery demand surged and prices for typical retail cuts like ground beef and roasts reached record highs as consumers increased their at-home dining.

The production cutbacks resulted in a backlog of approximately one million head of fed cattle. These extra cattle negatively impacted cattle prices in 2020 and for much of 2021 before being cleared from the supply pipeline late last year.

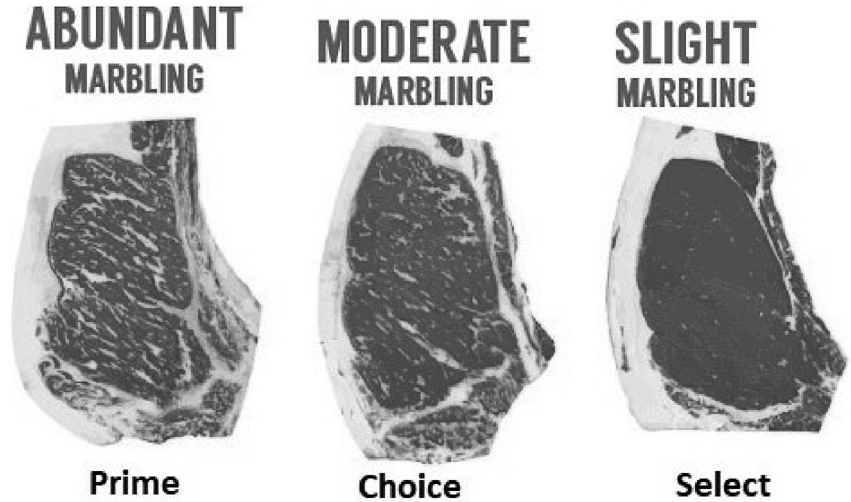
Beef Quality

It is important to understand the basics of beef quality because it is fundamental to why National Beef has been successful and why Alternative Marketing Agreements—often called "grids"—have been so important to the product quality improvements made by the U.S. beef industry over the past 15+ years.

National Beef introduced grids in the 1990s. Before that time, fed cattle were bought using pricing methods whereby fed cattle purchased on a given date, regardless of quality, were obtained at the same approximate price. This method of selling cattle provided no economic incentive for a cow-calf producer to invest in improved genetics or for a feedyard operator to invest in a more robust feeding regimen that could be expected to increase the percentage of cattle that would grade Choice or Prime. Thus, beef quality was stagnant, contributing to a decline in consumer demand for beef.

The amount of marbling (intramuscular fat) in beef is the primary determinant of taste and tenderness. USDA graders inspect each carcass and assign a quality grade based on the amount of marbling visible in the meat.

Increased marbling leads to higher quality grades, improved taste and tenderness, and higher product value. The highest USDA grade is USDA Prime, followed by USDA Choice, then USDA Select. Cattle carcasses that grade Prime and Choice have a higher value and command premium prices from packer buyers *versus* those carcasses that grade Select.

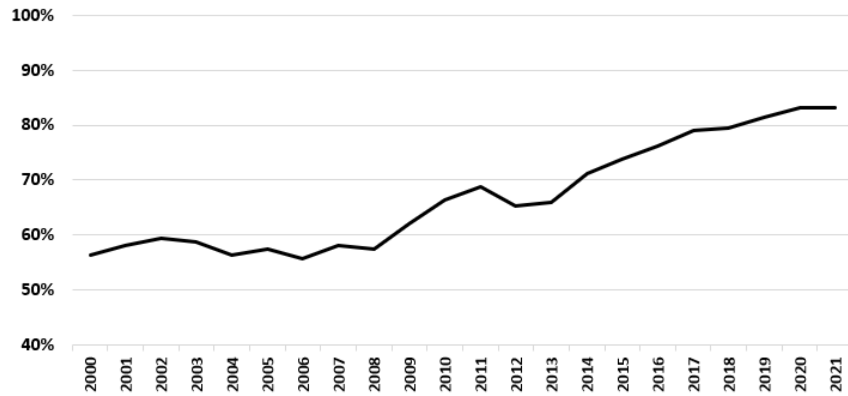


Beef quality is driven by genetic choices made at the cow-calf level and feeding choices made throughout the life cycle of the animal. Certain beef breeds, such as Angus, tend to have higher marbling than other breeds, and the decision to feed a steer on a corn-based high-energy diet will produce beef with more marbling than from a similar steer fed a low-energy grass-fed diet. Different cultures prefer different degrees of marbling—the dominant preference in the U.S. and its key export markets is for a grain-finished high Choice or Prime graded product.

National Beef's strategy was, and still is, to provide economic incentives to cattle producers to invest in genetics, feed programs and other tools to increase the quality of their cattle. Our grids provide that incentive. Cattle producers who choose to sell their cattle to National Beef on a quality grid earn premium prices for their cattle that meet the quality specifications aligned with consumer preferences for premium beef. This quality-grid approach has become widespread across the industry. It has enabled professional, motivated cattle producers to create value and improve their profitability by earning higher than average prices when selling their cattle.

The chart below shows that quality incentives have also resulted in the average percentage of beef carcasses grading Prime or Choice increasing from 55% to 85% over the past 20 years. This dramatic improvement in quality has enabled a resurgence in beef demand in the U.S. and in our key export markets. Using current USDA-reported price data, this increase in grade is worth approximately $1.4 billion in additional value to the U.S. beef industry each year.

USDA Choice & Higher Quality Grade %—Steers & Heifers



Source: USDA.

Summary

The U.S. beef packing industry is considered by many to be concentrated. This concentration is partly due to the historic low profitability that has forced weaker, inefficient participants out of business, and has discouraged new entrants. It is also a byproduct of the scale that results in significant efficiencies in slaughtering, processing, and marketing globally, the beef and beef byproducts that come from the more than 25 million head of fed cattle that American ranchers and farmers produce for slaughter each year. At National Beef, our unique business model and our scale has enabled us to access the capital necessary to invest in the people, equipment, and expertise needed to successfully navigate the intense requirements of our cattle suppliers, customers, and regulators.

Notwithstanding this concentration, beef packing remains a highly competitive business—every day National Beef seeks to outmaneuver its competitors to buy the best cattle, hire the best employees, and satisfy the most desirable customers. Our historically narrow profit margins are a testament to the highly competitive nature of the beef packing industry.

National Beef has benefited from increased profitability in recent years. This increased profitability has been driven by the cattle cycle and the continued growth and improvement in our operations. In the two most recent years, our increased profitability was due, in part, to powerful and unexpected external disruptions to the supply and demand of fed cattle and the distinctly separate supply and demand dynamics for many beef and beef byproducts. A significant portion of our profits is being reinvested in expanding our beef processing capacity, which will benefit the entire industry going forward.

I appreciate the effort to understand the reasons for the recent increase in beef packing profitability and I respect the different points of view on this topic. The increase, however, should be viewed in the context of the history and the future of the cattle and beef industry.

Since 2016, we have been in an increasingly favorable part of the cattle cycle which was coming to a peak around 2020. Then, just as our margins were nearing cycle highs, the industry was impacted by the August 2019 fire and the 2020 coronavirus pandemic—both of which created supply/demand dynamics that favorably impacted and extended the peak in our profitability.

USDA data shows that fed cattle supplies have peaked and will continue to decline over the next several years. The cattle cycle has turned in favor of the cattle production sectors. Fed cattle prices are 15% higher than 1 year ago while wholesale boxed beef prices are 5% lower. We expect cattle prices to trend higher, beef prices to moderate and return to a more normal seasonal trend, and National Beef's profit margins to compress.

We also believe that because of the improved quality of U.S. beef cattle and the growth in demand for U.S. beef and beef byproducts, profits across all segments of the industry will settle into a higher range than in previous cycles.

While National Beef's expected profits are not as attractive as those available in many other industries, they are sufficient to entice us to invest in additional new capacity. Last year, we announced the construction of a new beef packing and processing facility in Tama, Iowa. That project is underway with an expected completion date in 2025. Once operational, this new facility will have the capacity to harvest 2,500 head per day and will replace the much smaller, older facility that we currently operate in Iowa.

In addition to our new Iowa plant, several other groups have announced plans to build additional capacity. We believe this is an encouraging sign for the future of the U.S. beef industry.

The CHAIRMAN. Thank you, Mr. Klein. And now Mr. King, please begin when you are ready. Mr. King, you may need to unmute. Mr. King?

Mr. KING. Can you hear me, Chairman Scott?

The CHAIRMAN. Yes, we can hear you now, loud and clear. Welcome.

Mr. KING. My apologies, Chairman Scott, and to the Committee.

The CHAIRMAN. No problem.

TESTIMONY OF DONNIE KING, CHIEF EXECUTIVE OFFICER, TYSON FOODS, SPRINGDALE, AR

Mr. KING. Chairman Scott, Ranking Member Thompson, Members of the House Agriculture Committee, I do appreciate this opportunity to discuss the economics of our business. My name is Donnie King, and I've been a Tyson team member for almost 40 years. I started in Pine Bluff, Arkansas, as an hourly team member on the production floor and now proudly serve as President and Chief Executive Officer.

In our business, unprecedented market shocks have created an extraordinary strain across our operations and the global supply chain. This has reduced our ability to produce beef at sufficient quantities to meet record-high consumer demand.

Starting in early 2020, the pandemic impacted our ability to operate production facilities at full capacity. This was due in part to protocols we put in place to keep team members safe. We required our team members to stay home with pay if they were sick, tested positive, or were close contacts. We also had team members who stayed home to take care of their children and loved ones. In our beef business, these factors made it difficult to process all the cattle available on the market. This drove down the demand and prices for live cattle. At the same time, demand for beef skyrocketed as restaurants closed and Americans started cooking more meals at home. Simply put, production could not meet the consistently strong demand.

Economists have agreed with this assessment, which underscores that the market, not Tyson, sets the price for cattle and beef. When a product is in oversupply in this case live cattle, the law of supply and demand drives down the prices for that product. And when a product is in strong demand, in this case beef, the same law of supply and demand drives up prices for that product. Today, the situation is deepened by geopolitical issues which are creating shortages of essential inputs such as grain. This results in higher costs, which is reflected in the prices American families pay at the grocery store.

Some incorrectly suggest that the rise in beef prices is due to the consolidation of the beef industry, but the data doesn't support this claim. The concentration of the industry for commercial cattle among the four processors here today is 69 percent and has been virtually unchanged over the past 30 years. And in most of those 30 years the profit margins of ranchers and cattle producers have been much higher than the low single-digit margins we made as beef processors. In fact, in several years ranchers made a historic profit on live cattle while Tyson either lost money or barely broke even. This, too, is the market at work.

It is important to note that Tyson returns are not solely the result of prices customers pay. Other factors contribute, including the mix of products we sell, the cost associated with regulations, operating more sustainably, and our efforts to compete for labor.

Today, Americans are demanding higher quality and variety, as well as convenience, and our customers are willing to pay for these across the food chain, benefiting both cattle producers and beef processors. We're also working hard to become a more efficient business by investing in automation and innovation. This not only results in a safer workplace but also drives down operational costs, which in turn allows us to keep costs down for our customers and further invest in our team members and our business.

In places like Bowling Green, Kentucky; Macon, Georgia; and Humboldt, Tennessee, we're increasing production capacity and creating thousands of new jobs. Today, these jobs pay an average of $24 an hour, including full retirement and medical benefits, or approximately $50,000 a year. Today, Tyson Foods operates in communities spanning 30 states. In these communities we invest more than $15 billion every year with over 11,000 independent farmers and ranchers who supply us with the cattle, pigs, chickens, and turkeys that we need. I want to say to them and all who work so hard to keep food on America's table, thank you.

For many, including myself, Tyson has provided more than just a paycheck. Our company helps its team members and their families achieve their own dreams by giving them access to opportunity. I started at Tyson nearly 4 decades ago because I wanted a job. I stayed because of the company we are, the values we hold, and the important work we are privileged to do.

Again, I appreciate this opportunity, and I welcome your questions.

[The prepared testimony of Mr. King follows:]

PREPARED TESTIMONY OF DONNIE KING, CHIEF EXECUTIVE OFFICER, TYSON FOODS, SPRINGDALE, AR

Chairman Scott, Ranking Member Thompson, Members of the House Agriculture Committee, I appreciate this opportunity to discuss the economics of our business with you today. My name is Donnie King, and I serve as Tyson Foods' President and Chief Executive Officer.

Tyson Foods is an American company providing opportunities across our country, including in rural communities

Tyson Foods was founded nearly a century ago, during the Great Depression, in Springdale, Arkansas, by John W. Tyson. It is an American success story: a company started by a young man looking to provide for his family, with a single truck and a plan—to get food to where people needed it. At the time, this meant transporting food from Arkansas to places like St. Louis and Chicago. Today, as a fourth-generation family business, Tyson continues to provide food where people need it, here at home and in many other communities around the world, while also providing jobs and opportunities to nearly 140,000 Tyson team members.

Tyson's home is still Springdale, but our team members live and work all across America. With facilities in 30 states, Tyson produces quality food in places like San Lorenzo, California; Joslin, Illinois; Storm Lake, Iowa; Forest, Mississippi; Amherst, Ohio; and Pasco, Washington. Tyson's economic impact in the communities we operate is more than $27 billion annually, including $638 million in Georgia, $455 million in North Carolina, and $167 million in Virginia. And every year, we invest more than $15 billion with more than 11,000 independent producers who supply us with live cattle, pigs, chickens, and turkeys—many of whom have supplied Tyson for multiple generations.

In the United States, our team members come from diverse backgrounds, many different countries, and speak more than 50 languages. We are an integral part of the communities where we live and work, and Tyson provides opportunities to our team members so they can better access the promise of America.

At an average compensation of $24 per hour, including medical, retirement, and other benefits, or what amounts to an average of $50,000 per year in total compensation, Tyson provides our team members with not only a good job, but a career. In fact, that's how I started at Tyson—as an hourly team member on the production floor at our Pine Bluff, Arkansas, chicken plant.

For many of our team members, Tyson represents an opportunity to not only earn a good living, but to do so while attaining practical life skills, high school equivalency, English as a second language education, financial and digital literacy, and other career development training through Tyson's on-site education programs, Upward Academy and Upward Pathways. For others, Tyson gives team members and their families a path to achieving their own American dream, with Tyson paying for team members' citizenship fees and providing legal and other support to those who take citizenship classes. We also provide a second chance to those who need it, with rehabilitation programs that support team members as they overcome substance abuse or reenter society after incarceration. There are so many inspiring stories at Tyson, but not all of them told because it's just who we are as a company.

Because Tyson is part of the communities where we live and work—our charitable impact focuses on the places that we call home. From anti-hunger drives, to disaster relief efforts, to community fundraising, to support for public schools. Last year alone, Tyson and our team members donated 64 million meals to help those in need, and we will continue to provide such community support this year and in the future.

I want to thank our many communities who support our business, and I want to thank the 11,000 independent ranchers, farmers, and growers who have been incredible partners, especially during these critical times. And most of all, I want to thank our team members for the work they do for this country every day. We are a diverse team of dedicated people working together to overcome difficult challenges, including sometimes personal ones, as we do our best to keep food on the tables of our own families, our neighbors' families, and all the families in the communities we serve across the nation and the world.

Basic market forces set prices

Although my testimony will focus on Tyson's beef business, inflation is not limited to beef nor is it limited to Tyson. Across all of Tyson's businesses, we are seeing significant increases to our input costs. So too are other manufacturers—from other food companies to manufacturers of appliance, furniture, automobile, and building materials, to name a few.[1]

It's also important to note that Tyson does not set the prices for either cattle that we buy or beef that our customers purchase. These prices are set by straightforward market forces, namely available supply and consumer demand. These market forces mean that there are times when the commodity business cycle favors one party over another. For example, in 2015, these market forces worked against us when our beef business lost $66 million because the supply of live cattle was at its lowest. At the same time, cattle producers and feeders were making record margins. In fact, the beef and cattle markets are some of the *most transparent* in the world. For over 2 decades Tyson and other producers have been required by law to electronically report to the USDA, twice per day, the prices we pay for all cattle and all prices at which we sell our beef. This mandatory price reporting—industry-wide pricing data—is publicly available at the USDA website.

Recently, the business cycle for beef has experienced an extreme swing between the price of live cattle and the price of finished beef due to the confluence of a number of unforeseeable factors that constrained the supply of beef while at the same time increasing its demand. Chief among these were the unprecedented shocks caused by and which continue to be caused by the COVID–19 pandemic.

[1] *See, e.g.,* "Supply Chain, Rising Raw Material Costs and Workforce Shortages Top Concerns for Manufacturers" March 17, 2022, National Association of Manufacturers. available at: *https://www.nam.org/supply-chain-rising-raw-material-costs-and-workforce-shortages-top-concerns-for-manufacturers-17080/*.

When the COVID–19 pandemic led states and municipalities to enact shelter-in-place orders and require businesses to close, Tyson remained operational as part of the nation's critical infrastructure to ensure continued availability of food. We went to extraordinary lengths to implement promptly protocols to keep our team members protected against the virus. We installed barriers, implemented physical distancing, monitored temperatures, provided personal protective equipment, initiated more frequent deep cleaning of our facilities, held mass testing events—and later, vaccination events. All of these and other necessary actions required us to slow or idle our operations.

We also required team members who felt sick or were displaying symptoms of COVID–19 to stay home, with pay. Likewise, we required team members who tested positive for COVID–19, including those who were asymptomatic and identified through our testing programs, to stay home, with pay. Other employees remained home for a number of other reasons, including to care for children due to school and daycare facility closures.

The collective effect of these factors led to an extremely constrained pool of labor available to operate our facilities at full capacity. Simply put, we just didn't have enough people to fully staff our plants. This lack of available labor resulted in too many live animals ready for processing and too few facilities staffed to properly process those animals. This sudden and swift rise in oversupply of cattle led to a corresponding sharp and swift drop in the market price for them.

While COVID–19 significantly impacted numerous industries, the impact on the cattle industry was pronounced for a number of reasons. First, the cattle industry is the least agile of the three major proteins because it takes years to raise cattle for harvest, as compared to weeks for chickens and months for pigs. Second, cattle are expensive to feed and have a limited age and weight range for processing due to the impact larger, heavier animals have on transportation logistics, team member safety, plant equipment and customer specifications. Third, these market shocks occurred when the supply of live cattle was at its peak. When the pandemic began, there were six million *more* head of cattle on the market than there were at the bottom of the cycle in 2014. Basic economics tells us that when there is an unexpected and significant oversupply of live cattle, the price of those cattle should fall, which is precisely what happened. And, as the markets work through the impacts of COVID–19, we are already seeing live cattle prices rising to more normalized pre-pandemic levels.

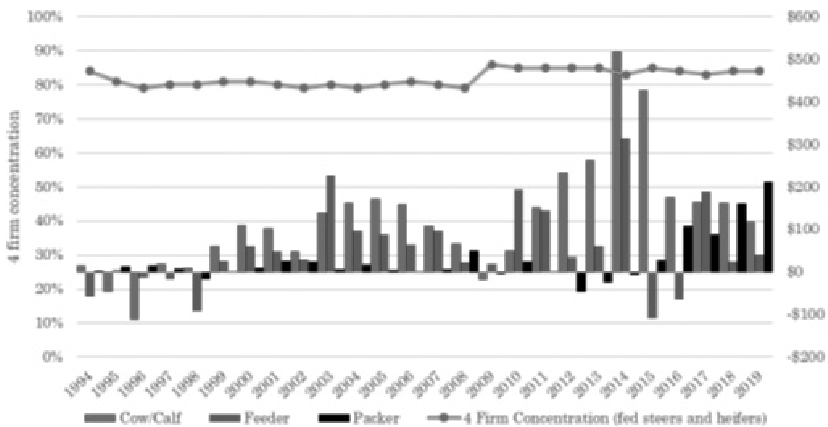
At the same time cattle prices were falling, the price for finished beef—the beef that consumers buy at grocery stores—was rising, driven by skyrocketing consumer demand due to the uncertainty caused by the pandemic as well as shelter-in-place and restaurant closure orders, which meant that people were overwhelmingly cooking meals at home. These factors were not unique to Tyson or its beef business. Processing plants across the nation continued to manage without available labor and were either idled or running at severely reduced capacities, meaning that production of chicken, turkey, pork, and beef could not keep pace with overwhelming consumer demand. Demand for beef and other animal protein was rising while supplies were falling. Again, basic economics holds that when demand is high and supply is low, prices will rise, which is precisely what they did.

The situation has been deepened by geopolitical issues, which are exacerbating the access to and shortages of essential inputs and ingredients such as grain and cooking oil, resulting in higher costs. To put it in perspective, each head of cattle consumes about 7,000 pounds of grain feed in the 7 months before processing. Today, the cost of gain has increased 75%, from $0.80 per pound to over $1.40 per pound. This dramatic rise in input costs is reflected in the prices American families pay at the grocery store.

Recent price shifts have nothing to do with industry consolidation

Concentration in the beef processing industry has remained constant during the last 30 years. Over that time, data shows that ranchers more-often-than-not achieve higher profit margins than beef processors. And in most of those thirty years, the profit margins of ranchers and cattle producers have been much higher than the low, single-digit margins we made as beef processors. In fact, in several years, ranchers made historic profits on live cattle while beef processors either lost money or barely broke even, as is illustrated in the chart below. This too, is the market at work.

Historical Margins per Head by Sector *versus* Packer Four Firm Concentration Ratio



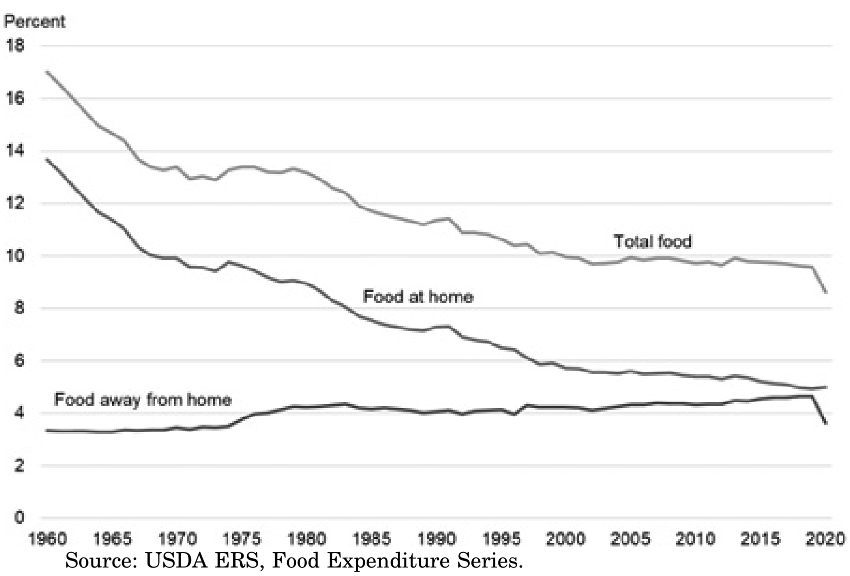
Source: USDA Packers and Stockyards Division (concentration). Sterling Marketing (margin.)

Tyson produces quality food at market prices

Despite the market shocks brought by COVID–19 and global unrest, America's food system remains among the world's safest, most resilient and affordable.

According to the USDA, the "share of disposable personal income spent on total food has trended downward since 1960 . . . ."[2] As illustrated in the chart below and noted by the USDA, "[i]n 2020, U.S. consumers spent an average of 8.6 percent of their disposable personal income on food."[3] Twenty years prior, that number was nearly 12%.

[Historical] Share of Disposable Personal Income Spent on Food in the United States, 1960–2020



Source: USDA ERS, Food Expenditure Series.

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[2] *https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/food-prices-and-spending/* (last visited July 26, 2021).

[3] *Id.*

Today, in part because of continuous improvement in how we operate our business, beef is more affordable, available, and accessible for more Americans than ever. And, with advancements in how we source cattle and improvements in modern cattle production, the beef we produce today is consistently higher quality. For example, choice and prime beef grades have increased from 60 percent in 2000 to 85 percent in 2020. Today, Americans are demanding higher-quality, convenience and variety—all of which customers are willing to pay for across the food chain, benefiting both cattle producers and beef processors. There is also a growing demand for higher-valued products across the world, including specialty products which are in far less demand in the United States, like organ meats. Such demand raises the value of the whole animal, which benefits ranchers, feeders, and producers.

Tyson's returns are also strengthened by our efforts to become a more agile and efficient company through innovation and automation. This means that we are able to run our business more safely and at a lower cost, with higher capacity utilization. These savings will help to keep costs to consumers lower, enable us to pay our team members more, and allow us to further reinvest in our business.

Economists and government regulators agree: American businesses are not to blame for inflation

Today, as the Committee knows well, prices are up for nearly every product Americans buy, as inflation rates climb to the highest level in generations. As of this testimony, gas is up 25%; labor costs are up 20%; and the agricultural commodities we require to operate are up across the board. Since March 2020, the cost of corn is up 127%, soybeans are up 90%, and soybean meal is up 54%. Year over year, soy crush plant margins are up 168% with key fertilizers like nitrogen, potassium and phosphorus going up between 115% to 246% in that timeframe.[4] Freight transportation costs are likewise rising, with international shipping container rates up 68% and diesel fuel up 104% year over year.

Experts, policymakers, and government regulators understand that the cause of the current inflationary environment is some combination of constrained supply, high consumer demand, and continued unforeseen disruptions to the global supply chains caused by COVID–19 and exacerbated by geopolitical unrest.

In February 2022, the U.S. Department of Justice recognized that "[e]conomies across the globe have faced significant challenges caused by supply chain disruptions resulting from the COVID–19 global pandemic" and that "[t]ransportation constraints, disruptions to routine business operations and difficulty in obtaining raw materials have all led to increased costs of production and shipment, which in turn have resulted in higher prices for consumers" in a variety of industries, including agriculture.[5] To state the obvious, these rising input costs are not set by Tyson.

Lawrence Summers, the former Treasury Secretary, observed that "[r]ising demand, with capacity and labor constraints, are fully sufficient to account for what we observe in meatpacking."[6] Earlier this year, the U.S. Chamber of Commerce similarly found that "[l]ike so many other products, the factors driving meat prices higher include increased demand, COVID-related supply chain disruptions, and increased input costs, especially higher energy and labor costs."[7] "Consumers are buying beef," said David Anderson, a livestock economist at Texas A&M University.[8] "What we're seeing with prices, I would argue as an economist, that's exactly what we should see given this bottleneck."[9]

Economists recently commissioned by the USDA to study the issues surrounding fed cattle pricing agree, stating in their report: "Fundamentally, the recent market disruptions were the result of low demand for live cattle, some high demand for beef products, and tight supplies of beef, all resulting from limited live cattle processing capacity."[10]

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[4] Agrus, Goldman Sachs Global Investment Research as of 3/31/2022.

[5] Press Release, U.S. Department of Justice (Feb. 17, 2022).

[6] Lawrence H. Summers, former U.S. Treasury Secretary, Twitter (Dec. 26, 2021); *see also Washington Post* Editorial Board Opinion (Jan. 10, 2022) ("Inflation, which was relatively low for years, did not suddenly rise in recent months because businesses decided now was the ideal time to squeeze their customers. What actually happened is that demand soared for many products as the economy recovered. Often, there were not enough products to meet it, thanks to supply chain hiccups and labor shortages, so prices went up."); *Wall Street Journal* Editorial Board Opinion (Jan. 7, 2022) ("Like so much else . . . meat prices have soared amid surging demand, rising production costs, and constrained supply.").

[7] U.S. Chamber of Commerce News Release (Jan. 3, 2022).

[8] *Reuters,* "Analysis: High U.S. meat prices: packer profiteering or capacity crunch?" (Jan. 19, 2022).

[9] *Id.*

[10] Texas A&M University Agricultural and Food Policy Center (AFPC), *The U.S. Beef Supply Chain: Issues and Challenges,* at 163 (2021). In August of 2020, the House Committee on Agri-

Tyson continues to invest in America

The returns we make allow us to invest in our team members and business. For example, during the pandemic we implemented $500 million in wage increases and bonuses for our hourly team members. We expanded our childcare programs, recently breaking ground on a new onsite childcare facility in Tennessee. We have opened free health clinics on or near a number of our processing facilities where access to medical care is challenging. And, most recently, we announced the expansion of educational opportunities from technical skills to upper-level degrees that will be offered to our team members for free.

We also invest back in our business, including product and process innovation and opening new facilities to increase capacity, meet consumer demand and stay competitive with the rest of the world. For example, since 2019 Tyson has opened several new processing plants, including beef, chicken and pork further processing facilities, distribution centers, feed mills, and hatcheries. We have also increased capacity in a number of our facilities by adding additional production lines. Each of these facilities means more demand for farmers' and ranchers' products and more job opportunities for Americans.

Notably, during the pandemic, Tyson began operations at its new $425 million, 370,000 square foot poultry complex in Humboldt, Tennessee, which is expected to employ 1,500 team members by 2023. In August 2021, we announced a $300 million investment to build a new 325,000′[2] fully-cooked chicken plant in Danville, Virginia. This new facility is expected to create nearly 400 jobs when production begins in spring 2023. Also in 2021, Tyson opened two new facilities to support growth in case ready beef and pork products in Eagle Mountain, Utah, and Columbia, South Carolina. These facilities are expected to add approximately 270 million pounds per year of additional capacity. And we recently broke ground on a new $355 million bacon plant in Bowling Green, Kentucky, which is expected to employ 450 people and meet the growing demand for Tyson's products.

These investments are good for our company and the country, providing additional jobs and opportunities for those in the communities where our facilities are located and adding additional capacity and resiliency to the country's food supply chain.

Conclusion

As I said earlier, I started at Tyson, nearly 4 decades ago, because I wanted a job. I stayed because of the company we are, the values we hold and the important work we are privileged to do.

Our company was founded by a man who found a better way to feed people. Today, all 140,000 Tyson team members honor that legacy by continuing to find better ways to feed America and the world. What we do is critical to this nation's food security, and I invite all Members of the Committee to visit us, anytime, so you can see for yourself why we are so proud of the company we work for.

I appreciate this opportunity to share our perspective.

The CHAIRMAN. Thank you very much, Mr. King. And thank all four of you for your excellent testimonies.

And now at this time we will go right into our questions. Members will be recognized for questions in order of seniority, alternating between Majority and Minority. And you will be recognized for 5 minutes each in order to allow us to get in as many questions as possible. And once again, please, please keep your microphones muted until you are recognized in order to minimize noise. And now I will start the questions.

And this is such an urgent hearing, as we just previously heard, the real challenges that our ranchers are facing. I don't know if you all as the CEOs were watching, but it was very impactful and effective. And our ranchers and those who form the first phase of our food supply line, our beef supply line are facing critical issues.

And I appreciate deeply you CEOs coming and participating because we will not be able to find the right solution to help this first

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culture asked the USDA to commission a study to look into the issues surrounding fed cattle pricing. The USDA partnered with the AFPC at Texas A&M and the cited book is the culmination of that work. That said, the authors note that the book should not be construed any official USDA or U.S. Government determination or policy.

part of the supply chain, which you critically need because without the meat, there are no meatpackers.

With that, I want to start with recognizing the three major components of our hearing. First, our consumers; second, our ranchers; and third, our packers. And we are going to be examining questions about supply, about price, about affordability, and also about whether our ranchers, who produce the cattle, can afford to farm to stay in business. As we heard from the panel today, the pressures are so great that there have been efforts of suicide. When that happens, you know we have to move to correct this imbalance.

First, let me just say a few words about our first part, consumers. Right now, the consumers' cost for beef is $7 per pound right now at the grocery store. The price of beef has climbed 18 percent so far in this year, making it very hard for parents to afford beef for their children, for their families.

Next, the ranchers. Our ranchers, our precious ranchers, our Committee heard earlier today from some of our nation's ranchers who, while putting in their heart and soul—I grew up on a farm. Farming is heart and soul year after year, and nowhere is that more expressive than with the raising of cattle from the calves spending time in all manner of weather, taking care of them, free from disease so that they can make it for the 4 or 5 years it takes to get them to you, our that beef packers.

And yet while our grocery bills and our ranchers are being forced to sell their cattle at a loss, our four meatpacking companies are making record profits. In fact, your companies reported over $15 billion in profits in this last year alone. And I don't argue with the ability to earn profits. I am a businessman myself. That is why you are in business.

The third component of this equation is about the four packers. Now, Mr. King, in your testimony you discuss the labor shortages caused by COVID–19, which resulted in a reduction of facility capacity and an oversupply of cattle, which caused the swift drop in market price that you paid for cattle. So my question to you, Mr. King, is it correct then to say that labor shortages caused by COVID–19 were responsible for the prices in the beef and cattle markets and your record profits? Mr. King? Is it correct then to say that labor shortages caused by COVID–19 were responsible for the prices in the beef and cattle markets and also responsible for your record profits?

Mr. KING. Chairman Scott, I hope you can hear me at this point.

The CHAIRMAN. Yes, I can.

Mr. KING. So thank you for that question, and I'm sorry for the technical difficulties that we continue to have. But let me—what I testified in my opening statement I stand by. The unforeseen shocks of the pandemic that we saw was—you know, it was a significant issue for us. It was—and for all industry. Many businesses closed or idled or reduced capacity, and many sheltered in place, stay at home. As was testified by one of my competitors earlier, we were also at the top of the cattle cycle, and my memory is that we had about six million head more cattle at the top of the cycle when the pandemic hit——

The CHAIRMAN. Mr. King, I want to get to the crux of the matter here. But these factors that you have given, they really don't tell the full truth here because from my own research your profits are largely determined by what is called the meat margin. And the meat margin is the difference between the prices your four packing companies pay for cattle and then the prices that you charge for beef.

Now, I would like to display a chart if we can look at the board there. This chart is based upon USDA data that shows that your meat margin has been raising steadily since 2015. Twenty-fifteen, Mr. King, is 5 years before the pandemic began in 2020 and well before the supply chain disruption. In 2015, the year your meat margins started to soar, allegations were made against you that your four companies entered into an agreement to reduce supply and push profits up. And I think we all know that he who controls supply, controls the price. So let me ask you to respond to that.

[The chart referred to is located on p. 135.]

Mr. KING. Chairman Scott, thank you for the question. There are a number of things if I could unpack that for you. From 2015 until the pandemic hit, in 2015 we were coming off the trough of the most recent bottom of the cycle where herd liquidation and drought in 2013 created that situation. So the supply of cattle were very tight. So you're starting to see herd rebuild, and you're starting to see capacity utilization go up in plants. And at the same time, the quality of beef expected by consumers continued to change as well.

The CHAIRMAN. Allow me because I wanted to get to the point. My time is sort of running down. And I wanted to ask before my time gets down. I want to ask each of you so we can get 100 percent clear on this issue. This is a primary issue here that we need to clear up, and that is this. Is there or was there ever an agreement between your four companies to cooperate together on issues impacting supply or pricing? And I need a yes or no. And also let me remind you that you are testifying under oath. I need to know if there ever was an agreement with you to set this up. Because the chart clearly states that it was 2015 and there was an abrupt, immediate charge up. And when you look at this chart, it explains why questions are being raised. How can this jettison up? And it started well before the COVID–19 of which you say caused the problem or caused the record amount of profits. So I want to get the yes or no and whether or not you all had agreement on pricing.

Mr. KLEIN. No.

Mr. MACLENNAN. No.

Mr. SCHELLPEPER. No, not that I am aware of.

Mr. KING. No.

The CHAIRMAN. All right. Each of you have said that—no. And you all deny that you acted improperly or illegally, but none of you has been able to explain this meat margin chart and why your shares kept rising since 2015.

Now, it is very important that we get a correct and honest answer here because this is the crux of the issue. And let me tell you, this can't possibly happen in a competitive market. I have studied antitrust behavior at the Wharton School of Finance at the University of Pennsylvania, so I can tell you that this is exactly the type of activity that has caused many others on both sides of the aisle to raise these questions. And so I wanted to get that out of the way and make sure that you have answered it under oath to answer those allegations.

So with that, I will now yield to the Ranking Member for questions—or the gentleman from Arkansas, Mr. Crawford.

Mr. CRAWFORD. Thank you, Mr. Chairman.

The CHAIRMAN. You are now recognized——

Mr. CRAWFORD. Will I be allotted 10 minutes for my questioning? Just curious.

The CHAIRMAN. Yes, you may.

Mr. CRAWFORD. Ten minutes?

The CHAIRMAN. Yes.

Mr. CRAWFORD. Ten, all right, thank you.

I will start with Mr. King. Concentration in the meat industry has stayed relatively constant for more than 25 years, and over that period, meat prices have moved up and they have moved down. Despite that fact, the Biden Administration has been falsely blaming packers for recent skyrocketing inflation. Even Larry Summers, the Secretary of the Treasury for President Clinton and the Director of the National Economic Council for President Obama, recently tweeted, "Rising demand with capacity and labor constraints are fully sufficient to account for what we observe in meatpacking, the Administration claims notwithstanding," end quote. Mr. King, your thoughts on that statement?

Mr. KING. Thank you, Congressman, a great question. Very simply, experts, policymakers, government regulators agree. The combination of supply, consumer demand, pandemic disruptions and geopolitical unrest is reason enough for the inflation. And you referenced Larry Summers, former Treasury Secretary, but we also have the testimony of U.S. Chamber of Commerce, we have David Anderson, a livestock economist at Texas A&M University. They all agree that what we're seeing from the sudden shocks to the economy is expected.

Mr. CRAWFORD. Thank you, Mr. King. I appreciate your insights there. I want to switch gears just a little bit, direct this question to Mr. David MacLennan, Cargill CEO. Do you believe it is okay to discriminate against an individual—based upon their race, color, creed, or national origin?

Mr. MACLENNAN. No.

Mr. CRAWFORD. You don't? I have in my possession some communication from Cargill that indicates otherwise. It says, "Working together with Cargill has developed a supply chain to better connect Black cotton producers with key markets and suppliers. This initiative was borne out of comments we gathered in listening sessions with Black producers and supports ongoing work around Black farmer equity. Through this program, we're able to pay participating farmers a premium with no additional discounts for quality. We moved cotton from the farm to our customers who are key suppliers for Target. It has been a successful program, but we continue to scale." Now, how do you square that with your position that you don't discriminate based on an individual's race, color, creed, national origin?

Mr. MACLENNAN. Congressman, you're referring to our Black Farmer Equity Initiative, something that Cargill is very proud of. As you likely know, less than roughly ½ percent of farmers in this country are Black, and so as part of our diversity-equity-inclusion efforts, we're supporters of our Black Farmer Equity Initiative——

Mr. CRAWFORD. Are you including Hispanic farmers, are you including Asian American farmers or just targeting Black farmers in this case? Are you including other commodities? You had a laundry list of commodities that you process that you mentioned in your testimony. Are all of those going to be paid premiums as well, and are all minority farmers going to be included or just Black farmers? Are we also including women farmers?

Mr. MACLENNAN. Well, it depends on the country. If you're talking about in the United States, we certainly will consider other focuses like the Black Farmer Equity Initiative, again, something we're proud of and, I would add, that it is something that our customer Target has asked for and that their consumers are asking for in terms of more diversity in their supply chains. And with such an underrepresented minority such as Black Americans being involved in farming, we feel this is the right thing to do.

Mr. CRAWFORD. What about underrepresented minorities, for example, Hispanic farmers or women farmers? Has there been any desire from, say, companies like Target to improve outcomes for other minority farmers?

Mr. MACLENNAN. Over half of the world's farmers are women, so if you're referring to the United States, we certainly will consider——

Mr. CRAWFORD. What does this policy extend to? Is it African American farmers? Is this Black American farmers that you are extending this policy to? So in that case, what is the ratio of women to men farmers? What is the ratio of Hispanic to non-Hispanic farmers? What is the ratio of Asian American farmers to non-Asian American farmers? Are we really going after diversity and equity or are we going after one specific demographic or does this include everybody?

Mr. MACLENNAN. At this point, it's one specific demographic. It's less than 1 year old, and it is part of our DEI focus. So to expand it to other ethnic or gender-based groups, certainly that's something that we'll consider. I don't have the statistics——

Mr. CRAWFORD. Well, I have another concern in this statement that says that you are not making any discounts for quality, so that is almost an incentive to produce lower quality. And then further on you say you plan to scale that program. Can you elaborate on that, how you are going to not pay a discount or deduct a discount for lower quality, you are paying a premium to the market, and then you plan to scale this. Do you not think that is going to have some impact on the market?

Mr. MACLENNAN. I think the integrity of the farmers that we deal with will show that they'll not only produce equal or better quality from what they have or what the market is producing, so I have confidence in the farmers that we're dealing with that quality will not suffer.

Mr. CRAWFORD. Thank you, Mr. Chairman. My time has expired. I have used my 5 minutes.

The CHAIRMAN. The gentlewoman from North Carolina, Ms. Adams, who is also the Vice Chair of the Committee on Agriculture is recognized for 5 minutes.

Ms. ADAMS. Thank you, Chairman Scott and Ranking Member Thompson, and thank you as well. And to the witnesses, thank you for being here.

I do want to ask the witnesses about your workforce, the people who work in your plants to provide food for America and the world. I understand that there are worker shortages that are exacerbating production, and it is one part of the puzzle that needs to be addressed. As you may know, I am Chair of the House Education and Labor Workforce Protection Subcommittee, and so as we continue to navigate this pandemic, I want to know what specifically each of you are doing to protect the workers who work on your assembly lines. So can you tell the Committee, again, and if you could be specific, I would appreciate that, what benefits are available to these workers, and were they enhanced during COVID and are they still enhanced, and you can talk about the healthcare, 401(k) plans, paid time off, *et cetera.* So, Mr. MacLennan, let's start with you.

Mr. MACLENNAN. Hi, Representative Adams. As I mentioned in my opening statement, we have significantly expanded the benefits that we paid to our line workers. The food supply of this country would not have survived if it weren't for the workers in our plants throughout the country. We have enhanced our 401(k) benefits. We have enhanced our healthcare benefits, and we were one of the first companies to take decisive action when COVID broke out in early 2020 to make sure that—to move quickly to close down facilities if we had to or put in protective measures, for example, plastic screens between workers on the line or even plastic screens at the lunch tables, which was a place prior to COVID that was very social for our workers.

And I would also quote Marc Perrone, who is the President of the UFCW, and he testified in front of the House Committee on Oversight and Reform in 2020. And he said some responsible employers like Cargill have done what is right. It's one of our core values, and we are committed to the workers in our plants not only in the meat industry in the U.S. but around the world.

Ms. ADAMS. Okay. Can we move on to Mr. Schellpeper?

Mr. SCHELLPEPER. Yes, thank you, Congresswoman, for the question. So I'm very proud of our workforce because we went through that very difficult time. And we had three goals at JBS. First and foremost was protect our workforce. Second, was to recognize our role in the nation's food supply, and third was to maintain employment and benefits for all of our employees.

We put through several measures that—to keep our workforce safe, beginning with screening at our plants, dividers in our workstations, air filtration systems, upgraded air filtration systems that we put inside of the common areas of our plants, cafeterias, and locker rooms if you will. We had—also had bonuses that we paid out to our team members that were not tied to attendance. And then just last year we put through two sizable wage increases for our employees, and we believe that we are in a leading position on wages for our workers.

Ms. ADAMS. Great. Yes, I would like to ask Mr. Klein and Mr. King as well, and I don't want my time to run out, so if we can move on, I would appreciate that. And I apologize. So, Mr. Klein, what about you?

Mr. KLEIN. Yes. We instituted several measures the same as others have done. We put workplace partitions in our production floor and in our breakrooms. We instituted screening for employees coming into the plant. We also provided testing facilities at all our locations so that employees could be tested. The results of that were the positive rate among our employees 18 and over was almost half of what it was in the communities where our plants are, so we feel like we've been very effective——

Ms. ADAMS. Great. Thank you. Mr. King, can you tell me a little bit about what you have been doing?

Mr. KING. Congresswoman, in terms of our team members, their safety, their health, and their families are our highest priority, has always been highest priority. We have 140,000 of them across Tyson, and we—my colleagues here have talked a lot about all of the things and measures and protocols. In fact, my testimony earlier talked about the fact that capacity utilization was negatively impacted because of the protocols we put in place, barriers, social distancing, temperature checking, testing, and then most recently the vaccine mandate that we put in place.

But in addition to that, we realized that team members can work wherever they want to work, and we have to give them a reason to work for Tyson. And over the last year we've been working to that end. We've done pay increases as well. We are $24 an hour, which is about $50,000 a year, which is very similar to that of a college graduate of $55,000 a year. We think we provide good jobs, and we've recently announced some of the things we're doing around immigration and paying for legal fees and trying to help those get legal status and try to help with life skills for team members, things like English and math and how to do a family budget——

The CHAIRMAN. Mr. Klein, the gentlelady's time has expired. We want to get as many members in as possible.

So now I recognize the gentleman from Tennessee, Mr. DesJarlais, for 5 minutes.

Mr. DESJARLAIS. Thank you, Chairman Scott. And thank you to our witnesses for appearing today.

The cow-calf producers in my district are frustrated from astronomically rising input costs to labor shortage to supply-chain constraints and an Administration that seems more focused on climate change and increasing overburdensome regulations. Our cattle ranchers and farmers are hurting. Family farmers are shuttering across the country as they face diminishing margins in an already difficult economy. While cattle markets are increasingly complex and incredibly complex, I don't need to tell you all that any disruptions at the packing sector impact cattle prices. We have seen price disparities between boxed beef and live cattle facing several black swan events. And while I believe there are many factors at play here, including record levels of inflation that this Administration is doing nothing about, I do want to discuss cattle markets.

After conferring with Tennessee Cattlemen and Charles Hord, we want to know what steps have you taken as an industry to minimize the impact of market disruptions, whether those be from fires, pandemic like COVID–19, which at its peak took roughly 40 percent of the processing capacity offline, or other unforeseen factors that impact cattle producers and profitability. And I will open that any of you who would like to comment.

Mr. KLEIN. Thank you for the question. In terms of the steps that we've taken—well, first of all, with the fire in the Holcomb plant, the rest of the industry made up a lot of that lost production by running extra hours, Saturday hours when normally we would have given our employees time off. That was a big factor.

In terms of the pandemic, there was not a lot we could do. We ran as many cattle as we could. We shut down one of our plants for 2 weeks during that time period and opened it back as soon as we were able to. But our other plants in Kansas, we had weeks where we were running 50 percent of capacity and contemplated shutting down one shift. So when we have these events, there's not the ability to completely mitigate it. And it happened across the whole industry.

Mr. DESJARLAIS. And things like this will happen again, and so I guess what are we doing to mitigate that in the future? Would anyone else likes to comment?

Mr. KING. Congressman, Donnie King with Tyson Foods. As a company, we have often—annually do risk assessments where we assess what risk we face and what are those mitigation steps. I got to tell you, in conjunction with our board and leadership team, we did not anticipate the pandemic, so there have been a number of key learnings from that. It's an opportunity to go and to get better but—and we have, but we're assessing this and future risk similar to this—these black swan events to try to protect our company.

Mr. DESJARLAIS. We are hearing suggestions from the producers on our first panel, but I would like to hear from you all now. What steps do all think can be taken to ensure profitability for all sectors of the cattle industry, including cow-calf producers?

Mr. KLEIN. Thank you for the question. I'd like to answer that. I believe we have to look at the situation today in the context of history. And if you go back before 2016, the packing segment was the smallest profit margin of any segment of the industry mainly because of overcapacity in the industry. In 2016 forward, capacity had already been taken out. We saw a dramatic increase in the supply of cattle. As a result of that, margin structure shifted to our segment. But historically, it was—resided—the cow-calf producers had the biggest share of the profit pie so to speak prior to 2016.

Mr. DESJARLAIS. Okay. Because I have just got 50 seconds, Mr. Klein, I want to ask you one more question. Some of the folks continually are pushing for an increase in diversified slaughter capacity across the country. They're also pushing for government-mandated levels of cash trades by packers. Your testimony mentions the importance of alternative marketing agreements and allowing your company to grow and compete with the largest packers. Do you think the AMA will be vital to new slaughter facilities coming online across the country?

Mr. KLEIN. I think for a new facility to survive, they've got to offer something different. And one of those attributes is quality. The demand for quality beef is very high, and AMAs are a very important piece of that.

In terms of the cash market question, more cash trade today will not help the producer. Today, many of the cattle that are brought in on AMAs or other agreements are because the producer wants a guaranteed home for their cattle.

Mr. DESJARLAIS. Okay. My time has expired. I yield back, Mr. Chairman.

The CHAIRMAN. Thank you. The gentleman from California, Mr. Khanna, is recognized for 5 minutes.

Mr. KHANNA. Thank you, Mr. Chairman.

I wanted to start briefly by going over Mr. Crawford's exchange with Mr. MacLennan. I was a little bit surprised that he was criticizing you, Mr. MacLennan, for having a program to seek Black farmers. As you know in the 1920s, 14 percent of farmers in this country were Black. That is almost down to one percent today. And there is a simple reason why that is the case is because the United States Department of Agriculture discriminated against Black farmers. Mr. MacLennan, can you explain to this Committee the history in this country with Black farmers and why it is perfectly appropriate for your company to be working with Black farmers, given that history?

Mr. MACLENNAN. Well, Representative, you cited I think the most powerful components of that story of Black farmers of this country over the last 100 years from 14 percent to it's less than one percent. And I think we're all very well-versed in the aspects of history and the aspects of our culture, which have contributed to various aspects of the farming industry. But our belief and our commitment to diversity, equity, and inclusion is not just within the walls of our company but it is also in our supply chains. And, as I said to the Representative who posed the question originally, this is what our customers want. We believe this is what our consumers want, and basically, it's the right thing to do to support the Black farmer community, which has shrunk dramatically over that period of time, and to give them support so that they can grow their ranks and frankly provide more jobs within that—within the farming community, not to mention the Black farming community.

Mr. KHANNA. Well, Mr. MacLennan, we may have our disagreements on some of the issues here, but I want to applaud you for that and applaud your commitment to that. I think that is the right thing to do as Americans. And I for one am glad that you are doing that.

Mr. MACLENNAN. Thank you.

Mr. KHANNA. I want to turn to the issue of intimidation by meatpackers towards producers. Senator Fischer entered a letter into the record just yesterday from Nebraska Cattlemen saying, quote, "None of our producer members were encouraged to testify or willing to put themselves out front for fear of possible retribution by other market participants." I assume all of you, all the CEOs I am hoping will commit today to encourage producers to openly share their stories about industry and meat production in general without any fear of retaliation. It can be a simple yes or no. Mr. MacLennan, we can start with you. Would you commit to that?

Mr. MACLENNAN. Yes. I can't imagine anything that would happen that would discourage the exchange of information.

Mr. KHANNA. Go to the other—could the other CEOs just go——

Mr. SCHELLPEPER. Yes, of course.

Mr. KHANNA. Anyone——

Mr. KING. Absolutely.

Mr. KHANNA. I appreciate that.

Mr. KLEIN. Yes.

Mr. KHANNA. The one other issue I want to get to, as you know, a lot of livestock producers are working under contracts. The grower takes on a lot of the environmental liability for the operation. However, many of your companies are actually dictating or working with the producers on how to grow the animal, how to feed them. And right now, the farmer basically gets all the risk for the environmental permits and the companies don't. One way forward could be if each of your companies would support legislation requiring co-permitting with these producers or farmers on a contract. Would you be open to a co-permitting framework. Mr. Klein?

Mr. KLEIN. Thank you for the question. First of all, we don't deal directly with the cow-calf segment of the industry and there where the permits are important. We are two steps away from that. So in terms of your question whether we would support it, I'd need to know more about it to understand it better.

Mr. KHANNA. Anyone else want to jump in and possibly supporting co-permitting?

Mr. KING. I would echo what Mr. Klein had to say and that we'd need to know more about it, but we tend to buy a large percentage of our cattle through feeders as well.

Mr. KHANNA. Well, I would appreciate if we can consider something like that. I think it would go a long way in helping farmers. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Khanna, and I just want to say I agree with you in complementing Cargill for their help of Black farmers. Thank you for that.

Now, the gentlelady from Missouri, Mrs. Hartzler, is recognized for 5 minutes.

Mrs. HARTZLER. Thank you, Mr. Chairman, and thank you all for being here, a very, very important topic.

In the last panel we heard testimony that ½ million ranchers have gone out of business over the last few years, that is an average of 17,000 cattle operations a year, 40 cattle operations every day. So I would like to hear your thoughts really on what is your vision for the cattle industry in the years to come? Many of the other segments for the agriculture have gone to vertical integration with poultry operations, pork operations where some of you own the whole thing, you own the animals from the beginning till slaughter. Is that what you envision eventually is going to happen in the cattle market? Or what would you like to see as far as the cattle industry looking like 10, 15 years from now? So since Mr. Klein is the only one here in person, maybe we could start with you.

Mr. KLEIN. Thank you for the question. I believe that the future of the beef industry is—it's very important that all segments work together. The cattle numbers, ranches have dropped, cattle numbers have dropped since 1980, but it was really as a result of reduction in demand for beef across the globe due to health issues at the time and also ranchers' decisions to repurpose land. At the same time, we saw an improvement in the efficiency at the ranches, being able to put more pounds on cattle than ever before.

So as I look forward, I believe that we're on the right track in terms of creating a quality product that is demanded across the globe. The profit opportunity today in—across all segments is greater than it's ever been, and that's because of the quality of beef we have in the system and the demand growth that we've seen as—particularly in the last 2 years.

Mrs. HARTZLER. So you believe the current model of cow-calf operations owned by individual family farmers will continue 10, 15 years from now, and that is what you would like to see?

Mr. KLEIN. Yes, the average herd size today is 43 head ranch size, so it's very small, and they're not going to make a living on just that, so they've got to do something else. But it's a very non-integrated industry, and I believe it's going to stay that way. I don't see packers owning ranches, so I think what—the model that's in place today is a good model. The profits will shift back and forth. In 2014 and 2015, all the profits went to the cow-calf segment and we were losing money. So these are the cycles that we deal with every day.

Mrs. HARTZLER. Mr. Schellpeper, what are your thoughts about the vision for the future?

Mr. SCHELLPEPER. Again, thank you, Congresswoman. This is a cyclical business, and we're coming now into a cycle where perhaps profitability will switch in the chain. Our model at JBS is we buy not from the ranchers but we buy from the cattle feeders and we buy the cattle how they want to sell them, whether that's on a cash market, whether that's on an AMA, whatever that might look like. We will follow their lead in those discussions.

Relative to JBS owning ranches, particularly towards your question, no, I don't anticipate that happening in the future.

Mrs. HARTZLER. I would like to hear from the others but I want to move to the second part of my question. What can you do to help producers stay profitable? Or do you believe it is hands off, the market will just work its way out and you have no role in that? So I guess we will go to Mr. MacLennan.

Mr. MACLENNAN. Yes, thanks, Congresswoman. We will continue to provide markets for the ranchers to sell their cattle. I do believe that the markets, as several witnesses from the last panel as well as this panel have testified, that the cyclicality of this industry is starting to turn. One of the witnesses from the prior panel talked about an 8 to 10 year cycle, and we are starting to see that the market—the supply and demand components and the prices in the cattle market are starting to change.

We can't survive as an industry—this country can't feed itself without the small family ranchers and farms that we depend on. Cargill was—is a family-owned company founded in 1865, so we need family farmers and family ranchers in the industry, and we consider them our partners.

Mrs. HARTZLER. Thank you very much. My time is out, but I appreciate what you do and hope that we will be able to keep the cattlemen viable for years to come. Thank you. I yield back.

The CHAIRMAN. Thank you. And now the gentleman from California, Mr. Panetta, is now recognized for 5 minutes.

Mr. PANETTA. Great, thank you, Mr. Chairman, and thanks to our witnesses for participating in this hearing today and appreciate your testimony and information that you are providing.

I hail from the Central Coast of California. We don't have that many cattle, we don't have that much pork, we don't have that many chickens, but I can tell you we have a lot of specialty crops. And I think you know as well as I do that our issues are still similar. And one of the most pressing issues that I think we have is the labor or I should say the lack of labor. And so I would like to kind of start off by focusing on that.

And, Mr. King, I will go ahead and start with you. Obviously, we have heard a lot about labor availability problems in packing plants even before COVID hit. How did labor availability affect you during the last 2 years, and what is your labor situation today? And I think I have my recommendations as to what Congress can do or what this Administration could do. What do you think we can do here in Washington, D.C., to alleviate packing plant labor shortages?

Mr. KING. Thank you, Congressman, and there—you know, to be honest with you, there's not a lot more important than being able to attract and retain great talent. And so we talk about that so much here at Tyson. We realize today that those who choose to work for us have options. They can work just about anywhere they want to work today and make a life. And so what we have made a concerted effort to do is to give them a reason to work for us through pay and benefits, if they are—you know, we've got people from 160 different countries speaking 50+ languages across our company, and so we do things like teach basic life skills. But we recently announced investing in education from life skills all the way to upper-level degrees in college where we would pay that. And, we've also done that in conjunction with historically Black colleges and universities as well.

So we're proud of that and investing in it, but very simply, what we have to do is to create a more attractive place to work. And we recently invested in and broke ground on our newest childcare facilities in Humboldt, Tennessee. I was there with the Governor of Tennessee when we did that. And team members in some subsets are telling us that's critical to be able to get them back in the workplace. So we're investing in that, and it's a great—to your question, it is a great example of the private- and public-sector working together to solve a problem, and so we're piloting that. We're expecting really great things from that, but that's just one of the tools that we're using to try to create a better place to work.

We're also doing things like creating flexible work schedules for team members so that we can find when they want to work, what works around their life and everybody's in different stages of life and so we try to accommodate those. To be real candid, we've had to become far more flexible than at any other time in my near 40 years in the business, and just the diversity of the workforce that we have, I mean, we're proud of that and we're proud of what that brings to the whole Tyson team.

And so a lot of good is coming out of the last couple of years. We're better—we are a better company as a result of that. It's been extremely challenging, but we—we'll be better going forward from having gone through this and having to deal with these issues.

Mr. PANETTA. Understandable. I want to hit one more area, and that is obviously supply chain issues especially with your exports. And how have they been impacted due to the delays that I think all of our industries have experienced? And obviously, you are familiar with the Ocean Shipping Reform Act (H.R. 4996). That is something you would support, I imagine?

Mr. KING. Congressman, yes, we do support that, and I would just thank those on this Committee and Members for supporting that. That was extremely helpful and timely. It was a large issue. But to your prior question around exports, in the Shanghai Port today we are seeing ships back up. And if I get into the details behind that from what I'm—from our team on the ground, it has less to do with the ability to unload a ship but has more to do with the ability to get trucks that can move—get in country with those goods and services.

And so how has it impacted us specifically? We've had to sell products into other markets for a period of time so—until that cleans up, until the lockdown is over, until those problems are solved.

Mr. PANETTA. Great. I am out of time. Thank you. Thanks to all of you. I yield back, Mr. Chairman. Thank you.

The CHAIRMAN. Thank you. And now I recognize the gentleman from California, Mr. LaMalfa.

Mr. LAMALFA. Thank you, Mr. Chairman. I want to go to Mr. MacLennan. I was out of the Committee for a while, so pardon me if this has been done, but I want to emphasize ranchers and being able to continue to operate. I mean, that is just the plus or minus question these days is like are they even going to be around much longer with the cost of everything, cost of energy being up and down, the ability to deliver their stock to farther and farther distances with consolidation.

So earlier, we had producers speak that didn't seem to believe that the business was going to work to help to sustain the growers much longer, withstand market volatility, *et cetera.* So you, Mr. MacLennan, or others on the panel, I would love to hear what your thoughts are on how the growers are actually going to be able to sustain—and I don't want to hear, oh, it is just cyclical because this is the worst cycle maybe ever right now with what they are facing and all the things are lined up against them politically and costs. So how are you going to have any growers left after another couple of years?

Mr. MACLENNAN. Yes.

Mr. LAMALFA. We faced drought in the West, feed prices, lack of feed, whatever. Please.

Mr. MACLENNAN. Yes, Congressman LaMalfa, I mentioned and perhaps you were out of the room, but this industry and—can't survive without the ranchers and farmers supporting it. And the American food supply has proven to be—system has proven to be incredibly resilient, as we saw in the last 2½ years. But I think some of it is the cyclicality, which you alluded to, and one of the witnesses at this morning's panel alluded to the fact that the cycle is almost predictably 8 to 10 years and that we are at the—almost exactly at 10 years and we are seeing evidence that economics are starting to shift. And we saw economics in the inverse relationship in 2013 and 2014.

I think innovation is another theme in terms of creating efficient feed solutions for our ranchers and for our cow-calf producers to help them increase yields, but we all have a vested interest in the beef supply chain to ensure——

Mr. LAMALFA. I am sorry. My time is limited because it is existential for them right now. There are many that are not going to—we are talking about five generation ranches and such that they are up against the edge on this. So I want to know what is the processing side of the industry going to do to help them be there because we know if they are not growing, then you don't have anything to process. As a farmer myself, I get that the processors always have to have something to run through, yet we are always the ones that get paid last at the farm gate. So what is the plan that is going to—you know, you say innovation. Well, that is down the road. I am talking right now. These guys are going to be gone soon with everything they are facing. What are we doing right now?

Mr. MACLENNAN. I think we are continuing to provide markets for their products. We are continuing to—I think innovation isn't down the road. I think it's here. And as I said in my opening statement, we are anywhere from 30 to 35 percent buyers in the cash markets, which I know is something that many people have been speaking about.

Mr. LAMALFA. Others on the panel?

Mr. KLEIN. Yes, let me comment on that. The cow-calf segment—again, we don't deal directly with them, but they are a vital part of the whole system and they have to be healthy. They do have the opportunity to retain ownership of that calf all the way through the system, all the way through processing and onto the customer. So that opportunity exists today.

As I said earlier, the profit through—across all segments has never been higher. It's at least $300 or $400 a head higher than it was even 5 years ago. And I—as we go forward as a profit shift back to the production segments, the cow-calf segment is going to benefit from that certainly.

Mr. LAMALFA. The profit is not there this year. There are auctions fixing to happen for a lot of our longtime ranching families. So what do you say about this year?

Mr. KLEIN. 2022 cattle prices are going up, which means calf prices will go up. So the cow-calf producer will get more for his product going forward than he has in the last few years.

Mr. LAMALFA. All right. Is Mr. Schellpeper still online here?

Mr. SCHELLPEPER. Yes, I am. Congressman, to answer your question, thank you, the best thing that we can do is to run our plants at capacity or add capacity. And at JBS we are adding capacity to our Grand Island, Nebraska, plant. We're also adding capacity to our Omaha, Nebraska, plant. And we've have taken some very aggressive steps that I can walk you and the group through at some point in time of what we have done to staff our facilities.

Mr. LAMALFA. How about the distance involved for—you know, Nebraska is a long way from many, many ranchers. How are we doing that? We need to close that transportation gap, anybody?

Mr. SCHELLPEPER. Well, Congressman, I'll speak for JBS. We operate plants from Arizona all the way through to Pennsylvania, so we believe that we have opportunities directly to our plants, but we are in several hundred sale barns every single year buying cattle.

Mr. LAMALFA. Okay, thank you. Mr. Chairman, I will yield back. I appreciate it.

The CHAIRMAN. Thank you. And now I recognize our Ranking Member, the gentleman from Pennsylvania, Mr. Thompson.

Mr. THOMPSON. Mr. Chairman, thank you so much. Gentlemen, thank you all for being here and your testimony on this second panel.

Mr. Klein, as your testimony points out, fed cattle are not the only input for the beef packing industry. Labor, packaging, transportation, regulatory compliance, and capital are all necessary parts of the process as well. Can you talk us through which of those inputs are currently having the biggest impact on your bottom line and the ultimate price of beef?

Mr. KLEIN. Transportation costs have gone up 40 percent in the last year. Labor costs have gone up 30 percent in the last year. That's $82 a head that we've got to pass through to the consumer or back to the price of cattle that we pay for cattle. Those are the two single biggest cost components that we have and the most that affect our business and has the biggest impact today.

Mr. THOMPSON. Well, thank you. Any of the—Mr. Schellpeper, Mr. King, Mr. MacLennan, would any of you care to weigh in with your thoughts on that?

Mr. SCHELLPEPER. For JBS, transportation has been a significant cost increase as well. I will leave it at that, Congressman.

Mr. KING. Congressman, in terms of Tyson, virtually everything in the supply chain has increased. We've seen inflation like we've not seen in generations. And—but if I look at specifically grain, for example, corn is up 127 percent, soybeans are up 90 percent, diesel is up 104 percent, and even shipping containers are up 68 percent. So there's a lot there that have gone up, and I can list more, but it might be easier to give you a list of things that haven't gone up.

Mr. THOMPSON. Yes, unfortunately, I would agree with you. That would be a shorter list.

Frankly, I am very concerned with the Biden Administration's regulatory agenda from bowing down to unions on time-tested lines speed regulations to rushing ahead with decades-old packers and stockyards regulations that have been misleadingly touted as the solution to everything from volatile prices to industry consolidation. I am particularly concerned that this heavy-handed regulatory approach may discourage the development and use of innovative industry solutions that could unlock not only price efficiencies but a number of other benefits related to food safety, the climate, employee wellness, even animal welfare.

To any of the panelists who are willing to engage, how important is innovation to keeping your companies competitive, and are you concerned with our current regulatory trajectory and how that may negatively impact the ability to innovate?

Mr. KING. Congressman, I would—I will start and try to make a few comments around that. Innovation and supply chain is going to be critical going forward, and a number of people this morning testified that on their farm or ranch it's not their—it's not the same as it was for their dad or their granddad or those who started it.

And I think we have to start with the consumer and work our way back through the supply chain. Those consumer preferences are changing almost daily. If you look at the data like choice and prime grades are—you know, 20 years ago were like 65 percent and today they're 85 percent. And that's because consumers are demanding a better quality beef and a better eating experience. And you're going to see that with other attributes like natural and even sustainability. And as you well know, an area for innovation could be around greenhouse gas emissions, particularly as it relates to cattle and having incentives there to have innovation and to do things differently and to make a difference. We as packers and ultimately for the consumer need to find ways to incent ranchers and producers to be able to do the things necessary to provide that end product as desired by the consumer.

Mr. THOMPSON. Anyone else in terms of your ability to innovate under the current regulatory trajectory?

Mr. KLEIN. Let me make a comment on that. Regulation, if it's done right is good. It's good for everybody. But there are some regulations that have unintended consequences, and those are the ones that I think we have to be careful of and understand. We spend about $20 million year on regulatory issues, not a big amount but it's significant. We certainly don't want to see that get out of hand.

Mr. THOMPSON. Very good. Thank you, Mr. Chairman.

The CHAIRMAN. And now I recognize the gentleman from California, Mr. Costa, who is also the Chairman of the Subcommittee on Livestock and Foreign Agriculture, is recognized for 5 minutes.

Mr. COSTA. Thank you very much again, Mr. Chairman. And I think today's hearing certainly has provided a lot of insight as to, as you noted, the potential legislation that we're looking at and concerns that people have about impacts of prices and the supply chain. I think we all recognize that with this COVID, this horrific COVID and the closure of schools and restaurants, we took a very complicated, complex food supply chain and we really turned it upside down and in ways that we could not have anticipated 2½ years ago.

Mr. King, in your testimony when COVID hit in March 2020 the industry was almost closed overnight. I learned in the pork industry that 70 percent of bacon and pork bellies are consumed in restaurants and we had to do euthanasia in that part of the protein industry. I have heard that food service accounts for roughly 50 percent of the beef sales. How did the shift from food service to retail impact your business?

Mr. KING. Congressman, great question. One of the advantages to having scale is having the ability to move across all points of distribution or channels. And we were able to do that fairly quickly. For example, move from lay-flat bacon that is often used at—by food service operators to more of a stack pack or an L-board or tux-type product in bacon. So we were able to really quickly adjust our production capabilities to be able to address this—you know, this sudden shift from a—in our markets about 50 percent retail and food service to almost 100 percent retail almost overnight. So it was—it took a great deal of effort by the team, but we were able to do that in fairly quick order.

Mr. COSTA. Yes, I think for a number of the CEOs that have testified here, there has been a bit talked about the workers who are essential workers, as we know, and whether it is any strain of agriculture, farmworkers or workers in processing facilities, they are essential workers. With the impact of the vaccine, what attempt has been made to really try to protect their health and safety as it relates to—and of course we are still trying to gear back up in terms of the employment issue. Mr. Klein, would you care to comment?

Mr. KLEIN. Yes. We continue to make every effort possible to keep our employees safe when they come into our facilities starting with screening and testing when they come in. We've maintained the workplace partitions both in our production floors and in the break rooms. So as we look at it today, our employees are safer than they've ever been inside of our facilities.

Mr. COSTA. Do any of the other witnesses care to comment?

Mr. SCHELLPEPER. Yes, on behalf of JBS, we had so many interventions in place in our plants back then but really starting about a year ago we really started to pivot towards vaccination. And we've made a lot of effort inside of all of our facilities, including closing down facilities for vaccination days——

Mr. COSTA. Well, and that is very important to make that available not only to the workers but to their families as well. We have had some instances—we have a Cargill plant in Fresno, and of course we have other facilities in the area where they have made that available for their employees and I think that is very important.

Mr. COSTA. Mr. Stockton on the previous panel testified that he has not really seen real enforcement in the Stockyards and Packers Act since the 1980s, and I'm wondering—and cites that as part of the reason in the price disparity between the cow-calf operator and the prices that American consumers are seeing in the grocery store. I know there are a lot of factors that impact the prices of protein when you go from the calf-cow operation or the dairy operation to the ultimate purchaser of that product that puts food on America's dinner table every night, and we know that that is a national security issue. I am wondering if any of you would care to comment on those factors, on the impacts of these cost increases.

Mr. KING. Well, I would—Congressman, I would just simply say that, as I testified earlier, virtually every input in the supply chain has gone up. And typically when you see a minor increase, companies tend to absorb that, but the rate of inflation and costs have gone up so dramatically that some of that had to be ultimately passed on to the consumer. And we've done that as well. But, this beef business is a cyclical business, and while we've seen the trough, I think it was like June of 2020 in terms of the price of fed cattle, if you look at it today, it's about $145 and based on futures will continue to move up, as Mr. Klein commented earlier.

I agree with that assessment, and this 10 year cattle cycle that was testified about earlier, I would certainly expect, while everyone is making more money in the supply chain, I would expect that to flip some to the feeder and——

Mr. COSTA. Well, my time has expired, but if you could give the Committee a breakdown of those input costs so we can better understand it, I think that would be helpful. Thank you, Mr. Chairman.

[The information referred to is located on p. 150.]

The CHAIRMAN. The gentleman from Georgia, Mr. Allen, is now recognized for 5 minutes.

Mr. ALLEN. Thank you, Mr. Chairman. And I want to thank all of our CEOs for being here today and participating in this hearing. Obviously, what we are talking about is—well, let me tell you what I am hearing about it my district. It is the price of food, the price of gas, I mean, everything. And of course, I understand that certainly when you have a war on fossil fuels and you decrease your supply and demand is still there, the price is going up, and that drives everything else, which has put us in a terrible predicament all across agriculture and everything and really all the essentials that we require in this country.

And of course we are zeroing in here on, okay, what is actually driving it as far as meat pricing and availability? And of course we have factors like the drought, we have factors like, the big word up here is *equity* where we are paying more to certain farmers for different products than we are paying other farmers, and, boy, that is dangerous. And so, what has that got to do with pricing and that sort of thing?

So I am going to start here, Mr. Klein, with you. The Administration has tied inflation to a lack of competition. And in his State of the Union address, President Biden implied that concentration in the meatpacking industry is the reason for higher prices at retail. Now, I don't agree with that, maybe some, but I don't agree with his statement there. Do you agree with the President, and please explain and others on the panel please feel free to weigh in as far as what you think about the President's statement there, what is actually driving prices.

Mr. KLEIN. Thank you for the question. I believe that the prices of beef today at the retail or at the restaurant level are dictated by—in the retail by the retailer itself. They set the price for beef. We don't set the price. We set the wholesale price. And we react to supply and demand.

The beef industry is the most purest form of capitalism in this country, I believe. Every day we're negotiating prices. As demand goes up, price goes up. If demand goes down, price goes down. And what's happened in our industry if you look back 30 years, the concentration has remained the same, and the packer margins were very, very slim. So it's not concentration that's causing the high price of beef. It's demand for beef and then the inflationary factors of all of our input costs have gone up and we've got to pass that along.

Mr. ALLEN. Okay. Anyone else care to weigh in on that? Okay.

Mr. Klein, your testimony pointed out the current beef processing industry consolidation levels are actually slightly lower today than they were back in 1998 and that overall levels of consolidation have been relatively steady for decades. If that is the case, why do you think there is suddenly such a fixation on consolidation levels by this Administration?

Mr. KLEIN. If we go back to COVID time period, we weren't talking about inflation in general, but what we did see because of the cutbacks in our industry, prices rose dramatically and the consumers were paying more for beef. So it made the headlines from that point forward. As we go forward and inflation became an even bigger factor, beef is part of that as well.

Mr. ALLEN. So—and again, if you look at history, for example, obviously when there is a drought supply immediately increases but then it drops off. I mean, it is a fluctuating business. So we had to end up—you know, a lot more meatpackers back in—well, when I grew up we had one in our town and we took the cow in and that is how we ate. But the bottom line is, I mean, what happened in this industry? I mean, was it the government? And obviously, the regulatory environment has increased, correct?

Mr. KLEIN. Yes.

Mr. ALLEN. Inspections and that sort of thing. What can this government do to return competition in your industry?

Mr. KLEIN. First of all, the reason that there's not as much competition today is because the industry was forced to become much more efficient. The plants today are the most efficient plants in the world. They're processing 5,000 or 6,000 head of cattle per day in each of these facilities. The cost is lower. We've got a single shift plant in Iowa. Our costs in that plant are $120 a head higher than they are at our big plants. So if you have many, many small plants with that kind of a penalty, cost penalty, that has to get passed along to the consumer or passed back to the feeder.

Mr. ALLEN. Yes. All right. Well, thank you, Mr. Klein. Mr. Chairman, I yield back.

The CHAIRMAN. Thank you. And now the gentlewoman from Iowa, Mrs. Axne, is now recognized for 5 minutes.

Mrs. AXNE. Thank you, Chairman Scott, and thank you to our witnesses for being here on this really important topic.

You all hold tremendous power in the cattle industry, together accounting for over 80 percent of the market. And as your market share has risen over the last 50 years going from 25 percent in 1977—that is back when my grandparents had a farm and I remember the cattle on my grandparents' farm—you now have over 80 percent of the market share. My grandfather no longer has a farm. It is not in our family. The industry has also seen a lot of disturbing trends in addition to farmers leaving. Since 1980, roughly 17,000 cattle producers have gone out of business every year, every year. Producers were receiving 60¢ of every dollar spent by consumers on beef, now that is under 40¢. So now our producers are getting 30¢ for every dollar spent for their beef.

And over the last 20 years cattle traded on a cash market has decreased from more than ½ to only 20 percent of the overall market. I am not seeing any good numbers here. And this consolidation has led to many of the major packing facilities closing in rural communities, costing us jobs and economic opportunity while exposing the entire industry to more risk caused by market disruption.

Today, consumers are literally paying more for their beef, producers are receiving less for their cattle, and yet your four companies' net incomes have reached record highs. And it is not just because of the recent spike in costs for inputs. I will recognize that. But let's go back decades of how we have seen our rural communities be impacted by this consolidation. So this is simply not sustainable for producers or consumers. And I have heard from far too many in Iowa who are worried about their ability just to stay in operation to be able to pass it down to the next generation. And these are family farmers that I grew up with. And just like their parents did before them, I want to make sure that they have that opportunity. So something has to change.

And my first question, Mr. Schellpeper, can you respond to these trends? And are you worried about the fact that we are literally losing 17,000 cattle producers every single year?

Mr. SCHELLPEPER. Thank you, Congresswoman. I believe that we operate in an extremely competitive market both on the buy side and then on the sell side, right? At JBS we participate relative to cattle procurement in the markets how producers will buy the cattle how producers want us to buy them, again, whether that's on a cash basis, whether that's on a video auction, whether that's on a—on some type of AMA.

In your home State of Iowa, we are participating in numerous sale barns. We have 14 sale barns I believe in the State of Iowa. We have company employees participating in those sales. There's numerous other ones that we have some type of a [inaudible] type of a buyer in those sale barns. So the best thing we can do is to continue to be active in this cash market, and we are active in it every single day, and that's how—what we're doing to try to support these producers.

Mrs. AXNE. Well, I appreciate those efforts, and I would like to see those actually increase because the number is still correct. We have 17,000 cattle producers leaving the market every single year, so you have to be doing more when you are controlling 80 percent of the market. You have an opportunity to start leveling the playing field here and making things right by us Iowa farmers in Iowa.

So I just want to move on now though. I know we saw supply chain disruptions across the economy over the last couple of years, we mentioned that, and prices went up during that period. However, producers didn't get the benefits of those higher prices. Why are cattle producers struggling to get by when beef prices are high and your companies are making record profits?

Mr. SCHELLPEPER. Is that for me, Congresswoman?

Mrs. AXNE. Yes.

Mr. SCHELLPEPER. Okay. Excuse me. So, again, we talked before about this being a cyclical business, and we are now at the point in time where cattle markets are starting to turn. In fact, if you look at USDA what we call the five area cattle market, what it averaged for the first quarter of this year is actually the third-highest quarterly average price that we've seen in the last 13 years other than those 2 record years I believe it was of 2014 and 2015. So again, we talk about a cyclical business here. I believe we're on the backside of the cycle and things are starting to turn.

Mrs. AXNE. Well, that is great. Just let me rephrase that. What can you do differently to help level the playing field so that all cattle producers can have an opportunity for more income, not just the ones you are currently working with?

Mr. SCHELLPEPER. The best thing that we can do, again, is to increase our capacity, which we're doing, running our plants. And again, as I've said before, we're very active in the cash market. Additionally, we have numerous cattle barns across the country, employees and type of order buyers active in the cash market. We have a cash bid every single day.

Mrs. AXNE. Well, I will look to see how much you are doing, and I appreciate you being here for this important conversation. My time is up. Thank you.

The CHAIRMAN. I now recognize the gentleman from Ohio, Mr. Balderson, for 5 minutes.

Mr. BALDERSON. Thank you, Mr. Chairman, and thank you, first of all, to the panel that is here today.

As you know, cattle markets are some of the most complex in the world, and there are a lot of factors that go into the price of beef, some of which you all have mentioned in your testimonies. A major factor is the historic levels of inflation and rising costs that we have seen over the past year. Can you explain the impact that these inflationary pressures are having on your businesses and how it is impacting the price of cattle and beef? And everyone from the panel can jump in and answer that if you would like, please.

Mr. KLEIN. Thank you for the question. I'll comment on that first. As I said earlier, the biggest impact we've seen in the last year has been transportation costs and labor costs. That's about $80 a head, which is a significant jump. That means that cattle prices either got to go down by that much or consumer prices have to go up, wholesale prices, in order for us to maintain the same profit margin.

The biggest single factor we're dealing with right now is where we're at in the cattle cycle. There is simply more cattle available every week than there is demand and capacity to process those cattle.

Mr. BALDERSON. Would anybody else like to jump in? All good? Okay. My next question is for Mr. King.

Mr. King, you mentioned in your testimony that beef and cattle markets are some of the most transparent in the world, and you go on to mention that packers are required by law to share market information with USDA twice a day. Can anyone or can you and anyone on this panel elaborate on what information you are required to share and what USDA does with this information?

Mr. KING. Thank you, Congressman. Very specifically, we report the price that we pay for cattle and what we sell beef for twice a day. You can go to the USDA website and AMS and you can find that for a particular day, week, month, or any period of time in which you would select.

Mr. BALDERSON. Okay. To follow up with that, to your knowledge, are you aware of any other industries that are subject to this kind of reporting and scrutiny?

Mr. KING. Congressman, not to my knowledge. Very well could be, but not to my knowledge.

Mr. BALDERSON. All right. Thank you very much. I appreciate that. My last question is for Mr. Klein. Mr. Klein, many economists would argue that the volatility in the cattle and beef sector can be explained by supply and demand dynamics. My first question would be do you agree with that?

Mr. KLEIN. Yes, I agree with that.

Mr. BALDERSON. Please explain your answer.

Mr. KLEIN. As I said earlier, this is a—the purest capitalist—capitalism in our industry of any industry. We negotiate prices hour by hour with the products we sell and with the cattle we buy. So whenever we have disruptions in the system like a fire, like COVID, it's going to result in a pretty dramatic adjustment in volatility in the price of the products that we buy and sell. And that has been the single biggest factor. But this is a very dynamic industry operating in a free market system, and volatility is part of the business, always has been.

Mr. BALDERSON. Mr. Klein, thank you very much for your answer. Mr. Chairman, I yield back my remaining time. Thank you very much, everyone.

The CHAIRMAN. Thank you. And now the gentleman from Iowa, Mr. Feenstra, is recognized for 5 minutes.

Mr. FEENSTRA. Thank you, Chairman Scott. And I want to thank the packers for participating today. And I always want to remind everyone that putting protein on the table starts with the family producer, and it's the process where it all starts is on the family farm. So I have a question for each one of you hopefully. I will start with Mr. King.

Mr. King, I have been told that the four largest meatpackers agreed to provide information to the cattlemen's organization for a producer-led initiative to achieve 75 percent of negotiated trade needed for robust price discovery in each reporting region. The feeders made the effort to meet this voluntary threshold, but the initiative failed to due to lack of packer participation. Could you explain why this failed?

Mr. KING. Congressman, I'm not familiar with that. I would be happy to get the necessary information and get it to you and to this Committee.

[The information referred to is located on p. 153.]

Mr. FEENSTRA. Okay, thank you. If some packers are allowed to not participate in the cash markets, would they not be able to manipulate the regional supply of cattle by simply shifting their captive supply from one region to the next? And the reason I bring this up is there was a study done by my university, Iowa State University, that notes this practice. Are you aware of this practice, Mr. King?

Mr. KING. Congressman, I'm not aware of it. I am certainly willing to go explore it and understand and try to understand what you're speaking of.

Mr. FEENSTRA. Okay. Mr. MacLennan, in my eyes here is this fundamental problem. Here you have the big four packers that control the large packer capacity, up to maybe 80, 85 percent. You are able to determine how many animals are harvested and how much meat is offered. The market share lets you control the price through contracts, managing the amount being slaughtered through line speeds, and control the supply of livestock. So my question is how do we get to transparency when some of these things are happening? And this is—you know, I would like you to look—you know, what are your thoughts on this?

Mr. MACLENNAN. Well, Representative Feenstra, number one is, as I've stated, Cargill purchases between 30 and 35 percent of our cattle in the cash markets. Number two is our job is to provide a market for the ranchers who are bringing their cattle to market. So to the extent that we have constrained capacity because of labor issues or because of—you know, whether we closed down because of COVID, then there would be a backlog in the supply chain. But our job is to be there every day for the ranchers for a place for them to bring their cattle——

Mr. FEENSTRA. Thank you. Thank you. I fully understand what you are saying. I will contest that there is a control on the markets through line speeds and the amount being slaughtered that can manipulate the markets.

Mr. Schellpeper, the Iowa and Minnesota region has the highest quality of grade cattle in the U.S. I am not sure if you knew that, but since we are told the AMAs drive quality, can you explain how cattle producers in Iowa and Minnesota are able to raise some of the best cattle in the nation without AMAs?

Mr. SCHELLPEPER. Thank you, Congressman. And I would agree, there are some very good quality cattle in Iowa, and we buy them. We take them to several different plants. Relative to how they do that, frankly, I'm not a cattle feeder, Congressman. I would defer to someone in the—in Iowa that could probably be better prepared to answer that question that I can.

Mr. FEENSTRA. Sure. So here is a question. There is a lot of alternative marketing agreements that reward quantity over quality, and some studies indicate that around 25 percent had nothing to do with the quality and that these are traded at a premium only because they have made a deal to guarantee supply for the packer. This data is obviously hard to come by, but you think about turn-in cattle—I am not sure if you know what that is—but how does this relate to price discovery, Mr. Schellpeper, if you can talk about that a little bit?

Mr. SCHELLPEPER. Sure. Congressman, we're involved with price discovery. We are in the cash market every day. We are active participants. Especially in your home State of Iowa we are active participants in the cash market. So that's the best way that I can answer that relative to AMAs, but we are very, very active in the cash market.

Mr. FEENSTRA. So doesn't the link between the AMAs and the cash market give the packers an incentive to lower the cash market price as doing so would lower the base price for all cattle committed to that packer under that AMA? Would that be a fair statement?

Mr. SCHELLPEPER. Well, I think it's important to note that even an AMA is a negotiation, what the—what that base is, what—any premiums or discounts. It's all a negotiation.

Mr. FEENSTRA. Okay. I am out of time. I thank you and I yield back.

The CHAIRMAN. Thank you. And now the gentleman from Alabama, Mr. Moore, is recognized for 5 minutes.

Mr. MOORE. Thank you, Mr. Chairman. And I want to thank all the panelists for participating today.

Mr. Klein, this is a question for you. You mentioned regulatory compliance as an input cost. Can you briefly walk us through the regulatory regimes that your business is subject to? Are there current regulatory and legislative proposals that you worry will significantly increase your regulatory burden? And others on the panel, you all feel free to participate.

Mr. KLEIN. The single biggest areas where we're regulated are inspection, grading, and environmental. And for the most part those regulations are good regulations. It keeps our products safe going to the consumers. As we look at what's coming down the road, some of the proposals, legislation and regulation, although the intent is good, the outcome may not be desirable, particularly for the producer segment.

Mr. MOORE. Would any others like to answer, any input on what regulatory concerns you have, going forward, something we might head off and make it a little bit less burdensome for the industry?

Mr. KING. Congressman, there's just a couple of things. I mean, there are number of things that we do support, for example, reasonable and thoughtful policy where costs and impact are considered. We support that. We support incentives around innovation. We support policy that would help team members around things like education and childcare, for example. We support transparency, for example, the Contract Library that we've seen. Ranchers would need to understand the proper confidentiality and so forth.

But the things that we're not for is when we add regulation on top of regulation and it's duplicative. And, for example, the Fischer-Grassley bill as it relates to a special investigator, we believe that USDA and Department of Justice already have this power to do that and they are engaged in this. And I think one of the panelists from the earlier session today talked about that, that the framework is already there, so if there are bad actors in here, then we need to enforce the regulations that we already have.

Mr. MOORE. And, Mr. King, and by the way, I am an ag science guy and have a poultry background. I understand you started off on the floor yourself back in the day.

Mr. KING. Yes, sir, Congressman, I did.

Mr. MOORE. Very good. Anybody else? I know Ronald Reagan always said the government's idea on the economy is when it's moving, we tax it. If it keeps moving, you regulate it. If it fails, you subsidize it. And so often I worry about taxes and regulations. Any other input on that? If not, I could yield back, Mr. Chairman.

Okay. I will yield back. Thank you, Mr. Chairman.

The CHAIRMAN. Yes, now I recognize the gentlewoman from Virginia, Ms. Spanberger. She is also the Chair of the Subcommittee on Conservation and Forestry. You are recognized for 5 minutes.

Ms. SPANBERGER. Thank you, Mr. Chairman. And thank you to the Ranking Member as well. I want to thank the witnesses for being here to lend your perspective.

A few months ago I was proud to host USDA leaders in Orange County, Virginia, to meet with the Virginia Cattlemen's Association and Virginia cattle producers, folks I represent who are a vital and integral part of our community. And I know that many cattle producers in our district have been in the cattle industry for generations, and they are proud to share the lessons and the expertise that their families have developed over decades. They have shared how the industry has changed and frankly how anti-competitive practices by other entities in the supply chain, specifically larger packers, have stacked the hand against cattle producers and consumers, particularly smaller family farms like those that I represent in Virginia. Producers feel that as they work sunup to sundown, consumers feel this at the grocery store and it is glaringly obvious in the data.

So I want to just talk about the data. We know that the cattle producers share of retail value for beef has decreased from 51.5 percent in 2015 to 36.8 percent in 2021. Right, that is just a couple years difference. And at the same time JBS, your beef division, saw a record net revenue of 101 percent on the previous year. Meat prices are up 13 percent for consumers over last year with families struggling to afford a nutritious diet and at the same time Tyson saw double-digit increases in profits and sales in the last quarter. Since 1980, 40 percent of cattle producers have gone out of business, and at the same time, Cargill has reported its biggest profit in its 156 year history and National Beef's parent company profits more than doubled in the third quarter of 2021.

And I want to mention that Mr. Coy Young, who testified in the first portion of today's hearing, spoke about the family farmers that are going out of business, 40.27 family cattle farms per day call it quits, and farmers contemplate taking their lives because the generations of work that went into creating their family farms are slipping out of their fingers.

And so I want to talk about what it means for these family farmers. The Packers and Stockyards Act, it exists to prevent undue preferences and advantages for any particular person. We also know that there are financing arrangements and alternatives marketing arrangements, AMAs, that so many of my colleagues have asked about that packers have with feedlots that allow for substantial control over the supply of live cattle.

So, Mr. MacLennan, you mentioned in your opening testimony that Cargill does finance producer inputs, and I would open the question to anyone else who might want to address it. But, Mr. MacLennan, beginning with you, does your company help finance any producer inputs such as feed, pen space, or other inputs as part of AMAs or otherwise?

Mr. MACLENNAN. As part of—Congresswoman, as part of the AMAs directly, no, and I would add that the AMAs and our cash market participation, which is very strong, over 30 percent, are—and it's been referenced several times that these are what the producers want to achieve. But in terms of farmer financing or farmer education relative to regenerative agriculture, we've got something called beef up sustainability to educate farmers and to provide financing alternatives. But so—yes is my answer to your question that we can't be successful without them.

Ms. SPANBERGER. And so these financing agreements, is it your assessment that they do follow the spirit and the intent of the Packers and Stockyards Act, specifically a law that exists to prevent undue preference and advantage?

Mr. MACLENNAN. I'm—we abide by the law, so if it's embedded in the Packers and Stockyards Act, then we will follow that law. Whether they are embedded in specific AMAs, I don't have access to that information right now, but we certainly can follow up.

Ms. SPANBERGER. Well, and certainly when it comes to acknowledging, understanding, and abiding the law, I think it is certainly past time for the Federal Government to look carefully at the anti-competitive behaviors that really are driving the stunning statistics that I mentioned. That is why I introduced the Meat and Poultry Special Investigators Act (H.R. 4103) that was referenced earlier, alongside Congresswoman Miller-Meeks with our Senate companion sponsored by Senators Tester and Rounds. This legislation would create an office at USDA titled the Office of Special Investigator for Competition Matters. And to just counter the point that one of our witnesses made earlier, the purpose here is to ensure that the folks who know this industry, USDA, that they are the ones leading the investigations into what is happening. I appreciate the comments related to it is taken care of, it is within the Department of Justice, but indeed that is just not good enough to look out for the needs for the farmers and producers back home in Virginia.

Thank you very much, Mr. Chairman. I yield back.

The CHAIRMAN. The gentleman from Kansas, Mr. Mann, is recognized for 5 minutes.

Mr. MANN. Well, thank you, Mr. Chairman. And similar comments and remarks as we get started here and questions to what I asked our previous panel. First off, on behalf of the farmers, ranchers, and agriculture producers in the First District of Kansas, thank you for participating in today's full Committee hearing regarding beef markets.

This issue is especially near and dear to me since both sides of my family have farmed and fed cattle in western Kansas for more than 120 years. I cut my teeth growing up on a preconditioning feedyard, a couple thousand head in Gove County, spent thousands of hours riding pens and doctoring sick calves.

The Big First ranks number one in the country for the value of sales of cattle and calves at more than $9 billion every year. There are more than 4.4 million cattle and calves raised in my district and significant packing capacity with more than 20 percent of the nation's beef slaughter capacity. We see the entire supply chain in the Big First from cow-calf producers to cattle feeders to packers. More broadly, the beef sector supports grain producers, manufacturers, veterinarians, and many other small businesses that populate rural towns across Kansas and the country.

In a competitive cattle market, it is vital for producers to be able to differentiate their product to eventually suit the taste of the consumer. As seen by the growing demand for beef both here in the U.S. and around the world, selective breeding and nutrition that have increased quality bring opportunities for producers to negotiate a premium price for their cattle. These contracts allow feeders to benefit from making a value-added investment and provide some certainty in a volatile market.

Across the country, cattle producers continue to face challenging market dynamics, including historically wide gaps between wholesale beef prices and fed cattle prices, packing capacity and regulation, and more. I have talked to hundreds of cattle producers in Kansas, ranging from small cow-calf operations to some of the country's largest feedyards. Overwhelmingly, I have heard that we need to increase price discovery in the cash market, make sure the producers benefit when they provide a superior product, refuse to let the government interfere in the free market, and acknowledge regional differences.

There is currently discussion in Washington around the Federal Government mandating a certain percentage of cash or spot transactions between the feeder and the packer, limiting the number of allowable alternative marketing agreements. AMAs are popular across the Big First and are used by many because they cut costs, increase efficiencies, and reward producers for a higher quality of product.

A few questions here for you, Mr. Klein. Do you feel that legislation proposed to limit the use of AMAs would negatively impact the beef market? And what do you anticipate would be the impact to the beef quality in this country?

Mr. KLEIN. The biggest impact would be to the quality. The quality would definitely go down if we were paying the same price for cattle and not able to offer a premium for better cattle. So certainly, that would impact that.

The other impact, cash trade *versus* AMAs, most of the AMAs that we have, and others are the same that we know about, the producer wants that ability to offer product cattle to us to get a premium for those cattle, and to have a guaranteed shackle space for the cattle, especially in the South where there's—they operate like hotels. Cattle move in and cattle move out every week. They have to have a home for those cattle. We design our AMAs so that—the type of cattle that we need and that we can grow our business with.

In the current environment, the current part of the cattle cycle, more cash trade would not be to the producers' benefit simply because there would be too many cash trade—there's more cattle available today than we have ability to process.

Mr. MANN. So you think more cash would actually reduce the price that most producers are receiving for their cattle today?

Mr. KLEIN. Right. That's what I believe, yes.

Mr. MANN. Could you, Mr. Klein, then, kind of with that—briefly just talk us through the recent fed cattle and beef price trends and any predictions moving forward?

Mr. KLEIN. Yes.

Mr. MANN. I know you addressed it in your testimony if you would be willing to kind of give us a picture or a snapshot of April 2022 kind of where we are at in the cycle and what you anticipate occurring.

Mr. KLEIN. Yes, well, cattle prices today are up 45 percent from where they were in the depth of COVID. Beef prices are down about 60 percent from the same time period. So we had that anomaly during COVID that drove this, but the biggest factor we have today is oversupply of cattle relative to industry capacity. But that's changing, and we're already seeing a change. As we look forward from here, we're going to see cattle prices go up and we're going to see the beef profit for packers go down. The profit is going to shift back to the cattle production segments.

Mr. MANN. And as you see the market, when do you anticipate that begins to occur?

Mr. KLEIN. The peak is occurring as we speak. It would have already occurred—the peak would have occurred in 2020 had it not been for the backlog of cattle that were not processed during COVID.

Mr. MANN. Great. I see my time has expired. I thank you, Mr. Chairman. With that, I yield back.

The CHAIRMAN. The gentlelady from Florida, Mrs. Cammack, is recognized for 5 minutes.

Mrs. CAMMACK. Well, thank you, Mr. Chairman, Ranking Member Thompson. I have been waiting for 16 months for a real hearing on production agriculture, so please forgive the fact that I have a lot to say.

Now, we spoke to this on the previous panel, and I would just like to reiterate, I echo the views of my district's livestock producers, as well as the views of those on this Committee that believe in equal opportunity, not equal outcome. This Administration has dismissed the most basic principles of economics and instead has chosen to demonize our nation's packers, which in my opinion is a low, lazy, and simple narrative.

I am personally appalled that in the midst of a myriad of crises, be it the skyrocketing cost of inputs, something that has continually been ignored by this Administration and this Committee for that matter, or the sting of historic inflation, also conveniently ignored or blamed on the previous Administration, or the geopolitical uncertainty, and let us not forget the labor crisis that we are experiencing. Just take your pick. Instead, the Majority here at one of the most important committees in the U.S. House of Representatives and, by extension, this Administration has chosen political theater over a meaningful discussion and solutions to major issues pressing our livestock industry.

I heard many years ago that anger without action is nothing more than political theater. Well, here we are with a long list of complaints from a Majority and Administration about an industry that they themselves helped decimate. Overregulation, paying people to stay home and not work, withholding permitting, forced unionization, I could go on and on. The irony is not lost on me, nor my constituents and producers back home, that the Majority here today is essentially scolding themselves.

I am starting to suspect quite honestly that the reason that the Majority deliberately chose not to have an economist testify before us here today because, God forbid, we actually contemplate the realities of supply and demand and other basic economic forces that could lead us astray from this political theater production that we have going here.

And, I am deeply concerned by the Majority's complete disregard of the data and upholding sensationalized claims to push a political narrative. Just earlier in this hearing we saw meat market data from 2015 to 2020, but 2010 to 2015 was missing. I wonder why. Hmm. Maybe it was because this data showed that really the facts don't fit the political narrative and instead illustrated the cyclical realities of the livestock industry.

As someone who grew up in the cattle industry on a small cow-calf operation and also happens to have a minor in economics, I can tell you that there is a litany of issues that producers face, many of them out of their control and due to an overreaching government. Quite frankly, sometimes speaking with my midsize processors and cow-calf producers, I think that USDA is doing more to try to justify their existence rather than help the industry.

Take for example this new grant money that the USDA is so proud of that is supposed help build small- and midsize processing plants. At any plant handling between 525 head a week, the cost of construction alone is upwards of $35 million. And that is in a good economy. That does not figure in the operational costs and the compliance costs, also conveniently omitted from the conversation here today. In short for the layperson, the government here is promising ponies and they are delivering us stick horses. That is what is happening here.

For all the attempts today to make the livestock industry the scapegoat for all of Biden's failed policies, let the record reflect that a few on this Committee are at the table with real solutions. Recognizing that the livestock industry is much like any other commodity market and by very nature cyclical, sometimes the price in store does not reflect the price on the hoof and *vice versa.* Anyone in this industry, like myself, knows that, but for those in the back, I am going to kick it to Mr. Klein.

Mr. Klein, regarding our processors large and small, we have heard from a host of economists in front of other committees that the volatility in the cattle and beef sector are explainable by supply-and-demand dynamics, along with an overly aggressive regulatory environment. Do you agree with that?

Mr. KLEIN. Yes, I agree.

Mrs. CAMMACK. And, Mr. King, you have mentioned the constrained labor pool at the height of the pandemic. To what degree have those shortages been resolved?

Mr. KING. Congresswoman, we are largely staffed at this point. We still deal with a great deal of absenteeism.

Mrs. CAMMACK. But during the pandemic, Mr. King, can you explain the labor pool situation at the height of the pandemic?

Mr. KING. Absolutely. We were constrained. For example, we would be operating—if the plant was operating at all, we'd be operating 30, 40 percent in the earliest of days. And, just a year ago we were no better than 75 or 80 percent of capacity.

Mrs. CAMMACK. I think my point here has been made. With that, Mr. Chairman, I yield back.

The CHAIRMAN. The gentleman from North Carolina, Mr. Rouzer, is recognized for 5 minutes.

Mr. ROUZER. Well, thank you, Mr. Chairman. And I have a gazillion thoughts on my mind so let me try to narrow this down a little bit.

First, I want to mention—I have a small processor in my district. Their business took off during the pandemic. They used Facebook, social media platforms. People like the fact that they can get their protein locally. Their biggest problem in expansion is dealing with the rules and regulations. And it strikes me that—and this is across all industries—the more rules and regulation you have, the greater the cost, the greater the cost, the greater the drive for efficiency partly, and therefore, the greater the natural occurrence of concentration.

So if you want to add all these new rules and regulations, new GIPSA rules, well, for example, which I want to focus on one in a minute, you are just adding that much more cost, that much more uncertainty, which really a lot of what is proposed actually goes against what is trying to be achieved.

In June of 2021, USDA issued its spring regulatory agenda that included three proposed rules surrounding the PSA. The proposed rule clarification of scope of the Packers and Stockyards Act looks to address the harm to competition standard under PSA. And although we have not seen the text of the proposed rule, it is generally accepted it is probably going to be pretty similar if not exact to the 2016 rule posted a month prior to the end of the Obama Administration.

Can you all speak to—any of the panelists or all—if finalized in similar fashion, the economic impact of that proposed GIPSA rule pertaining to the harm to competition standard? Anyone want to comment on that?

Well, hearing none, Mr. Chairman, I have a letter I want to make sure is submitted for the record, and this is switching topics slightly. This is a letter addressed to Senator Schumer signed by a number of organizations that I would say are pretty anti-agriculture, including one that was a witness on the previous panel. And I hate I didn't get the opportunity to bring this up then, but I had to leave to meet some other commitments, the Northern Plains Resource Council. And this is an organization that is listed with other groups that have specifically said in referring to concentrated animal feeding operations that they are, quote, "a tool of environmental racism and injustice."

I think we are at a point where we need to focus on production agriculture, what is good for the whole, what is good for the country. The longer you pick at a scab, it never heals. We need to pull together and look forward and work together. Packers need producers. Producers need packers. We need each other. And I want to highlight and submit this letter for the record just so everybody knows who is aligned with who.

The CHAIRMAN. Without objection.

[The letter referred to is located on p. 144.]

Mr. ROUZER. Thank you, Mr. Chairman.

In my final minute here I would like to give the heads of these companies the opportunity to share any comments that they might have as it relates to regulation and then the evolution of things in this industry because there are cycles. And we don't need to be antagonizing each other. We need to be working together and coming together with new solutions for all of agriculture.

I will turn it over to the panel. I have 30 seconds left.

Mr. KLEIN. Yes, this—thank you for the question. What I'd like to say is that our industry has been vilified for many years. As long as I've been in this business, the packer has always been the bad guy. Yet if you look at the history, our profit margins have been razor thin. And up until the last few years, that was the case. You put more cost on the system through regulation at any level, it just means our costs go up, the cost to the consumer goes up, or the price we pay for cattle goes down.

Mr. ROUZER. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentleman from South Dakota, Mr. Johnson, is recognized for 5 minutes.

Mr. JOHNSON. Thanks, Mr. Chairman. And, too often it seems like Congressional attention is drawn to the brightest light, I suppose like moths to the flame, and so it wasn't that surprising that in April 2020 when cattle prices bottomed out and when people couldn't get the steak they wanted at their meat counter, then, lo and behold, all of a sudden, everybody, including the city folk, had their attention on this space. They began to understand the weaknesses in the supply chain. I think they began to appreciate the deficiencies in the cattle market.

At that time, Members across this body understood that this stuff matters. And in that environment we were able to get real progress done on my Cattle Contract Library and on the Spanberger-Johnson Butcher Block Act. But this stuff matters, Mr. Chairman, all the time. As you so often say, we cannot do without food. And that means we can't let attention just drift away because we have had a bit of a rally on the fed cattle prices. We can't afford to let our attention drift away just because we are between black swan events.

In an earlier panel today we talked a lot about marketplace concentration, we talked about efficiency, efficiency, efficiency, and we talked about a chokepoint at a particular part of the supply chain. That is the meat processing part of the supply chain, the part that our witnesses today in this panel can speak to.

And as I think about that, we talk a lot about the big four, and that is appropriate. But I think we also want to talk about the big 30 or the big 12. What do I mean by that? Well, between 85 and 90 percent of the beef processing in this country is done at just 30 plants, just 30 physical locations. And in fact 12 plants do more than half of all the beef processing. To me, that seems like a lot of vulnerability. That seems like a lot of eggs in a very small number of baskets. Because when black swan events happen, whether they are cybersecurity or they are the Holcomb fire or they are COVID, we know that when those black swan events attack that chokepoint, that hurts producers, that hurts consumers. We know another black swan event is coming, whatever it is. I don't know what it is and I don't know when it is going to be, but we know it is coming.

And so I am going to tell you what I think, gentlemen, and you can tell me what you think. I think that this drive for efficiency has left our country with too little slack, with too little cushion. I think this tightness leaves us exposed to unforeseen disruptions, and that creates a lot of risk, a lot of vulnerability to the American cattle producers. So my questions, and we can start with Mr.

Schellpeper from JBS; first, am I wrong about that vulnerability about that risk? And second, if unfortunately I am right, what do we do about it?

Mr. SCHELLPEPER. Thank you, Congressman. I'll speak to JBS. So we operate nine plants across the United States. We operate some very large plants, we operate some very large plants. We operate plants in very different parts of the country with a network of buyers to buy those cattle and a distribution network that frankly is very robust. So from my perspective—and I can only speak for the JBS business—I think our model offers a degree of resiliency already.

Mr. JOHNSON. And I don't know—and listen, I am not insinuating that all of the cost of additional cushion within the system should be borne by any particular set of shareholders, but it seems to me that when we say that one company or the marketplace has enough cushion that you think you are diverse enough, I mean, we just don't see that, right, sir? I mean, when we have one issue attack one plant, don't we see a massive price swing to both the producers and the consumers? What am I getting wrong here?

Mr. SCHELLPEPER. Well, from a market standpoint, what's happened over the last couple years is well-documented. And again, I go back to—as we went through COVID, we had a number of goals at our company, and one of them was recognizing and taking on the responsibility of our role in the food supply. And that doesn't end with COVID, that—we carry that forward with us every single day. And so whether that's things we should be doing inside of our facilities, whether that's other risk mitigation strategies that we should have, we continually work on those even today.

Mr. JOHNSON. Well, thank you, sir. Mr. Chairman, I would just close by noting this. I mean, I don't think everything is okay. I do think we have a vulnerability in the American food supply system that I know we can work in a bipartisan way to address. But the big 12, the big 30, the big four, this is a problem for the availability and security of American food. Thank you.

The CHAIRMAN. Point well-spoken, Mr. Johnson.

And now the gentleman from Georgia, Mr. Austin Scott, is recognized for 5 minutes.

Mr. AUSTIN SCOTT of Georgia. Thank you, Chairman Scott. And, Mr. MacLennan, I know my colleague Rick Crawford spoke with you a little bit about this, but I have a couple of questions I would like to follow up with. Do you pay a different price in cattle markets based on the race of the farmer?

Mr. MACLENNAN. No.

Mr. AUSTIN SCOTT of Georgia. Mr. MacLennan?

Mr. MACLENNAN. Did you—I'm sorry, can you hear me, Representative Scott?

Mr. AUSTIN SCOTT of Georgia. Yes, sir. Do you pay a different price in the cattle market based on the race of the farmer?

Mr. MACLENNAN. Yes. I'm sorry, I answered but you must not have my microphone. Anyway, no.

Mr. AUSTIN SCOTT of Georgia. Okay. Do you pay a different price in cotton markets based on the race of the farmer?

Mr. MACLENNAN. Yes.

Mr. AUSTIN SCOTT of Georgia. Do you pay a different price in corn markets based on the race of the farmer?

Mr. MACLENNAN. No.

Mr. AUSTIN SCOTT of Georgia. Wheat markets?

Mr. MACLENNAN. No.

Mr. AUSTIN SCOTT of Georgia. Any market other than cotton do you pay a different price based on the race of the farmer for the commodity?

Mr. MACLENNAN. As of today, no, but I would expect that we'll expand our Black Farmer Equity Initiative to other commodities.

Mr. AUSTIN SCOTT of Georgia. Okay. Well, I don't mind telling you, I hope you get sued over that. I think that is illegal and unconstitutional. But since you have referred to it as Black farmer equity, I want to ask you this. The definition under USDA of *socially disadvantaged farmers* is Black or African American farmers, as well as American Indian or Alaska Native, Hispanic or Latino, Asian and Pacific Islanders, and women. Now, one of the definitions excludes women, but how did you determine to discriminate against the other classes who are defined as *socially disadvantaged farmers* by the USDA?

Mr. MACLENNAN. As I mentioned, this is a new program for us, and we have several DEI programs and initiatives. We are also members of——

Mr. AUSTIN SCOTT of Georgia. Sir, how did you determine to discriminate against Hispanic farmers and pay African American farmers more than you pay Hispanic farmers or your discrimination against Asian farmers and pay them less than you pay African American farmers for the same product?

Mr. MACLENNAN. We've chosen to——

Mr. AUSTIN SCOTT of Georgia. How did you determine which races to discriminate against?

Mr. MACLENNAN. We've chosen to begin our program with Black farmers who are significantly underrepresented. And I believe that we will expand our program to include other ethnic groups.

Mr. AUSTIN SCOTT of Georgia. Do you intend to include women in that?

Mr. MACLENNAN. Yes.

Mr. AUSTIN SCOTT of Georgia. Women of all races?

Mr. MACLENNAN. Yes.

Mr. AUSTIN SCOTT of Georgia. So you will include White women in it then?

Mr. MACLENNAN. Yes.

Mr. AUSTIN SCOTT of Georgia. What about White men?

Mr. MACLENNAN. It—I don't think White men are underrepresented in the farming industry today.

Mr. AUSTIN SCOTT of Georgia. So you are going to pay—by definition, you are engaging in racism and discrimination, and you are going to pay White men less than you are going to pay everybody else?

Mr. MACLENNAN. I believe we are engaging——

Mr. AUSTIN SCOTT of Georgia. That is your testimony?

Mr. MACLENNAN. I believe we're engaging in support of a historically underrepresented component of our farm community. Less than one percent, roughly ½ percent of the farming community in the United States are Black Americans, and so for us——

Mr. AUSTIN SCOTT of Georgia. Mr. MacLennan——

Mr. MACLENNAN. I'm sorry.

Mr. AUSTIN SCOTT of Georgia. Mr. MacLennan, if you were doing something for beginning, young, and small where it did not discriminate against race, you would see me going thumbs up and absolutely and we need to help the beginning, young, and small farmers. But to differentiate based on the color of the farmer's skin, so you are going to give a multimillionaire who is not White more than you will pay a 21 year old who is just getting started farmer that is White. I mean, if you want to go for beginning, young, and small and how we help beginning young and small farmers, I am all for you, but discriminating and paying somebody more because of the color of their skin or paying somebody less because of the color of their skin, that is inherently un-American. And so I am disappointed in you. I am disappointed in your company. I am disappointed in Target specifically because I believe that they are the ones that have driven this initiative.

And so let me ask you this. Mr. Klein, do you differentiate in price, that you pay based on the color of the farmer?

Mr. KLEIN. No, we do not.

Mr. AUSTIN SCOTT of Georgia. Does anybody else who is testifying differentiate in price based on the color of the farmer?

Mr. SCHELLPEPER. No, we do not.

Mr. AUSTIN SCOTT of Georgia. Well, I——

Mr. KING. No.

Mr. AUSTIN SCOTT of Georgia. I appreciate you not discriminating for or against people based on the color of their skin with regard to the products that you purchase from them.

With that, Mr. Chairman, I yield the remainder of my time.

The CHAIRMAN. The gentlelady from Louisiana, Ms. Letlow, is now recognized for 5 minutes.

Ms. LETLOW. Thank you, Chairman Scott, and thank you to all the witnesses before us on both panels for participating on this important discussion here today.

Like many of my colleagues have stressed before me, greater transparency and competitiveness in cattle markets are the concerns I hear most from our farmers back in my district. Farmers are the backbone of rural America and the economic driver of our local communities. Without them and the hope of future generations to follow them, our nation will no longer be the global leader in the food supply chain.

Mr. Schellpeper, your testimony mentions that the packing facility does not set the price of retail beef paid by consumers. Can you or anyone else on the panel walk us through how the products from your facility makes its way to customers at the restaurant and retail level, the changes that occur to that product, and the various pricing determinations made along the way?

Mr. SCHELLPEPER. Thank you, Congresswoman. So the market that we participate in as a packer is what we call the wholesale market. And that's the price discovery if you will, the market that we report our mandatory price reporting to the USDA. That's the price we work out with our customers obviously. When a product leaves our plants, this is where our industry becomes very, very complex. A product can go to a lot of different places, sometimes directly to a retail or food-service distribution center, sometimes it could go to another processing place or it could go to a cold storage. Each one of those steps that would be incremental will add a certain amount of cost, perhaps adds a certain amount of value. But, again, a very complex industry. No—there's not a one-size-fits-all here.

Ms. LETLOW. Okay. Mr. King, your testimony mentions that geopolitical issues are compounding other challenges the industry is facing. Obviously, the war in Ukraine is top of the mind for all of us, so I am curious, how is that conflict affecting your operations, and are there other geopolitical issues this Committee should be mindful of? And anyone on the panel is welcome to answer.

Mr. KING. Thank you, Congresswoman. The war in Ukraine is obviously a big piece of that, from a grain standpoint, from a cooking oil standpoint, and the price associated with that. It's a large market in terms of producing wheat, and there will be—the plantings in both Ukraine and Russia have been slowed or maybe not happen at all this year. So that would be the largest.

But second, what we see with respect to the COVID lockdown in China and the inability to unload ships and have trucks and transportation to move inland in China, that would be another example of that.

Ms. LETLOW. Thank you. Anyone else?

Thank you, Mr. Chairman. I yield back the remainder of my time.

The CHAIRMAN. The gentleman from Texas, Mr. Cloud, is now recognized for 5 minutes. Mr. Cloud?

Mr. CLOUD. Thank you, Mr. Chairman. I have a question really to all the CEOs who are here and so you can all pick who you would want. But basically when I talk to people back home, there is certainly concern about the pricing and how it has developed over some time. It seems to be like there is an issue with competition when it comes to—what is your capacity, I guess, right now, when it comes to being able to produce more or less?

Mr. KLEIN. Thank you for the question. I'll start that discussion. We are operating today at 100 percent of capacity. All three of our facilities are operating as much as we can possibly go through. And that is going to continue until the cattle supply drops where there are not enough cattle available to operate at 100 percent capacity.

Mr. CLOUD. It is my understanding that is pretty systemic of where the industry is that right now. Would you all agree?

Mr. KING. Congressman, we are not at 100 percent capacity. We're better than we've been—we're back to pre-pandemic levels, but I would tell you that we are in the 90 percent range at Tyson.

Mr. CLOUD. Okay. When we are talking about capacity, what would be the limits that are keeping you from expanding more and creating more capacity? Are we talking cost of equipment, supply-chain issues, is it people? When you are making that evaluation, what are you looking at?

Mr. KING. I think it—for us, it is a couple of things. One is people, and then the skill level associated with those people. We had a number of people leave the workforce, and so the training, skilling, and up-skilling of those team members is a component. But also just getting up line speeds back and get this engine running at full speed is a challenge with the inexperience level we have within our workforce. We're seeing the light at the end of the tunnel, and we're encouraged by that, but we still have some work to do to get all the way right.

Mr. CLOUD. Anyone else like to speak to that?

Mr. SCHELLPEPER. Congressman, we are back to near capacity levels at JBS, and again, as I mentioned earlier, we're expanding our capacity as well.

Mr. CLOUD. Okay. It would seem to me like one of the biggest issues that when I am hearing when I am talking to people in the ag community is they are concerned that there might be a lack of competition that is leading to increased prices. And so I guess my question is it seems like if there is a bottleneck in the supply-chain issue right now, it is at the packers in a sense. And my questions are just what could be done to create a more competitive environment? What can we do to increase capacity? What could we do to where feedlots are more of a bargaining for price and those kind of things? Of course, anytime we are looking at these sort of issues, the preference should be to find ways to let the market work and incentivize the market to work as opposed to coming in with a price-fixing scheme or those kind of things. And so my question is really what would be your suggestions along those lines?

Mr. KING. Congressman, I would suggest that if you think about the food supply, and protein in particular, I would tell you it's the most affordable, most resilient, and accessible in the world. And so I would tell you it's good. In our particular case just getting all the way back to full speed will be helpful, but because of some of the things, whether it be with AMAs or just a better grading piece of meat, U.S. grain-fed beef is the most desired in the world, and so the demand for that is incredibly strong. I see that doing nothing but getting stronger. So competition is great. Being able—and finding ways to service the existing customers and those who will be new into the marketplace is going to be a challenge for us at Tyson, and it's one that we're embracing. But the good news is the demand for beef, high-quality U.S. grain-fed beef has never been stronger, has never been a greater opportunity.

Mr. CLOUD. Okay. Well, thank you, and thank you, Mr. Chairman. I yield back.

The CHAIRMAN. And thank you. And now we are at the part of this hearing where the Ranking Member and I would like to give some closing remarks, and then I would like to thank you, each of our CEOs. So we will start with you, Ranking Member, then myself, and then the thank yous.

Mr. THOMPSON. Well, thank you, Mr. Chairman. And thank you, witnesses, for bearing with us as we talk about these complex issues today. The last thing we need as we sort through these complexities and related proposals are baseless and sensationalized claims. So I hope that the facts, the science, and that level heads will prevail as we move forward. So thank you all for helping to bring that to the table today, and, Mr. Chairman, I yield back.

The CHAIRMAN. Thank you so much. Well, I can't thank you enough for this hearing. It is very important. And it was very important to have the CEOs here because we need your help. We are faced with a very serious problem and a very serious threat to our food security. And this is why I wanted to make sure that we had the CEOs here. We cannot go and solve this problem without it.

We have an equation here where we are having the meatpackers, who are making soaring profits, in the middle of this supply chain, but we are having at the beginning of it our farmers and ranchers, and you heard the statistics, 17,000 cattle ranchers getting out of the business every year, as Ms. Spanberger pointed out. Our Committee is having to deal with this, and we need your help. And this has been a plaintive plea because of the role in the decision-making capacity.

As I outlined earlier in my remarks, the solution to this problem rests with three components that we have to solve, first of all, the high prices that our consumers are now paying for the beef, and then the decreasing share of profit that our ranchers are having. And, as you noted from just the agonizing testimony, several have raised the issue of committing suicide. So we have to solve this problem.

And the hearing also had to have—and this is the reason I wanted the CEOs to make sure they were here. These accusations of antitrust behavior, of over-competition, you know what they are. It was very important to have the CEOs here to go on the record that they have not had the agreements. However, we put the chart up to show that this escalation of your huge profits started well before COVID–19, in 2015. This is why it was important for you all to be here.

Now the question is, going forward, what is the solution that will lower prices for the consumers and once again allow our cattle ranchers to earn a fair return? We have to do that. The CEOs, I am asking us to be partners with our Committee as we put together this bipartisan piece of legislation to address this issue.

And I also am very appreciative of President Biden and our American Rescue Plan (Pub. L. 117–92). They have started some of the progress. They included $1 billion in funding to support new independent meat processors. That is an important step. But we have to do more.

And, as I said, as Chairman of the House Agriculture Committee, I am working now on bipartisan legislation to correct these market imbalances, reduce the over-concentration of consolidation and anti-competitive market behavior, and determine where there is any antitrust behavior. It is very important to help you all erase this blot off your record. You said it is not true. We need to make sure that we have the public's confidence that it is not true so that we can also do that other thing, make sure our families can go to their grocery store and not see their prices of meat go up 18 percent in a year. So that is why we want to thank you for that.

Now, here is what we need to do. I believe, first, we need to go through a thorough investigation of the meatpacking industry's practice with your cooperation. There have been efforts on both sides of the political spectrum to call for this inquiry. You heard the comments on both sides of the Committee about this question. We have to make sure it is answered.

My friend from Georgia, our former Agriculture Secretary, Sonny Perdue, a good friend, he was Chairman of the Senate and I was Chairman of our Senate Rules Committee for 10 years in Georgia. He started the first investigation with the Justice Department into anti-competitive practices. So this is not a Democratic or Republican. We are all working on this together.

There has also been 11 Democratic and Republican State Attorneys General have requested an investigation from the Justice Department into anticompetitive practices. That is why it is important that I had you all here because this reaches right into your area of executive policy decisions. We had Republican Senators who have also written letters asking the Justice Department to investigate allegations of price-fixing with our meatpackers. This is what is on the table before us, not just you. We have to respond to it in Congress. But I wanted to make sure that before we move with legislation, that we had the ranchers and the CEOs in because you all, the two of you have to be partners in helping us find the right legislative solution.

I am very pleased also that President Biden's Administration agrees and he has announced that his Administration will be coordinating the investigations in our U.S. Department of Agriculture and our U.S. Justice Department. But also there is a very important role for us in Congress to do, and that is, as you all may remember, we passed the Rescue Plan and we were able to put that money in, but we want to do quite a bit more.

And so I just wanted to share with you all, we are in this together. We have a huge problem, 17,000 cattle ranchers getting out of the business, and it is structured in a family basis and their next generation of family, their sons, their daughters are saying they are not going to do it. This is a direct threat on the security of the food supply of the greatest nation on Earth. We cannot and we must not let that happen. We have to do it together, you the meatpackers, the ranchers, and us here in Congress, so that our American people will be able to afford and enjoy this bountiful agriculture gift that God Almighty has blessed us with.

And so I thank you from the bottom of my heart for you all coming and helping, and I look forward to working with you as we develop the legislative fix to this great challenge. Thank you all very much for being here. God bless you.

And, Mr. David MacLennan with Cargill, thank you. And again, I want to compliment you on helping and addressing the issues facing our African American farmers.

And to you, Mr. Tim Schellpeper of JBS, your comments and your insight was very helpful.

And, Mr. Tim Klein of the National Beef Association, thank you. And I thank you for coming in person. Thank you.

And to Mr. Donnie King with Tyson, thank you also. Thank all of you.

And I also want to thank my great staff under the direction of Ms. Anne Simmons and Ms. Ashley Smith. They have really put together a tremendous hearing here. And I want also single out Daniel Feingold and Lesley McNitt for they really helped me at this great opportunity as Chairman of this extraordinary Committee.

And so now I must read this. Under the Rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any questions posed by a Member.

And with that, this hearing of the Committee is now adjourned. Thank you.

[Whereupon, at 3:30 p.m., the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED ARTICLE BY HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

The New York Times

[*https://www.nytimes.com/2021/12/27/business/beef-prices-cattle-ranchers.html*]

Record Beef Prices, but Ranchers Aren't Cashing In

"You're feeding America and going broke doing it": After years of consolidation, four companies dominate the meatpacking industry, while many ranchers are barely hanging on.

Steve Charter on his 8,000 acre ranch on the high plains of Montana.
Credit. Erin Schaff/*The New York Times*

By *Peter S. Goodman,*[1] Photographs by Erin Schaff
Published Dec. 27, 2021/Updated Dec. 29, 2021

Shepherd, Montana—Judging from the *prices at supermarkets and restaurants,*[2] this would appear to be a lucrative moment for cattle ranchers like Steve Charter.

America is consuming more beef than ever, while prices have climbed by ⅕ over the past year—a primary driver for the growing alarm over *inflation.*[3]

But somewhere between American dinner plates and his 8,000 acre ranch on the high plains of Montana, Mr. Charter's share of the $66 billion beef cattle industry has gone missing.

A third-generation cattle rancher, Mr. Charter, 69, is accustomed to working 7 days a week, 365 days a year—in winter temperatures descending to −40°, and in summer swelter reaching 110°.

On a recent morning, he rumbled up a snow-crusted dirt road in his feed truck, delivering a mixture of grains to his herd of mother cows and calves. They roam a landscape that seems unbounded—grassland dotted by sagebrush, the horizons stretching beyond distant buttes.

Mr. Charter has long imagined his six grandchildren continuing his way of life. But with no profits in 5 years, he is pondering the fate that has befallen more than half a million other American ranchers in recent decades: selling off his herd.

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[1] *https://www.nytimes.com/by/peter-s-goodman.*
[2] *https://www.nytimes.com/2021/06/23/business/beef-prices.html.*
[3] *https://www.nytimes.com/2021/11/16/briefing/inflation-biden-approval.html.*

Mr. Charter preparing feed for his herd of mother cows and calves.

Mr. Charter with Willie and Stevie Williams, his grandchildren, on the farm.

"We are contemplating getting out," Mr. Charter said, his voice catching as he choked back tears. "We are not getting our share of the consumer dollars."

The distress of American cattle ranchers represents the underside of the staggering winnings harvested by the conglomerates that dominate the meatpacking industry—Tyson Foods and Cargill, plus a pair of companies controlled by Brazilian corporate owners, National Beef Packing Company and JBS.

Since the 1980s, the four largest meatpackers have used a wave of mergers to increase their share of the market from 36 percent to 85 percent, according to the U.S. Department of Agriculture.

Their dominance has allowed them to extinguish competition and dictate prices, exploiting how Federal authorities have weakened the enforcement of laws enacted a century ago to tame the excesses of the Robber Barons, say antitrust experts and advocates for the ranchers.

One landmark piece of legislation, the *Packers & Stockyards Act of 1921,*[4] was adopted by Congress to "safeguard farmers and ranchers"—among other market participants—from "unjustly discriminatory and monopolistic practices."

Today's record high beef prices are most directly reflective of scarce stocks, another manifestation of the *Great Supply Chain Disruption*[5] accompanying the pandemic. The initial spread of the coronavirus swept through slaughterhouses, *killing scores of workers,*[6] sickening thousands and *halting production.*[7] That caused shortages of beef.

But the shock landed atop decades of takeovers that closed slaughterhouses. The basic laws of economics suggest what happens when the packers cut their capacity to process beef: The supply is reduced, increasing consumer prices. At the same time, fewer slaughterhouses limits the demand for live cattle, lowering prices paid to ranchers for their animals—an advantage for the packers.

"Their goal is to control the market so that they can control the price," said Marion Nestle, a professor of food studies and public health at New York University. "The pandemic exposed the consequences of the consolidation of the meat industry."

The packers—now confronting *a push from the Biden Administration to revive antitrust enforcement*[8]—maintain that the attention on consolidation is misguided.

Jeanie Alderson with her father, Irving Alderson. Their family has run cattle in Montana for over a century.

[4] *https://www.ams.usda.gov/rules-regulations/packers-and-stockyards-act.*
[5] *https://www.nytimes.com/2021/10/22/business/shortages-supply-chain.html.*
[6] *https://www.cdc.gov/mmwr/volumes/69/wr/mm6927e2.htm.*
[7] *https://www.nytimes.com/2020/04/18/business/coronavirus-meat-slaughterhouses.html.*
[8] *https://www.nytimes.com/2021/12/25/business/biden-inflation.html.*

Jeanie Alderson's grandfather and relatives at her family's ranch.

JBS, the largest meatpacker in the United States, declined to discuss the impact of consolidation on the market, instead referring questions to a Washington lobbying organization, the North American Meat Institute.

"Concentration has nothing to do with price," said a spokeswoman for the organization, Sarah Little. "The cattle and beef markets are dynamic."

As slaughterhouses work through a glut of live cattle, ranchers have in recent weeks received rising prices for their animals, she added.

Cassandra Fish, a former senior executive at Tyson who now runs a beef industry consultancy, said the shuttering of slaughterhouses by meatpackers in recent decades was prompted by the simple fact that many were losing money.

"The packers are not masterminds," she said. "The packing industry was unprofitable for several years, so they closed plants."

But ranchers complain that the game is rigged.

They generally raise calves, allowing them to roam across grassland until they are big enough to be sold to so-called feedlots that administer grains to bring them to slaughtering weight. The feedlots—the largest concentrated in Texas, Nebraska, Kansas and Colorado—then sell their animals to the packers.

Because the feed lots face relentless pressure from the packers for lower prices, they in turn demand cut-rate terms from the ranchers.

"A lot of people don't understand how trapped ranchers are in this really broken system," said Jeanie Alderson, whose family has run cattle in southeastern Montana for more than a century. "We don't have a market."

Billions for Meatpackers

A truck with cattle for slaughter arrived before sunrise at JBS's meat-processing plant in Greeley, Colo.

Many of the cattle raised in Montana are eventually hauled to slaughterhouses run by JBS, the world's largest meat processor.

The two brothers who control the enterprise, Wesley and Joesley Batista, possess a fortune estimated by *Bloomberg News* [9] at $5.8 billion. Four years ago, they went to prison after pleading guilty to participation in a Brazilian bribery ring that secured loans from government-owned banks. (They have since been released.) A $20 billion international acquisition spree put JBS in control of ¼ of the American capacity for slaughtering beef.

While ranchers have been tallying losses, JBS has been celebrating gains—revenues of $18 billion between July and September, which represented an increase of 32 percent compared with the same quarter in 2020.

In past decades, when beef prices rose, so would payments to cattle ranchers, who claimed over half of what consumers paid for meat. But that relationship began to break down in 2015. Last year, cattle ranchers received only 37 cents on every dollar spent on beef, according to Federal data.

"You're having consumers exploited on one end of the supply chain, cattle producers exploited on the other," said Bill Bullard, a former rancher who now heads an advocacy group, the Ranchers—Cattlemen Action Legal Fund. "The meatpackers are making all-time record profits."

His organization is a plaintiff in a class-action lawsuit that accuses meatpackers of manipulating prices by sharply reducing their purchases of cattle at so-called sale barns—open marketplaces where animals are inspected and purchased on the spot, with the prices disclosed publicly.

Instead, the packers now overwhelmingly rely on private contracts with feed lots. Those contracts provide the feed lots with certainty that the packers will buy their animals. In exchange, the feed lots must lock into a price structure that tracks those in public auctions, where buyers are scarce.

According to industry experts, this system allows packers to lock up the overwhelming supply of cattle at prices they impose, under terms hidden from public view. Given the market dominance of the four largest packers in their regions, feed lots lack alternative places to sell their animals once they reach slaughtering weight.

[9] *https://www.bloomberg.com/news/articles/2021-07-15/brazil-s-batista-brothers-are-out-of-jail-and-worth-6-billion?sref=rWJsyGwt.*

"There's no competition," said Ty Thompson, an auctioneer at the public auction yards in Billings, Mont., who also operates his own feed lots. "We have so much supply and so little capacity, that there's no negotiation whatsoever."

At Livingston Livestock, the animals are led into the ring for auction.

Losing the Family Legacy

In the rolling hill country of northern Missouri—a tableau of grain farms dotted by compact towns—Coy Young, a fifth-generation rancher, has concluded that raising cattle is pointless.

"You're feeding America and going broke doing it," he said. "It doesn't pencil out to raise cattle in this country anymore."

Mr. Young, 38, carries credit card debts reaching $55,000. He plowed most of that debt into artificial insemination technology aimed at producing premium breeding cows.

His payoff was supposed to come early last year, with a sale that Mr. Young anticipated would fetch $125,000. But the day that he trucked his herd to a nearby auction, panic over the pandemic assailed markets. Traders in Chicago pushed down the price of live cattle by more than ten percent. Mr. Young received a bid of only $32,000.

It was a crushing blow, a price that seemed certain to trigger his financial unraveling. Still, he had no choice but to take it. Cattle are perishable goods. Holding on to them after they reach slaughtering weight entails the costs of feeding them. They begin to add more fat than muscle.

A week later, the bank began calling Mr. Young demanding repayment. Sinking into despondency, he waited for his wife to drive to her nursing job—their means of paying the bills. He planned to kill himself, he said. When she pulled back into the driveway, having forgotten something, he reconsidered.

"You put your heart and soul into something, and then you lose your ass," he said. "You don't see any other way out."

He plans to sell off his herd early next year and start a barbecue catering business.

"You're raised a farmer, and that's what you're supposed to do," he said. "It's my family legacy. It's like I'm losing my image as a man."

What Gets Lost

Mr. Charter is accustomed to working 7 days a week, 365 days a year—in cold winters and hot summers.

Ever since the Reagan Administration, the Federal Government has taken a lax approach to antitrust enforcement, investing in the popular notion that when large and efficient companies are permitted to amass greater scale, consumers benefit.

That notion may now be up for readjustment.

The Biden Administration and Members of Congress are pressing to diminish the dominance of the meatpackers as inflation concerns intensify.

The Federal Trade Commission last month opened an *inquiry* [10] into how anti-competitive practices by major companies have contributed to supply chain problems.

"The meat price increases we are seeing are not just the natural consequences of supply and demand," senior White House economists recently declared in a *blog post.* [11] "They are also the result of corporate decisions to take advantage of their market power in an uncompetitive market, to the detriment of consumers, farmers and ranchers, and our economy."

Last year, as the pandemic began, the Charter family recognized a full-on market failure.

"You could see a cow across the road, and you couldn't find ground beef in Billings, Montana," said Mr. Charter's daughter, Annika Charter-Williams, 34.

As they made arrangements to sell about 120 head of cattle in March 2020, they reached out to a friend who owns a feed lot that sells animals to a JBS plant in Utah.

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[10] *https://www.ftc.gov/news-events/press-releases/2021/11/ftc-launches-inquiry-supply-chain-disruptions*.

[11] *https://www.whitehouse.gov/briefing-room/blog/2021/12/10/recent-data-show-dominant-meat-processing-companies-are-taking-advantage-of-market-power-to-raise-prices-and-grow-profit-margins/*.

At the Alderson family's Bone Brothers ranch in Montana.

Mr. Charter was taken aback by the terms for the first load: The slaughterhouse demanded that he commit to delivering his cattle, with the price to be dictated by JBS.

"I wanted to tell him to go to hell," Mr. Charter says. "But what choice did I have?"

His break-even point was $1.30 a pound. "Without any consulting or any dealing, they just decided that they were going to pay me $1 a pound," he said.

His daughter took the disaster as the impetus for creativity. She engaged a small, local slaughterhouse to process some of their remaining animals. Then she sold the beef directly to consumers across Montana, marketing it on social media.

This resonated as a triumph—the successful sidestepping of the packers.

It was also not enough.

"It looks like we're going to have to liquidate almost all the cattle," Mr. Charter said.

When family ranches like his disappear, he added, so do the values that have governed their operations for generations—a commitment to caring for land and producing quality beef, rather than catering exclusively to the bottom line.

"People shouldn't be worried about us because we're kind of quaint and it's nice to have the cowboys out there," Mr. Charter said. "We need a food system that serves everyone, and not just a handful of companies."

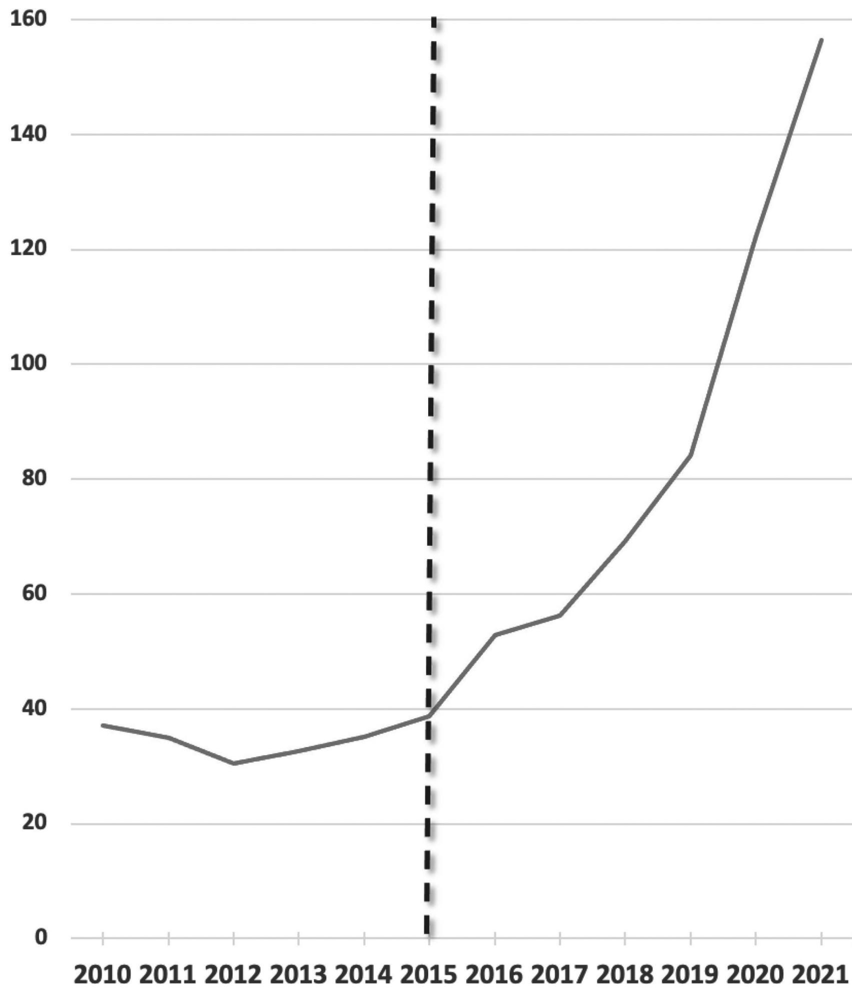
Peter S. Goodman is a global economics correspondent, based in New York. He was previously London-based European economics correspondent and national economics correspondent during the Great Recession. He has also worked at *The Washington Post* as Shanghai bureau chief. *@petersgoodman*

A version of this article appears in print on Dec. 27, 2021, Section A, Page 1 of the New York edition with the headline: *Boom in Beef, But Ranchers Can't Cash In.*

SUBMITTED CHART BY HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

The "Meat Margin"

Avg. Price Paid to Beef Processors—Avg. Price Paid to Ranchers



Source: Monthly Beef Price Data, Cents per Pound, USDA Economic Research Service.

SUBMITTED STATEMENT BY HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA; ON BEHALF OF ROBERT L. LAREW, PRESIDENT, NATIONAL FARMERS UNION

Chairman Scott, Ranking Member Thompson, and Members of the Committee:

On behalf of the family farmers, ranchers, and rural members of National Farmers Union (NFU), thank you for holding a hearing to address ongoing price, transparency, and market power challenges in cattle markets. Founded in 1902, NFU is a grassroots farm organization that represents more than 200,000 family farmers and ranchers across the country, including many cattle ranchers.

Today, most sectors in America's farm and food system are heavily concentrated and dominated by a small handful of multinational corporations, and this is particularly evident in the livestock sector. Since 1977, the share of the meatpacking market controlled by the four largest beef packers increased from 25 percent to 85 percent.[1 *]

During NFU's annual national convention in March 2022, Farmers Union delegates adopted a special order of business that calls for "legislation that would strengthen antitrust laws, reverse the trend of consolidation, and protect family farmers and ranchers from anticompetitive practices." [2] Furthermore, in 2021, NFU launched the "Fairness for Farmers" campaign, an effort to shed light upon the devastating impact that monopolies have had on family farmers and ranchers. In addition to raising awareness of these problems, the campaign calls for legislative action including improving price discovery and transparency, reforming the Packers and Stockyards Act (PSA), diversifying marketing opportunities, and strengthening antitrust enforcement.[3]

Farmers and ranchers need Congressional action to combat monopolies and provide fairness in the marketplace. There are multiple strong legislative proposals meant to address ongoing challenges in cattle markets and growing public awareness today of the shortcomings in these markets. I urge the Committee expedite the review and passage of these legislative solutions.

Improving Price Discovery and Transparency in Cattle Markets

One of NFU's chief concerns regarding cattle markets is the impact the decline in negotiated trades has on price discovery. While we recognize the benefits of alternative marketing arrangements (AMAs) as an option for cattle producers and packers, the cash market serves as the basis for all cattle prices. Cattle producers also need greater access to market information, which the implementation of a functioning cattle contract library could provide. Additionally, truth-in-labeling through mandatory country-of-origin labeling is needed so there is transparency in the marketplace for consumers.

Price discovery and transparency

High levels of concentration give meatpackers incredible levels of market power and market influence. The packers' control of the market also gives them significantly more market information than cattle producers. Congress passed the Livestock Mandatory Reporting Act (LMRA) in 1999 in response to concerns about AMAs and high levels of concentration in the meatpacking industry. LMRA resulted in mandatory price reporting of most transactions for livestock, and it has been renewed and amended multiple times.[4] While LMR has been beneficial for price discovery in general, the continued erosion of the cash market for cattle is undermining its benefits.

AMAs can be valuable tools for packers and producers. Packers prefer AMAs because they can reduce procurement and transaction costs and allow plants to operate closer to capacity more consistently. AMAs also have benefits for livestock sellers, allowing them to lock in prices, guarantee market access, and reduce transaction costs. However, the cash market serves as the basis for pricing through AMAs. Negotiated trades also provide the greatest level of price discovery in the market. Ensuring a robust cash market is thus important for improving and preserving price discovery in the cattle market.

In the last 15 years, the level of cash trades has declined dramatically. Nationally, cash trades have declined from 52 percent of all trades in 2005 to 20 percent in 2021. Over the same period, formula trades increased from 33 percent to 61 percent.[5] This change allows packers greater control over the cattle supply and price discovery.

NFU believes it is essential to establish mandatory minimums for negotiated trades to ensure price discovery in the cattle market. The Committee should review

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[1] Congressional Research Service, "Livestock Marketing and Competition Issues," † RL33325, January 30, 2009. *https://www.everycrsreport.com/reports/RL33325*.

[*] **Editor's note:** footnotes annotated with † are retained in Committee file.

[2] NFU 2022 Special Order of Business: "Fairness for Farmers." † *https://nfu.org/policy/*.

[3] *https://nfu.org/fairness-for-farmers/*.

[4] Mathews, Brorsen, Hahn, Arnade, and Dohlman,"Mandatory Price Reporting, Market Efficiency, and Price Discovery in Livestock Markets," † USDA, Economic Research Service (ERS), LPDM–254–01, September 2015. *https://www.ers.usda.gov/webdocs/outlooks/37626/53727_ldpm-254-01.pdf?v=5345*.

[5] USDA AMS "Annual LMR Live Cattle Purchase Type Breakdown by Region." † *https://www.ams.usda.gov/sites/default/files/media/LMRLiveCattleAnnualPurchaseTypeBreakdown.pdf*.

the amended Senate version of H.R. 5992—the Cattle Price Discovery and Transparency Act (in the Senate, S. 4030). This bill creates a framework for USDA to establish regional mandatory minimum negotiated trade to address declines in price discovery in cattle markets, in addition to other provisions to make the marketplace more transparent.

Cattle contract library and other transparency provisions

NFU recommends the establishment and maintenance, through the Livestock Mandatory Reporting program, of a cattle contract library, which would provide information included in contracts between packers and producers for the purchase of fed cattle. A contract library would provide equal access to market information for all market participants. A cattle contract library will give producers better information about all the different contract elements that may be helpful or detrimental to their operation, and thus help produces negotiate better contracts. The concept is being piloted but needs to be made permanent.

The Committee should also consider other measures that can improve transparency in cattle markets. One example includes expediting carcass weight reporting and mandating reporting of cutout yield data. The spread between boxed beef and fed cattle prices has been a major concern among cattle producers in recent years. Following the dramatic divergence between boxed beef and fed cattle prices in the early months of the coronavirus pandemic, it took nearly 18 months for the spread to fall back to 5 year average levels.[6] Giving cattle producers greater access to cutout yield data will improve their ability to negotiate prices that better reflect consumer beef values.

A 14 day slaughter reporting requirement could also improve cattle producers' negotiating position. This requirement would ensure that cattle producers can project estimated slaughter numbers and packer needs for cattle. This will give producers a better understanding of supply and demand dynamics that impact the value of cattle.

Mandatory Country-of-Origin Labeling

A fair, competitive, and transparent market for beef requires product labels that are truthful. A supply chain that contains false or misleading product labels puts domestic producers at a competitive disadvantage while preventing consumers from making fully informed decisions about the products they buy. Cattle ranchers want to provide consumers with accurate information about the origins of the beef they buy, and Federal labeling laws should support farmers in achieving that goal.

NFU supports the American Beef Labeling Act of 2022 (H.R. 7291) to reinstate mandatory country-of-origin labeling (COOL) for beef. NFU policy states that mandatory COOL "is a valuable marketing tool for producers, and it allows consumer to know here the meat products they consume rare born, raised, slaughtered, and processed."[7] We look forward to working with the Committee to address the ongoing failures of Federal labeling requirements for beef.

Strengthening Competition and Antitrust Laws and their Enforcement

Given the high level of concentration in the marketplace, it is imperative that our antitrust and pro-competition laws work the way Congress intended. When the Packers and Stockyards Act, the Sherman Act, and Clayton Act were enacted more than a hundred years ago, Farmers Union members were strong supporters. Yet, lax enforcement in the last few decades has left consolidation and anticompetitive practices largely unchecked. As a result, farmers and ranchers have been deprived of marketing choices, innovation, fair prices, and equal treatment. NFU urges support for the Meat and Poultry Special Investigator Act (H.R. 4103) and the swift completion of forthcoming PSA rulemakings to strengthen competition and antirust laws and to encourage more robust enforcement of the law.

The Meat and Poultry Special Investigator Act

The U.S. Department of Agriculture (USDA), the Department of Justice (DOJ), and the Federal Trade Commission (FTC), need stronger tools to enforce existing antitrust laws. The Meat and Poultry Special Investigator Act would provide USDA the authority and resources it needs to address anticompetitive behavior when it

[6] Kansas State University, Livestock & Hay Charts, "Choice-Select Boxed Beef Spread," † March 21, 2022. *https://www.agmanager.info/livestock-meat/livestock-marketing-charts/choice-select-boxed-beef-spread*. **Editor's note:** the chart is updated weekly, as such the current version, for purposes of retention in Committee file, is dated May 9, 2022.

[7] National Farmers Union, *Policy of the National Farmers Union,* † (March 2022). *https://nfu.org/policy/*.

arises. The bill also provides the cross-agency collaboration necessary to address monopolistic practices within the industry.

The 2017 reorganization of USDA diminished the standing, independence, and resources of the agency charged with enforcing the PSA. Greater emphasis should be placed on PSA enforcement, especially because the law has been under-enforced in recent decades.[8] The Meat and Poultry Special Investigator Act would help ensure that independent farmers and ranchers have a chance to succeed by creating a special investigator's office with subpoena power, a dedicated staff of experts and attorneys, and the provision of resources to expose wrongdoing in the marketplace. The special investigator's office would also promote cross-agency collaboration, working with DOJ and FTC to closely study and pursue actions against potential abuses. The office could also work with the Department of Homeland Security to protect against actions that would threaten our food supply.

Strengthening the Packers and Stockyards Act

The enforcement of the PSA is critical to the long-term viability of cattle producers. NFU is heartened that President Biden's executive order on competition reaffirms the government's commitment to the principles that led to the passage of the PSA and specifically mentions the need for the Secretary of Agriculture to initiative rulemakings under the PSA "to address the unfair treatment of farmers and improve conditions of competition in markets for their products."[9]

As USDA prepares rulemaking to strengthen the PSA, the department should ensure that it is not necessary to show a competitive injury broadly to find an action of a packer, swine contractor, or live poultry dealer to be unlawful under the PSA. As USDA has repeatedly argued in court cases, the unambiguous language of section 202(a) and (b) of the PSA does not require any proof of an adverse effect on competition or of restraint of commerce or trade. The legislative history of the PSA shows that Congress intended to prohibit actions that give undue and unreasonable preferences without regard to whether they restrain trade, create a monopoly or control prices.[10]

More generally, the update to the PSA should provide greater clarity about what practices in the meat industries constitute unfair, unjustly discriminatory, or deceptive practices, and thus violate the PSA. PSA rulemaking should also institute anti-retaliation protections that help ensure farmers' right to association and so that farmers can speak up about unfair treatment without fear of retribution.

Supporting the growth of local and regional processing

The COVID–19 pandemic highlighted how large, seemingly efficient systems of production can falter when there are shocks to those systems. Local and regional food systems also faced disruptions but were often better positioned to adapt rapidly to new conditions and protect against shocks, given their shorter supply chains and more direct connection to consumers.[11] Strengthening local and regional supply chains would promote greater competition in the cattle and beef industries. Local and regional slaughter facilities would also create new opportunities for ranchers.

Increasing local and regional slaughter capacity will create opportunities for cow-calf producers to add value to their cattle on their own operations. Thankfully, action is being taken on this front. USDA has made $1 billion available through loan guarantees, gap financing, and technical assistance to support new and expanding local and regional slaughter facilities. USDA has also provided various programs to help small and very small processing facilities weather the challenges they faced during the COVID–19 pandemic.

Beyond increased capacity, it is also important that regulatory frameworks provide reasonable flexibility to small and very small processing facilities. Federal inspector requirements and fees can be burdensome for small facilities, causing many to operate under federally approved state inspection programs. However, even though state inspection programs must meet a standard of at least equal to Federal

[8] United States Government Accountability Office (GAO), Testimony before the Committee on Agriculture, Nutrition, and Forestry, United States Senate, "Packers and Stockyards Programs: Continuing Problems with GIPSA Investigations of Competitive Practices," † March 9, 2006. *https://www.gao.gov/assets/gao-06-532t.pdf*.

[9] Executive Order 14036 of July 9, 2021, "Promoting Competition in the American Economy," † *Federal Register* Vol. 86, No. 132, July 14, 2021. *https://www.federalregister.gov/documents/2021/07/14/2021-15069/promoting-competition-in-the-american-economy*.

[10] Congressional Research Service, "USDA's GIPSA Rule' on Livestock and Poultry Marketing Practices," † R41673, January 7, 2016. *https://crsreports.congress.gov/product/pdf/R/R41673*.

[11] Dawn Thilmany, Elizabeth Canales, Sarah A. Low, and Kathryn Boys, "Local Food Supply Chain Dynamics and Resilience during [COVID]–19," † *Applied Economic Perspectives and Policy,* October 26, 2020. *https://onlinelibrary.wiley.com/doi/full/10.1002/aepp.13121*.

inspection standards, state-inspected meat is not allowed to be sold across state lines. We support allowing interstate sales of state-inspected meat and providing appropriate regulatory flexibility that reflects the operating conditions in small and very small facilities.

Conclusion

Thank you for holding this hearing today and for your attention to price, transparency, and other market challenges facing cattle markets. NFU stands ready to work with the Committee to address these issues and we would be happy to answer any questions you may have.

SUBMITTED LETTER BY HON. CYNTHIA AXNE, A REPRESENTATIVE IN CONGRESS FROM IOWA; ON BEHALF OF BOB NOBLE, PRESIDENT, IOWA CATTLEMEN'S ASSOCIATION

April 25, 2022

Hon. DAVID SCOTT,
Chairman,
House Committee on Agriculture,
Washington, D.C.;

Hon. GLENN THOMPSON,
Ranking Minority Member,
House Committee on Agriculture,
Washington, D.C.

Re: An Examination of Price Discrepancies, Transparency, and Alleged Unfair Practices in Cattle Markets

Dear Chairman Scott, Ranking Member Thompson, and Members of the House Agriculture Committee:

The Iowa Cattlemen's Association (ICA) is a grassroots organization representing nearly 8,000 cattle producers and stakeholders affiliated with the cattle industry. As the definitive voice of Iowa's beef business, we have a responsibility to amplify messages from our members to key decision makers. The commitment of our members to improve the state of the fed cattle market has led us to forge our own path despite pushback from major meatpackers, economists, and corporate feedyards.

For several years, we've asked Congress to enact legislation that would help level the playing field between meatpackers and producers. We've expressed the need to address the following primary challenges: lack of price discovery and transparency, meatpacking industry consolidation leading to fewer competitors, captive supply, and price manipulation. We've also called on the U.S. Department of Agriculture and the Department of Justice (DOJ) to investigate meatpackers for collusion, price manipulation, and market disruptions.

Various Members of Congress, including Reps. Cindy Axne (IA–03) and Randy Feenstra (IA–04), have responded by introducing legislation and holding various hearings, yet nothing has come to fruition. The DOJ initiated an investigation of the four largest meatpackers in June 2020, yet we've received no updates. These concerns even reached the [White House], which resulted in the President of the U.S. convening a producer roundtable to discuss the need for greater competition in beef processing.

In July 2021, ICA member Jon Schaben testified as a witness before the Senate Judiciary Committee.[1] * The sentiment of the testimony we submitted 9 months ago is unchanged; it is time for Congress to support a transparent and competitive marketplace with action.

We encourage Members of the House Agriculture Committee to support the following bipartisan and bicameral bills:

1. **Cattle Price Discovery and Transparency Act of 2022**—to prevent further erosion of negotiated trade and price discovery, improve transparency, and level the playing field between meatpackers and producers with access to information;
2. **Meat Packing Special Investigator Act**—to address anticompetitive practices in the meat industry by better enforcing the Packers and Stockyards Act; and
3. **A–PLUS Act**—to increase meat processing capacity by allowing livestock auction market investment in small and regional packing facilities.

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[1] "Written Testimony of the Iowa Cattlemen's Association." † Iowa Cattlemen's Association, 28 July 2021, [*https://www.judiciary.senate.gov/download/mr-jon-schaben-728-testimony*].

* **Editor's note:** footnotes annotated with † are retained in Committee file.

Additionally, we ask this Committee to request a long overdue update from the DOJ regarding the antitrust investigation of Cargill, JBS, National Beef, and Tyson Foods. We're quickly approaching the 2 year mark since the civil investigative demands were issued. While we've been waiting for results from the DOJ, the packers have been busy. Despite claiming no wrongdoing, JBS recently agreed to pony up $52.5 million in a price-fixing lawsuit.[2]

The naysayer rhetoric is strong; we've been told that nothing is wrong with the fed cattle market, alternative marketing arrangements have improved quality, and no research has been conducted to determine thresholds for robust price discovery. We've also been informed that "voluntary, industry-driven" efforts are working; know that will certainly change if Congress does not require meatpackers to procure a portion of their cattle via negotiated means. The aforementioned opinions merely protect the interests of meatpackers and corporate feeders who benefit from lucrative formula contracts.

Our beef supply chain starts on our nation's farms and ranches. If cattle producers are unable to mitigate risk or use market signals to make informed business decisions, how can we expect them to stay in the black on their balance sheets? When will Congress address the problems they have allowed to develop over the past century?

Cattle producers know and understand the meaning of the saying "All hat and no cattle." It's not a phrase of endearment. We've made our elected and agency officials aware of the challenges we face as producers, yet the circumstances remain unchanged. Now is the time for Congress to act.

Questions related to this letter may be directed to Cora Fox, director of government relations, at [**Redacted**] or at [**Redacted**].

Respectfully,

Bob Noble

Bob Noble,
President, Iowa Cattlemen's Association.

Submitted Statement by Hon. Cynthia Axne, a Representative in Congress from Iowa; on Behalf of Iowa Cattlemen's Association

The Iowa Cattlemen's Association appreciated the opportunity to share our perspective with this Committee. We are grateful for the support from Congresswoman Axne and Congressman Feenstra, however, it is worth noting that we do not have an Iowa producer here to testify today. In a Senate Ag Committee hearing yesterday, Sen. Deb Fischer of Nebraska shared how difficult it is to find cattle producers that are willing to testify in Congressional hearings opposite from meatpackers. Let us be clear: While Congress cannot protect cattle producers and their businesses from being shunned by packers for testifying, Members of this Committee certainly shouldn't facilitate or allow packers to intimidate witnesses prior to a hearing.

Submitted Letter by Hon. Glenn Thompson, a Representative in Congress from Pennsylvania; on Behalf of Neil L. Bradley, Executive Vice President, Chief Policy Officer, and Head of Strategic Advocacy, U.S. Chamber of Commerce

April 27, 2022

Hon. David Scott,
Chairman,
House Committee on Agriculture,
Washington, D.C.;

Hon. Glenn Thompson,
Ranking Minority Member,
House Committee on Agriculture,
Washington, D.C.

Dear Chairman Scott and Ranking Member Thompson:

Thank you for your interest in cattle markets and meat prices. I write today regarding your April 27 hearing. As price increases hit American consumers, the Committee should focus on the real underlying causes, namely, macroeconomic trends that include supply and demand shocks and monetary policies, rather than the

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[2] "Beef giant JBS to pay $52.5 million to settle price-fixing lawsuit." † *Des Moines Register,* 4 February 2022, *https://www.desmoinesregister.com/story/news/2022/02/04/jbs-settles-lawsuit-millions-price-fixing-beef-processors-meatpacking/6664089001/.*

strawmen of industry concentration or unfair business practices. Moreover, the Committee should examine constructive fiscal, regulatory, and labor policies to increase supply and reduce prices. The Chamber stands ready to work with you and the entire Congress to address these issues.

Market Forces Are Driving Prices

Earlier this year, the Chamber explained the causes of higher meat prices:

> Like so many other products, the factors driving meat prices higher include increased demand, COVID-related supply chain disruptions, and increased input costs, especially higher energy and labor costs.
>
> One has to ask, if, as the Administration asserts, consolidation in meat and other industries has been a problem for years and it is also driving the current surge in prices, then why didn't it drive prices higher before? It is pretty clear that the Administration is attempting to use higher prices to justify their preexisting agenda to overturn decades of bipartisan consensus around antitrust and competition policy in favor of a 'government-knows-best' regulatory approach. That isn't economics, it is politics and sadly, such government intervention would likely further constrain supply and push prices even higher.[1] *

These causes are readily apparent to the American public. As the *Washington Post*'s Editorial Board recently explained in a piece titled, *"The White House once again offers a bizarre message on inflation,"* the business community is not to blame for higher prices:

> President Biden is facing mounting criticism for inflation's rise to its highest level since 1982. Unfortunately, the White House's latest response is to blame greedy businesses. Economists across the political spectrum are rightly calling out the White House for this foolishness. Even some within the White House are questioning this approach.
>
> Inflation, which was relatively low for years, did not suddenly rise in recent months because businesses decided now was the ideal time to squeeze their customers. What actually happened is that demand soared for many products as the economy recovered. Often, there were not enough products to meet it, thanks to supply chain hiccups and labor shortages, so prices went up. In a surprise to many, consumers kept buying goods such as cars and washing machines even at higher prices.

Indeed, the *Post* specifically refuted the President's narrative that industry concentration causes higher food prices: "pinning the current inflation problems on corporate greed is a flimsy argument that won't stop Americans from beefing about inflation."[2]

Industrial Concentration is Not Causing Higher Prices

Contrary to the assumptions of many in Congress, the U.S. economy is not becoming more concentrated. In an exhaustive analysis of all available economic census data from the past 2 decades, Dr. Robert Kulick finds that since 2002, U.S. economic concentration has remained flat.[3] In fact, since 2007, in both the manufacturing sector and the broader economy, the economy became less concentrated.

In terms of meat specifically, the four-firm packer concentration ratios in beef and pork packing is monitored by the Packers and Stockyards Division (P&S) of the Agricultural Marketing Service (AMS). P&S data show the four-firm concentration ratio in fed cattle beef packing has not changed meaningfully in more than 25 years.[4]

The Attempt to Blame Business Is Driven by Politics, Not Facts

Perhaps most troubling, recent efforts by the Administration to blame high prices on market concentration are reportedly driven by political advisors and are not sup-

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[1] See Chamber statement, at *https://www.uschamber.com/security/supply-chain/u-s-chamber-objects-to-misguided-administration-efforts-to-address-meat-prices*.† See also Recording of *US Chamber Food Inflation Event* (*https://www.youtube.com/watch?v=vTCLL7w78lM*) Virtual Panel: Understanding Inflation Trends in Food and Related Industries.†

* **Editor's note:** footnotes annotated with † are retained in Committee file.

[2] See *https://www.washingtonpost.com/opinions/2022/01/10/white-house-again-offers-bizarre-message-inflation/*.†

[3] Robert Kulick and Andrew Card, *Industrial Concentration in the United States: 2002–2017* † (March 2022) ("Kulick study"), at *https://www.uschamber.com/finance/antitrust/industrial-concentration-in-the-united-states-2002-2017*.

[4] See *https://www.meatinstitute.org/ht/a/GetDocumentAction/i/194719*.†

ported by the economic evidence. On January 10, 2022, the *Washington Post* reported:

> In November and December, at least four Democratic polling experts told senior White House officials that they needed to find a new approach as public frustration over price hikes became widespread and highly damaging to Biden's popularity, according to three people with knowledge of the private conversations.
>
> "What we said is, 'You need a villain or an explanation for this. If you don't provide one, voters will fill one in. The right is providing an explanation, which is that you're spending too much,'" one Democratic pollster who, like the others, spoke on the condition of anonymity to reflect private conversations, told *The Washington Post.* "That point finally became convincing to people in the White House."[5]

The same article noted:

> Senior officials at the Treasury Department, for instance, have been unsettled by the White House's attempts to blame some large corporations for inflation, skeptical of that explanation for the recent rise in prices, according to four people with knowledge of internal administration dynamics.

Indeed, in connection with this hearing, Ranking Member Thompson has warned against using this hearing as a "political charade."[6]

Macroeconomic Trends Explain Higher Prices

Instead of blaming the business community, the Committee should explore macroeconomic trends. Former Secretary of the Treasury Lawrence Summers, a senior official in both the Clinton and Obama Administrations, recently wrote the following:

> We have a serious inflation problem whatever the precise CPI [consumer price index] reading. Inflation is running well ahead of anything seen during the guns and butter Vietnam episode and 50 percent above where it was when Pres Nixon imposed wage price controls.[7]

In recent months, Japan, China, and Germany all reported their highest inflation in more than a decade.[8] Macroeconomic trends explain these high prices:

Oil Prices. The price of oil, "the most important global determinant of inflation," is very high and not expected to decline rapidly.[9] The war in Ukraine has already exacerbated this trend.

Supply and Demand. As a whole, American consumers have excess savings as a result of government pandemic relief. At the same time, the pandemic has caused many Americans to change their spending patterns. Since February 2020, spending on goods has grown six-fold compared to spending on services. Spending on goods is up almost 30% while services spending is up only 5%. When demand rises faster than supply can keep up, prices rise.[10]

In terms of meat specifically, agricultural economists agree meat demand, exacerbated by the pandemic, has exposed a shortage of slaughterhouse capacity, a supply-chain problem similar to those of other industries.[11]

Even President Biden's own Department of Agriculture (USDA), through its Economic Research Service (ERS), recognizes that macroeconomic trends, rather than industrial concentration or other business practices, explain high prices: "High feed costs, increased demand, and changes in the supply chain have driven up prices for wholesale beef and dairy."[12] In a separate report, ERS identified the causes of inflation: "2020 was a year of high food price inflation due to shifts in consumption patterns and supply chain disruptions resulting from the coronavirus pandemic."[13]

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[5] See *https://www.washingtonpost.com/us-policy/2022/01/10/white-house-inflation-strategy/*.†

[6] See *https://directory.politicopro.com/congress/member/66884*.

[7] See *https://twitter.com/LHSummers/status/1481241779508846599?cxt=HHwWjoC94Z3jto4pAAAA*.†

[8] See *https://www.washingtonpost.com/opinions/2021/11/15/inflation-its-past-time-team-transitory-stand-down/*.†

[9] *Id.*

[10] See *https://www.washingtonpost.com/opinions/2022/01/10/white-house-again-offers-bizarre-message-inflation/*.†

[11] See *https://www.reuters.com/business/retail-consumer/high-us-meat-prices-packer-profiteering-or-capacity-crunch-2022-01-19/*.†

[12] See *https://www.ers.usda.gov/data-products/food-price-outlook/summary-findings/*.†

[13] See *https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/food-prices-and-spending/*.†

Supply Chain Problems. Supply is in large part constrained because global supply chains have not healed from lockdowns and from shifting consumer patterns, including increased demand for goods. Supply chain problems are pushing prices higher because consumers have to pay more for scarce goods and businesses have to pay more for the inputs they need to produce these goods.

Worker Shortages. In the U.S., there are 4.6 million more job openings than workers to fill them. Businesses cannot make their products or provide their services at the levels necessary to meet demand without the appropriate number of workers. Additionally, businesses are having to pay workers substantially more to come to work, which is increasing their operating costs. As Secretary Summers points out, workers who switch jobs are receiving double-digit pay increases, costs that ultimately are passed along to consumers.

Monetary Policy. The Federal Reserve has put approximately $5 trillion into the financial system since the beginning of the COVID–19 pandemic. This enormous sum is slowly trickling from the financial economy into the real economy, which is pushing up the price of goods and services.

Rather than blame the business community, policymakers should explore other avenues to encourage competition and lower prices for consumers. As former Secretary Summers explained, policymakers should work to reduce tariffs, raise supplies of fossil fuels, and relax regulations. All of these tools would allow the business community to serve the needs of consumers more efficiently and at lower prices. Finally, monetary policy remains the best tool for fighting inflation.

Thank you for the opportunity to share our views.

Sincerely,

NEIL L. BRADLEY,
Executive Vice President, Chief Policy Officer, and Head of Strategic Advocacy,
U.S. Chamber of Commerce.

CC: Members of the House Committee on Agriculture.

SUBMITTED LETTER BY HON. RODNEY DAVIS, A REPRESENTATIVE IN CONGRESS FROM ILLINOIS

April 18, 2022

Hon. DAVID SCOTT,
Chairman,
House Agriculture Committee,
Washington, D.C.

Dear Chairman Scott,

We are writing to you regarding the beef pricing hearing you announced for Wednesday, April 27, 2022, and our desire for the hearing to include witnesses with knowledge of the entire spectrum of pricing dynamics from farm to table.

In the statement announcing the hearing you raised the important issue of consumer beef prices, but as you are aware, beef packers do not sell to consumers, nor do they set retail prices. Rather, packers primarily sell to processors, distributors, retailers, or food service operators. For the Committee to have a comprehensive dialogue about consumer prices, it is critical that the hearing include an expert economist or market analyst knowledgeable about the transactions and market dynamics that occur and affect prices between the packing house and the consumer's house. Too much of the policy debate around beef markets has focused on producers and packers, ignoring other components of the industry's multi-faceted, highly complex supply chain. There are many other factors reflected in the ultimate retail value of beef, including input costs, labor, logistics, inventories, and more.

We respectfully request that you work with us to identify a witness that can address the retail and food service dimension of the beef supply chain after beef leaves the packing plant. We believe a collaborative effort will result in a more productive hearing. Thank you for your consideration.

Sincerely,

Hon. RODNEY DAVIS,
Member of Congress

Hon. JIMMY PANETTA,
Member of Congress

Hon. DUSTY JOHNSON,
Member of Congress

Hon. JIM COSTA,
Member of Congress

Hon. ERIC A. "RICK" CRAWFORD,
Member of Congress

Hon. STACEY E. PLASKETT,
Member of Congress

SUBMITTED LETTER BY HON. DAVID ROUZER, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

Hon. CHARLES SCHUMER,
Senate Majority Leader,
United States Senate,
Washington D.C.

Dear Senator Schumer,

The undersigned organizations wish to express their deep concern about the factory farm incentives included in the Build Back Better Act, and urge you to reject the manure digester and Concentrated Animal Feeding Operation (CAFO) incentives outlined below in the final Bill and to prioritize funding farm practices that build healthy soils.

CAFOs are an extractive, exploitative, and unsustainable model for American agriculture. Already, factory farms receive immense financial support through government subsidies and enjoy a lack of regulatory oversight. CAFOs and factory farms are not part of the climate solution and have no place in the Build Back Better Act. CAFOs pollute our climate and the environment, threaten public health, and disproportionately harm BIPOC communities. If the majority is to be the party of working-class families and revitalizing the U.S. economy, advocating for incentives that would exacerbate the harms caused by CAFOs and other factory farms would be grossly misguided.

CAFOs fuel the climate crisis. The Build Back Better Act that passed the House of Representatives would substantially incentivize building CAFO methane digesters. A CAFO houses thousands of animals and collects their urine and manure in large pits located either under the CAFO building or in a nearby lagoon. The liquid waste releases methane as it decomposes, which is then burned for energy. This type of methane capture is falsely labeled as a "renewable energy" source as liquid manure emits *more methane than solid manure in a dry lot or on pasture.*[1] Methane, a greenhouse gas, is 84 times more potent than carbon dioxide over a twenty year time frame. Manure digesters require a scale of thousands of animals to operate, causing *further expansion of CAFOs*[2] and their greenhouse gas emissions, as well as displacement of small and medium-sized farmers across the nation. For example, manure digesters for dairies require thousands of animals to operate efficiently. Investing in manure digesters comes with the unacceptable trade-off of harming the surrounding communities by expanding the factory farms that are destroying their quality of life.

Congress should be finding solutions that reduce reliance on a supply chain that creates liquid manure and methane, not patching together harmful remedies that

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[1] *https://www.epa.gov/sites/default/files/2021-04/documents/us-ghg-inventory-2021-main-text.pdf.*
[2] *https://www.thegazette.com/agriculture/nine-iowa-dairies-get-digester-permits-since-new-law-seven-plan-expansion/.*

prop up factory farms. The Build Back Better Act prioritizes building resilient human infrastructure and combating the climate crisis—CAFOs are antithetical to both.

CAFOs are extremely detrimental to local air and water quality, as well as the broader environment. While methane may seem like an abstract threat, your friends, neighbors, and constituents suffer directly from the many other polluting impacts of CAFOs. *Drinking water,*[3] especially in rural areas, is likely to be contaminated with nitrates and bacteria from CAFO-sourced manure after running off from fields and into local waterways and drinking wells. The *Environmental Protection Agency has long cautioned that CAFOs are a leading contributor to dangerously high levels of toxic particles in water,*[4] leading to fish kills and polluted drinking water.

CAFOs and factory farms jeopardize public health. In 2019, the *American Public Health Association called for a precautionary moratorium on new and expanding CAFOs.*[5] Workers and neighboring residents of CAFOs are *at a higher risk of developing asthma, allergies, and decreased lung function*[6] than those who do not live by CAFOs. Over *150 pathogens can be found in manure from CAFOs*[7] causing serious diseases in humans, such as Anthrax, Leptospirosis, Listeriosis, *Salmonella* poisoning, Giardiasis, and many others. Health risks are greater for children and those who are immunocompromised. The *World Health Organization,*[8] *Centers for Disease Control*[9] and *Food and Agricultural Organization of the United Nations*[10] have warned that humans are also at ever-higher health risks because CAFOs create superbugs by increasingly relying on antibiotics to control diseases in animals, so much so that the microbes being controlled develop immunity to the drugs and mutate. As such, CAFOs create microbes that infect humans, and are resistant to life-saving antibiotics used by medical professionals.

CAFOs are a tool of environmental racism and injustice. CAFOs tend to be built in and around communities with the least financial and political resources to fight back against the extractive operations. In many parts of the country, this tends to be in Black communities with histories of enslaved labor and sharecropping. In North Carolina, *CAFOs were five times more likely to be located in majority non-white communities and seven times more likely in high-poverty areas.*[11] Workers in CAFOs tend to be immigrants and *face grueling working conditions.*[12] Communities of all affluence levels tend to oppose proposed CAFO sites, so the intentional placement in BIPOC and low-wealth communities is an environmental injustice that must be ended—not perpetuated by the Build Back Better Act.

CAFOs are a driving factor of an unjust food system that pollutes the environment, threatens human health, and perpetuates systemic racism and inequity. They have no role in the Build Back Better Act. CAFO operators already enjoy many incentives and do not need another program built from funds meant to support working families. Furthermore as written the bill would allow factory farms to stack incentives essentially encouraging a CAFO boom across the country. The House-passed BBB includes the following incentives:

- A set-aside for "underutilized technology" (which is likely to primarily fund manure digesters) in new grant funding for the Rural Energy for America Program (REAP);
- Expanded eligibility for the 30% renewable energy tax credit to offset up-front costs associated with building digester systems, including manure digesters; and
- An additional $9 Billion in funds for USDA's Environmental Quality Incentives Program without proper guardrails to restrict this funding from going to sup-

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[3] *https://prospect.org/environment/new-york-dairy-farms-skirt-clean-water-act-requirements/.*
[4] https://www3.epa.gov/npdes/pubs/cafo_*proposed_env_assess_ch1-3.pdf.*
[5] *https://www.apha.org/Policies-and-Advocacy/Public-Health-Policy-Statements/Policy-Database/2020/01/13/Precautionary-Moratorium-on-New-and-Expanding-Concentrated-Animal-Feeding-Operations.*
[6] *https://docs.google.com/document/d/1JIPeE_KGecUnIpTYh53Nlr0b-K-b9BXjE01gvE56NSo/edit.*
[7] *https://www.cdc.gov/nceh/ehs/docs/understanding_cafos_nalboh.pdf.*
[8] *https://www.who.int/news/item/07-11-2017-stop-using-antibiotics-in-healthy-animals-to-prevent-the-spread-of-antibiotic-resistance.*
[9] *https://www.cdc.gov/drugresistance/threat-report-2013/pdf/ar-threats-2013-508.pdf#page=6.*
[10] *https://www.un.org/pga/71/2016/09/21/press-release-hl-meeting-on-antimicrobial-resistance/.*
[11] *https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1637958/.*
[12] *https://moenvironment.org/cafo-toolkit/.*

port manure digesters for CAFOs instead of other more beneficial practices that would contribute to diversified and equitable climate-friendly food production.

Further incentivizing CAFOs would be misguided and firmly against the best interests of Americans. In 2019, the Center for Livable Future at Johns Hopkins University *published poll results of likely voters*[12] in heavy CAFO states who strongly favored moratoriums on new CAFOs. Factory farms would not be viable without the Federal subsidies they rely on, the lack of regulatory oversight they enjoy , and the political power of the corporations that profit from them. CAFOs are not the first choice of voters, farmers, consumers, or even the free market—but rather the product of corporate food giants that make their money from exploitation, often aided by government support.

We, the undersigned organizations, urge that you reject any new CAFO incentives in the forthcoming draft of the Build Back Better Act to be voted on in the Senate.

Sincerely,

350 Eugene
350 Hawaii
350 Seattle
350 Triangle
350 Wenatchee
50by40
ActionAid USA
Advancing Collective Equity
ADVOCACY COLLABORATIVE
Agrarian Food Web LLC
Alaska Community Action on Toxics
All Together Now Pennsylvania
Alliance of Nurses for Healthy Environments
American Grassfed Association
American Sustainable Business Network
Animal Legal Defense Fund
Animal Legal Defense Legislative Fund
Animal Legal Society (VLS)
Animals Are Sentient Beings, Inc
Applecroft Farm
Arkansas Ozark Waterkeeper
Assateague Coastal Trust
Balanced
Be Well with Brialle and The Black Women's Healing Haven
Beyond Pesticides
Big Reuse
Bionutrient Food Association
Black Veg Society
Black VegFest
Bothered Earth, LLC
Breakthrough Strategies and Solutions
Bright Building LLC
Brighter Green
Broad Riverkeeper
Buffalo River Watershed Alliance
Businesses for a Livable Climate
CA Businesses for a Livable Climate
Call to Action Colorado
Campaign for Family Farms and the Environment
CatholicNetwork US
Catskill Mountainkeeper
Center for Arkansas Farms and Food
Center for Biological Diversity
Center for Food Safety
Centralas Wine LLC
Chicago Food Policy Action Council
Chilis on Wheels
Clean and Healthy New York
CleanAirNow
Climate Hawks Vote
Climate Justice Alliance
Climate Reality Project Silicon Valley
CO Businesses for a Livable Climate
Coming Clean
Compassion in World Farming USA
Concerned citizen
Dakota Rural Action
DC Greens
Earth Action, Inc.
Eating Animals Causes Pandemics
Encompass
Environment America
Environmental Justice Ministry Cedar Lane Unitarian Universalist Church
Extinction Rebellion San Francisco Bay Area
Factory Farming Awareness Coalition
Fair World Project
Family Farm Action
Family Farm Defenders
Farm Aid
Farm Forward
Farmworker Association of Florida
Food & Water Watch
Food Animal Concerns Trust
Food as Medicine Nutrition Counseling
Food Revolution Network
Friends of the Earth
Pasture Raised Foods
Pesticide Action Network
Friends of Family Farmers
Gladney Farm
Good Omand Farm
Good Stewards
Government Accountability Project Food Integrity Campaign
Grassroots Environmental Education
Green Education and Legal Fund
Green Sanctuary committee of the Unitarian-Universalist Church of Silver Spring
Green State Solutions
Green Village Communications
Greenpeace USA
Grow For Food
Gulf Coast Center for Law & Policy
Hawai'i Alliance for Progressive Action (HAPA)
Hebbard Fence, LLC
Hedgerow Hill Farm, LLC
Hip Hop is Green
Hudson Varick Resources
Humane Society International
Humane Society Legislative Fund
Humane Society of the United States
Humane Society Veterinary Medical Association
Hungry Bear Farm
I–70 Citizens Advisory Group
Indigenous Environmental Network
Indivisible Ambassadors
Institute for Agriculture and Trade Policy
Iowa Citizens for Community Improvement
Jefferson County Farmers & Neighbors, Inc.
Johns Hopkins Center for a Livable Future
JSA Sustainable Wealth Management
Just Transition Alliance
Kickapoo Peace Circle
Kitchen Dwellers, LLC
Kitchen Sync Strategies
Land Stewardship Project
LEAD for Pollinators, Inc.
Lean and Green Kids
Let's Green CA!
Locust Point Community Garden
Long Beach Alliance for Clean Energy
Los Jardines Institute
Loudoun Climate Project
Maryland Pesticide [Education] Network
Mercy For Animals
MiCCA
Michigan Organic Food and Farm Alliance
Mid-Ohio Valley Climate Action
Milwaukee Riverkeeper
Montbello Neighborhood Improvement Association
MOSA Certified Organic
MountainTrue
National Family Farm Coalition
National Farm to School Network
National Farm Worker Ministry
National Latino Farmers & Ranchers Trade Association
Navitas Organics
NC Climate Justice Collective
NC Clinicians for Climate Action
Neighboring Food Co-op Association
Non Toxic Communities
North Range Concerned Citizens
Northeast Organic Dairy Producers Alliance
Northeast Organic Farming Association of New York
Northeast Organic Farming Association of Vermont
Northeast Organic Farming Association-Interstate Council
Northern Plains Resource Council
NWI Food Council
NYCLASS (New Yorkers for Clean, Livable, and Safe Streets)
Ohio Ecological Food and Farm Association
Organic Seed Growers and Trade Association
Our Climate
Our Climate Education Fund
PDA Arizona
Planetary CARE
Planetphilia
Plant Powered Metro New York
PlantPure Communities
Princeton Student Climate Initiative
ProVeg International
ProVeg USA
PSR Arizona
Public Justice
RapidShift Network
Reach Out America
Real Food Media
Regenerative Organic Alliance
Regenerative Rising
ReKaivery Inc.
Renewable Rikers
Representing myself
Residents Allied for the Future of Tioga (RAFT)
Resource Renewal Institute
River Guardian Foundation
Rockland Farm Alliance
Rural Coalition
Rx4vida
Santa Cruz Climate Action Network
Savory Institute
SCCAN
Science and Environmental Health Network
SEE–LA (Social Eco Education)
SEED: Strategies for Ethical and Environmental Development, Inc.
Seeding Sovereignty
Sierra Harvest
Slow Food USA
Slow Food Youth Network USA
Small Business Alliance
Socially Responsible Agriculture Project
Sonoma Hot Sauce
STEAM URBAN
Stone Soup Garden
Stonewall farm
Stop SPOT & Gulflink
Stop the Algonquin Pipeline Expansion (SAPE)
StopCricketValley.org
Stray Dog Institute
Sunrise Hunterdon County
System Change Not Climate Change
Temple Beth Zion Brookline
Terra Advocati
The Compassion Project
The Green House Connection Center
The Planetary Health Collective
The Pollination Project
The Raven Corps
TIAA—Divest! From Climate Destruction
Toxic Free North Carolina
True Health Initiative
Tufts University
U.S. PIRG
Unite North Metro Denver
Until Justice Data Partners, Inc.
Utah Physicians for a Healthy Environment
Vegan Activist Alliance (VAA)
Vilicus Farms
VitalBeeBuds
Voters for Animal Rights
Walk Your Talk Productions
Wall of Women
Wally Farms
Water Climate Trust
Waterkeeper Alliance
West End Revitalization Association WERA
WildEarth Guardians
Wisconsin Health Professionals for Climate Action
Women Food and Agriculture Network (WFAN)
Womxn from the Mountain
World Animal Protection US
world citizen
Zero Hour
People & Pollinators Action Network

[12] *https://clf.jhsph.edu/projects/food-citizen/cafo-moratorium-poll-results-2019*.

CC:
Chairwoman Stabenow, Chairman Sanders.

Submitted Letter by Hon. Don Bacon, a Representative in Congress from Nebraska; on Behalf of Brenda Masek, President, Nebraska Cattlemen

April 26, 2022

Hon. David Scott,
Chairman
Hon. Glenn Thompson,
Ranking Minority Member
House Agriculture Committee
Washington, D.C.

RE: An Examination of Price Discrepancies, Transparency, and Alleged Unfair Practices in Cattle Markets

Dear Chairman Scott, Ranking Member Thompson and Members of the Committee:

Nebraska Cattlemen is grateful for the opportunity to share our member's concerns regarding price discrepancies, beef cattle market transparency, and alleged unfair practices in cattle markets. Our organization is a grassroots membership organization representing thousands of farmers and ranchers from every scope and sector of the beef cattle industry in Nebraska.

Our beef cattle producer members and their livelihoods are directly impacted by the beef cattle market's ability or inability to send appropriate price signals up and down the beef cattle supply chain. In the past decade, those price signals have encouraged ranchers to expand their cow herds and cattle feeders to expand their feeding operations as domestic and global demand has exponentially grown like few could have imagined. Yet today, as wholesale beef prices start to shift from historic highs, the percent of the available profit margins in the beef supply chain passed onto cattle producers remains disproportionally low.

It has become painfully apparent to our members that, in recent years, the ability of the cattle market to send the correct price signals to producers is broken. For the greater part of a decade, this has been a headline issue for members of our organization. More recently, COVID–19's impact on the cattle market has reignited concerns that surfaced following a 2019 beef packing plant fire in Holcomb, KS. These concerns continue to focus on extreme market deteriorations that repeatedly take place for the production segments of the beef industry that are closely followed by rapid increases in boxed beef values. The repeat nature of these market reactions emphasizes how the production sector of the industry is exposed to the highest potential for risk with little to no leverage to change that risk position. Sharp increases in profits for meatpackers after repeated black swan events less than 7 months apart within the cattle market highlight and emphasize this issue. Cattle producers pride themselves as being independent business entities. As the packing and processing industry repeatedly takes advantage of these independent cattle producers, placing undue pressure on the production sector of the beef cattle industry, we fear a shift to market practices that mirror other livestock protein industries could be inevitable. The shift couldn't be further from the goals of current stakeholders in the industry.

Where we are today is not a result of an evil plot to purposely stifle ranchers' livelihoods. Instead has been a progression—across the beef supply chain over the last 2 decades to become increasingly more efficient in fed cattle marketing and inventory management as an industry through alternative marketing agreements (AMAs). While these efficiencies have benefited some, they came at the cost of robust price discovery and market leverage for other producers. Undoubtedly, you will hear today about the positive industry effects of AMAs, otherwise defined by USDA Livestock Mandatory Reporting as "formula" trades, which have helped incentivize the production of higher quality beef. Please realize, however, that the long-term proliferation of AMA's has also led to a continued deterioration of price discovery as beef packers have financially incentivized the commitment of cattle without price negotiation.

Price discovery is a public good. Negotiated cash market participants invest resources to negotiate and discover cash market prices for the entire industry, while those who utilize AMAs capitalize on that investment, benefit from the efficiencies, and use the prices discovered by cash market participants. This type of scenario is best described as a tragedy of the commons. When an increasing number of market participants overuse a public good or "shared resource" for their own short-term best interest, abuse of the shared resource results in less value of that resource overall for everyone in the long run. Until the price discovery "public good" is better valued, the industry could continue this downward trend until there is little to no negotiated trade left and price determination will need to rely on other outside markets. Data to support this claim can be found attached to this testimony in a report titled *Annual LMR Live Cattle Purchase Type Breakdown by Region.*

How does our industry correct this course? Continuing to focus on expanding options for market participants to participate in price discovery is key. Our members seek options that contribute to price discovery, like working with the packing industry to sell on a negotiated grid—a mechanism that allows producers to garner premiums for higher-value cattle while still participating in the price discovery process by offering their cattle to numerous buyers. However, producers have grown frustrated with the lack of willingness of all packers to offer this marketing option. To incentivize packers to participate in the negotiated market and contribute to price discovery, the industry must either mandate participation, financially incentivize negotiated trade, or penalize entities who continually show a lack of participation in the price discovery process. We fully realize and acknowledge that a "mandatory minimum" for the purpose of compelling price discovery for cattle market participants is a concern for some cattle industry participants, yet there has not been an entity or organization that has identified an effective alternative to achieve the goal of compelling price discovery.

An additional source of frustration for our members is the continued perception that all AMAs reward carcass merit and therefore lead to the production of higher quality cattle. Last summer, Nebraska Cattlemen worked with USDA–AMS to gain additional insight into the mix of transaction types that comprise the "formula" fed cattle price and volume data that USDA–LMR reports. Specifically, Nebraska Cattlemen sought more information regarding the total volume and/or percentage of total reported "formula" headcounts that are transacted in such a way that USDA quality and/or yield grade parameters have a bearing on the final price paid *vs.* the volume and/or percentage of total reported volume where that is not the case.

Analysis of USDA–LMR data from January through mid-May of 2021 indicated rather clearly that in the Nebraska and Iowa/Southern Minnesota LMR regions (compared to other regions), there is a higher percentage of cattle that fall into the "formula" transaction type that are simply marked at the LMR weekly Nebraska dressed steer weighted average price, or possibly that data point plus some predetermined premium. However, still there are no other premiums or discounts applied relative to quality grade or yield grade. We understand why this type of transaction falls into the "formula" data as it is not a negotiated cash sale, a negotiated grid sale, or a contract purchase—however, we also see it to be somewhat different than a transaction that involves quality and or yield grade premiums and discounts. Our specific ask was to look at the prevalence of this type of transaction type in the LMR "formula" data set on a regional, five-area, and nationwide scale.

The results showed that the northern regions, specifically Nebraska and Iowa/Minnesota, exhibited the highest proportion of transactions with no premium or discount applied. With the quality of the cattle/beef not having any direct impact on the net price paid for cattle marketing in this manner, it would appear that any premium paid by the buyer is essentially done to reward suppliers for furnishing unpriced inventory and consequently reducing the buyers need to participate/compete in the negotiated market and contribute to the price discovery process. A copy of this report can be found attached to this testimony titled *Highlights of the Evaluation of Formula Based Cattle Purchases.*

Just as cattle producers respond to market signals to expand their cow herds and feeding operations to meet domestic and global demand, we question why the beef packing industry has not responded to those same signals for the past 5 years?

Adequate beef processing capacity is critical to maintaining profitability in the beef and cattle industry and ensuring a steady supply of beef and beef products to consumers. Currently, there is not only a shortage of adequate processing capacity, but also a reduction of processing throughput across the country. A recent study by RaboBank found that excess operational beef processing capacity fell to zero in late 2016 and turned negative in early 2017, resulting in a negative effect on cattle producer leverage in fed cattle negotiations because of lack of competition.

To improve producer leverage in fed cattle negotiations, either cattle supplies must be reduced, or processing capacity must be expanded. With domestic and foreign beef demand at an all-time high, the obvious solution to meet this growing demand without shrinking the U.S. beef herd is to expand beef processing capacity. We understand expanding capacity with new construction comes with a certain level of risk and takes time, but we do believe there are opportunities with current facilities to help meet the growing demand for beef in the near term.

Another key component to price discovery and price determination is market transparency. There have been efforts in both the house and the Senate to answer the call for increasing price discovery and expanding market transparency, specifically the adoption of a beef contract library and 14 day slaughter reporting window.

Thank you for the opportunity to share the thoughts and concerns of Nebraska Cattlemen members. As we continue to work towards finding solutions to increase fed cattle market transparency and expand price discovery to robust levels, we look forward to being at the table to talk through solutions and take actions to protect our members' family legacies

Best,

BRENDA MASEK,
President,
Nebraska Cattlemen

CC:

Representative Don Bacon

ADDENDUM: ANNUAL LMR LIVE CATTLE PURCHASE TYPE BREAKDOWN BY REGION & HIGHLIGHTS OF THE EVALUATION OF FORMULA BASED CATTLE PURCHASES

Annual LMR Live Cattle Purchase Type Breakdown by Region

National

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Cash	52.1%	49.4%	47.3%	42.6%	38.8%	37.4%	32.6%	26.0%	23.1%	23.1%	21.3%	25.6%	25.7%	25.5%	20.9%	23.4%	19.5%
Formula	33.2%	34.3%	37.4%	39.1%	43.7%	43.1%	47.4%	54.8%	59.8%	56.8%	57.0%	57.6%	57.2%	61.1%	64.8%	62.7%	61.0%
Forward Contract	4.8%	7.2%	6.8%	11.2%	9.5%	11.9%	13.2%	12.0%	10.8%	15.8%	17.5%	12.7%	13.0%	9.6%	11.0%	8.9%	10.9%
Negotiated Grid	9.9%	9.0%	8.5%	7.1%	8.0%	7.6%	6.7%	7.2%	6.3%	4.3%	4.2%	4.1%	4.1%	3.8%	3.3%	5.0%	8.6%

5-Area

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Cash	55.8%	52.0%	49.8%	45.3%	43.2%	42.4%	36.8%	27.8%	24.1%	24.0%	21.3%	26.3%	26.8%	26.1%	20.5%	23.3%	19.4%
Formula	31.9%	33.3%	35.9%	38.1%	42.3%	42.2%	46.5%	56.2%	61.8%	58.7%	58.8%	59.4%	59.5%	64.2%	69.6%	67.0%	64.7%
Forward Contract	4.6%	7.1%	6.8%	10.4%	8.1%	9.9%	10.9%	10.0%	8.6%	13.7%	16.7%	11.2%	10.8%	7.0%	7.6%	5.4%	7.7%
Negotiated Grid	7.7%	7.7%	7.5%	6.3%	6.4%	5.5%	5.7%	5.9%	5.4%	3.6%	3.2%	3.1%	2.9%	2.7%	2.3%	4.3%	8.2%

Texas-Oklahoma-New Mexico

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Cash	47.2%	42.5%	36.7%	31.5%	26.4%	21.5%	17.0%	10.2%	6.1%	3.0%	2.6%	6.4%	9.3%	6.2%	5.4%	10.1%	7.4%
Formula	42.2%	42.2%	48.4%	53.3%	60.4%	66.9%	72.7%	76.0%	83.0%	84.6%	85.9%	82.4%	81.8%	86.2%	87.9%	84.2%	80.8%
Forward Contract	3.1%	5.0%	4.4%	5.8%	5.4%	4.9%	4.4%	5.4%	4.0%	7.4%	9.3%	7.0%	6.2%	4.9%	5.3%	4.3%	5.0%
Negotiated Grid	7.5%	10.3%	10.5%	9.3%	7.8%	6.7%	5.9%	8.4%	6.9%	5.1%	2.1%	4.2%	2.6%	2.7%	1.6%	1.4%	6.8%

Kansas

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Cash	50.6%	47.3%	44.8%	41.7%	39.9%	41.0%	36.9%	27.4%	21.0%	15.6%	12.5%	23.0%	21.9%	19.3%	16.2%	18.2%	12.5%
Formula	44.8%	46.0%	48.5%	48.0%	52.1%	51.6%	54.1%	63.6%	68.5%	69.5%	64.8%	67.3%	70.7%	76.4%	81.6%	76.7%	74.4%
Forward Contract	2.8%	5.4%	5.4%	7.8%	7.0%	6.3%	7.1%	5.7%	6.5%	14.3%	22.2%	9.3%	7.0%	3.9%	1.7%	1.4%	3.8%
Negotiated Grid	1.8%	1.3%	1.3%	2.4%	1.0%	1.0%	2.0%	3.4%	4.0%	0.7%	0.6%	0.4%	0.4%	0.4%	0.5%	3.7%	9.3%

Nebraska

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Cash	64.6%	63.7%	64.7%	61.0%	60.4%	55.8%	48.3%	38.9%	36.4%	38.3%	32.6%	42.1%	41.3%	43.0%	32.9%	36.1%	31.1%
Formula	18.3%	16.8%	17.8%	17.8%	22.6%	23.4%	28.7%	41.0%	48.4%	42.6%	44.4%	42.0%	41.0%	45.2%	52.4%	54.0%	52.1%
Forward Contract	5.8%	9.7%	7.8%	14.7%	9.0%	14.0%	15.6%	14.8%	10.2%	14.7%	17.7%	12.7%	13.5%	8.5%	11.7%	4.6%	8.8%
Negotiated Grid	11.3%	9.8%	9.6%	6.5%	8.0%	6.7%	7.4%	5.3%	5.0%	4.4%	5.3%	3.2%	4.2%	3.3%	3.0%	5.3%	8.0%

Colorado

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 *	2019 **	2020 **	2021 **
Cash	51.8%	40.7%	39.6%	28.5%	28.8%	19.7%	17.9%	12.5%	10.6%	11.2%	8.3%	13.8%	16.0%	13.5%	N/A	N/A	N/A
Formula	30.1%	46.7%	46.3%	54.5%	57.9%	64.0%	64.1%	69.1%	71.4%	64.1%	70.8%	73.4%	69.4%	74.5%	N/A	N/A	N/A
Forward Contract	8.6%	7.3%	7.5%	13.3%	10.5%	14.4%	16.0%	16.8%	16.8%	24.1%	20.3%	12.2%	14.1%	10.9%	N/A	N/A	N/A
Negotiated Grid	9.5%	5.3%	6.6%	3.8%	2.7%	1.9%	2.0%	1.6%	1.2%	0.6%	0.6%	0.6%	0.5%	1.1%	N/A	N/A	N/A

Iowa-Minnesota

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Cash	73.9%	68.8%	68.8%	66.7%	63.9%	65.6%	61.8%	56.4%	54.6%	57.0%	56.7%	50.9%	51.0%	57.1%	50.0%	51.2%	47.5%
Formula	7.2%	8.4%	8.2%	9.0%	10.3%	11.2%	10.9%	20.5%	23.2%	20.3%	20.2%	21.1%	21.3%	22.3%	25.3%	24.7%	24.9%
Forward Contract	7.1%	10.2%	13.3%	16.7%	13.2%	13.9%	17.1%	13.2%	13.8%	17.1%	16.1%	20.1%	19.8%	13.6%	17.8%	15.6%	17.4%
Negotiated Grid	11.8%	12.6%	9.7%	7.6%	12.6%	9.3%	10.2%	9.9%	8.4%	5.7%	7.0%	7.9%	7.9%	7.0%	6.9%	8.5%	10.2%

Source: USDA AMS *Livestock, Poultry & Grain Market News.*
* Dataset has a minimum of one quarter removed due to 3/70/20 confidentiality guidelines.
** Entire dataset removed due to 3/70/20 confidentiality guidelines.

Highlights of the Evaluation of Formula Based Cattle Purchases

Formula purchase arrangements of fed cattle use an agreed to methodology of calculating the net price. The final net price for some formula purchases may include the application of any premiums or discounts associated with carcass performance as specified in the transaction agreement. In response to the cattle industry's desire for more transparency in the formula slaughter cattle market, AMS conducted an evaluation of formula-based cattle purchases reported under the requirements of the Livestock Mandatory Reporting Act and regulation to learn more about the makeup of these purchases. More specifically, AMS analyzed formula net price data for slaughter cattle purchases reported between January 4, 2021 and May 31, 2021, to evaluate the proportion of these formula purchases with no premium or discount applied and therefore likely priced from data referenced on another AMS report; *versus* similar formula cattle purchases that also included at least one premium or discount for quality, yield, weight, or other factor. Further, AMS evaluated this on a regional basis to see if there were any marketing differences among the states across the five-area region.

Here are a few of the highlights found from this evaluation:

- Despite some variations among the five regions, a solid majority of formula purchases in all areas do have at least one premium or discount applied.
- The northern regions of Nebraska and Iowa/Minnesota exhibited the highest proportion of transactions with no premium or discount applied.
- While the proportion of cattle in which no premium or discount was applied likely represents formula transactions limited strictly to price reference methodology, it's also possible that some of these cattle simply met baseline specifications in which no premium or discount thresholds were triggered. A complete determination cannot be made under the current LMR reporting requirements.

LMR Formula Net Premium/Discount Application Percentages Jan.–May 2021

	National	5-Area	TX/OK/NM	KS	NE	CO	IA/MN
At least 1 Premium or Discount *was* Applied	82%	82%	86%	85%	74%	84%	65%
No Premium or Discount Applied	18%	18%	14%	15%	26%	16%	35%

* Five-Area—Texas, New Mexico, Oklahoma, Kansas, Colorado, Nebraska, Iowa, Minnesota.
TX/OK/NM—Texas, Oklahoma, New Mexico; KS—Kansas; NE—Nebraska; CO—Colorado; IA/MN—Iowa, Minnesota.

SUPPLEMENTARY MATERIAL SUBMITTED BY DONNIE KING, CHIEF EXECUTIVE OFFICER, TYSON FOODS

Insert 1

Mr. COSTA. Mr. Stockton on the previous panel testified that he has not really seen real enforcement in the Stockyards and Packers Act since the 1980s, and I'm wondering—and cites that as part of the reason in the price disparity between the cow-calf operator and the prices that American consumers are seeing in the grocery store. I know there are a lot of factors that impact the prices of protein when you go from the calf-cow operation or the dairy operation to the ultimate purchaser of that product that puts food on America's dinner table every night, and we know that that is a national security issue. I am wondering if any of you would care to comment on those factors, on the impacts of these cost increases.

Mr. KING. Well, I would—Congressman, I would just simply say that, as I testified earlier, virtually every input in the supply chain has gone up. And typically when you see a minor increase, companies tend to absorb that, but the rate of inflation and costs have gone up so dramatically that some of that had to be ultimately passed on to the consumer. And we've done that as well. But, this beef business is a cyclical business, and while we've seen the trough, I think it was like June of 2020 in terms of the price of fed cattle, if you look at it today, it's about $145 and based on futures will continue to move up, as Mr. Klein commented earlier.

I agree with that assessment, and this 10 year cattle cycle that was testified about earlier, I would certainly expect, while everyone is making more money in the supply chain, I would expect that to flip some to the feeder and——

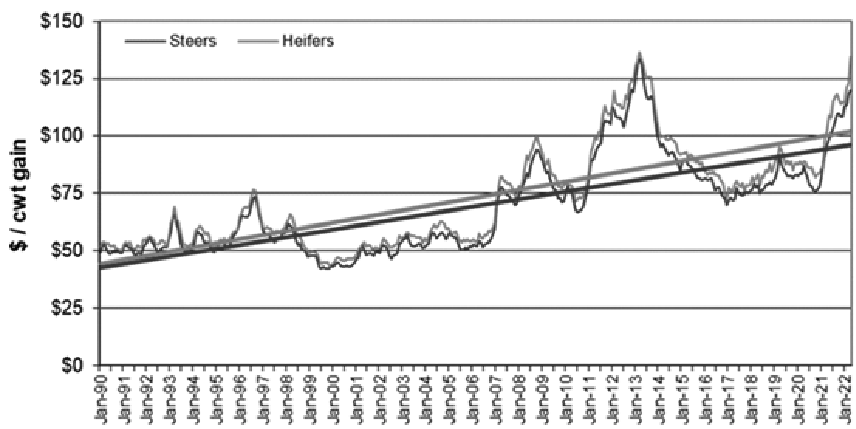
Mr. COSTA. Well, my time has expired, but if you could give the Committee a breakdown of those input costs so we can better understand it, I think that would be helpful. Thank you, Mr. Chairman.

Thank you for the question, Congressman Costa. Input costs represent the largest component of what a consumer pays at the grocery store or restaurant and fluctuate continuously based on many factors. At Tyson, we believe it is helpful to think about those costs broken down into several categories based on an operator's position in the supply chain. First, feeder cattle coming in the feed yard are purchased from a variety of sources including auction markets, stocker operators, backgrounders, livestock dealers and direct from ranchers. These operators incur the cost of feed, fuel, fertilizer, labor, interest, equipment, insurance, animal health, transportation, and taxes. Second, feed yards incur the cost of the animal at purchase, feed ingredients, feed milling, labor, fuel, transportation, equipment, animal health, regulatory compliance, insurance, taxes, and interest. Packers incur the cost of the live animal, labor, energy, packaging, storage, equipment, transportation, regulatory compliance, interest, taxes, insurance, and corporate overhead. Last, retailers and food service operators incur the cost of transportation, labor, energy, packaging, equipment, markdowns, interest, insurance, taxes, and corporate overhead. All these costs factor into the price consumers pay at the grocery store or restaurant, and these costs have been increasing at alarming rates across the board due to supply chain challenges, increased cost of fuel, transportation bottlenecks at railyards and ports, overseas hostilities, and scarcity in the labor markets, to name a few. To illustrate trendlines in some of these input costs, I submit to the Committee the graphics below.

Trendlines of Major Input Costs

Kansas State shows a long-term trend of just cost of gain in the feed yard (grain and ration costs). This is up nearly 65% year over year.

Cost of Grain, K-State Focus on Feedlots



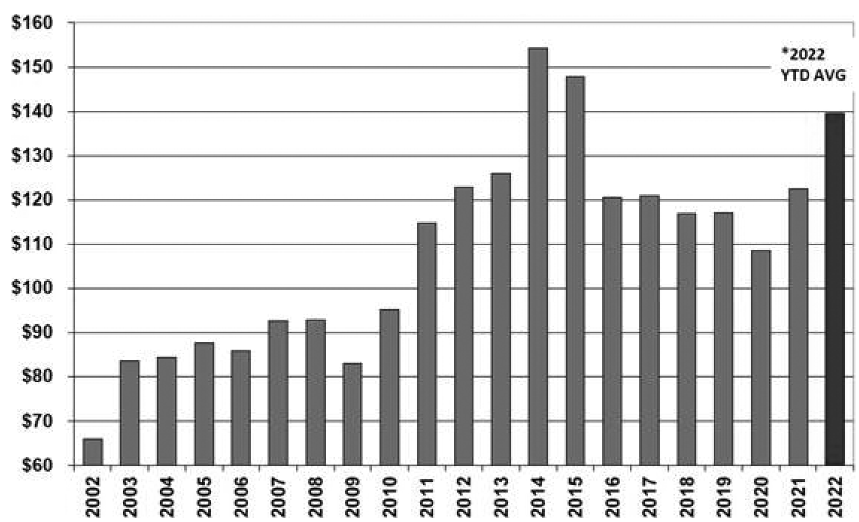
Feeder Cattle Index—Cost of Cattle coming into feedyard is up almost 40% since 2019. This also shows revenue coming off ranch.

CME Fdr Index

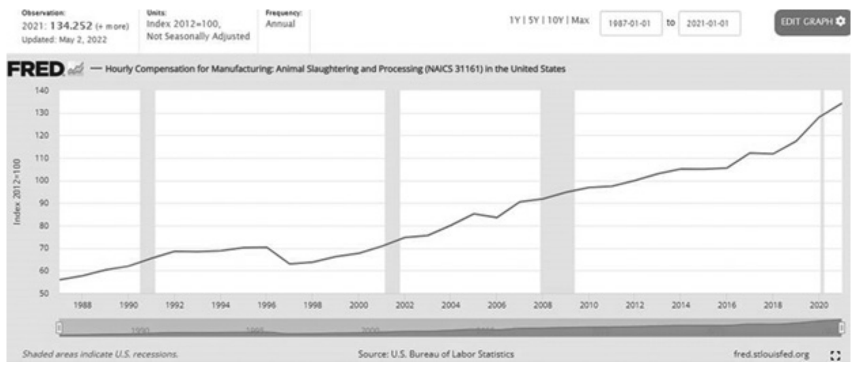
Weekly Average Price

USDA Five-Area Fed Cattle Cash Steer Price represents the cost of cattle coming to packing plant. This also shows revenue to feed yard. This input is up nearly 30% since 2020. (YTD was as of APR 22).

Annual Average Five Area Cash Steer Price—$/cwt



Hourly compensation for Packing sector compensation is up over 20% since 2018.



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Mr. FEENSTRA. . . .

Mr. King, I have been told that the four largest meatpackers agreed to provide information to the cattlemen's organization for a producer-led initiative to achieve 75 percent of negotiated trade needed for robust price discovery in each reporting region. The feeders made the effort to meet this voluntary threshold, but the initiative failed to due to lack of packer participation. Could you explain why this failed?

Mr. KING. Congressman, I'm not familiar with that. I would be happy to get the necessary information and get it to you and to this Committee.

Thank you for the question, Congressman Feenstra. In 2020, members from various affiliates of an internal working group of the National Cattlemen's Beef Association agreed on a "triggers framework" to help determine acceptable levels of negotiated trades by region, from their perspective. This agreement was silent on packer participation, and Tyson Foods was not asked to participate in the discussions surrounding the framework or the resulting voluntary agreement. As part of the agreement, the producer groups hired Dr. Stephen Koontz of Colorado State University to conduct research on the levels of negotiated trades. During the pendency of Dr. Koontz's research, Tyson voluntarily provided data to inform his work until such point as Dr. Koontz informed Tyson our data was no longer required. Tyson has not seen the results of this study, and, to our knowledge, the results have never been published or otherwise made public.

SUBMITTED STATEMENT BY HON. ILHAN OMAR, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

(1) Big Ag Monopoly & Monopsony Concerns Across the Globe

A few big agricultural corporations (Big Ag) and multinational food corporations have pushed out, shuttered, and exploited many small local farms to gain vast control of agricultural markets here and abroad.

As the sole sellers of basic goods, these major companies have the freedom to artificially inflate their high prices and engage in predatory contracting practices to exploit small farmers who need those materials to run their family businesses. Small farmers are typically not able to negotiate these prices or pursue legal claims, since forced arbitration clauses and other unfair labor tactics are common in these contract agreements. This monopolistic behavior has also resulted in some of the recent price-gouging that we're seeing now, as more agricultural corporations continue to take advantage of inflation to pass costs not only onto suppliers but also consumers.

As the sole buyers of local labor, these industrial meatpacking companies are also able to artificially set low wages for small producers and farm workers. Small suppliers and processing workers have suffered lower payer and worse working conditions while consumers pay higher prices for lower-quality food. This monopsonistic behavior has contributed to a steady rise in U.S. farm (debt) bankruptcies and the prevalence of farmer suicides since the 1980s, primarily due to financial stress.

The increase in both monopoly and monopsony powers by these food corporations are connected in explaining the current plight facing many farmers in the United States and around the world. Corporate mergers, takeovers, and collusion have left family farmers and independent ranchers with fewer buyers for their essential goods, like livestock, and fewer suppliers of basic inputs, like fertilizer and feed. U.S. small farms are completely at the whims of Big Ag and their precarious price- and wage-setting practices. It's clear that Congress must take action to return power to our critical workforce that feeds and supports American communities every day.

However, immediate Federal reform is needed not only to build resiliency in our own domestic food supply but also to strengthen international food production as well. Four agricultural biotech companies control more than ⅔ of the world's seed market and four other transnational corporations control about ¾ of the world's grain trade. The corporate consolidation of our global food markets will only serve to benefit the profit margins of a select few at the cost of deepening poverty and food insecurity for the rest of humanity. This structural crisis of our global food system will not prepare us for humanitarian crises—caused by war, famine and climate change—and it will not help us combat the worsening hunger crisis due to the COVID–19 pandemic and current regional conflicts.

SUBMITTED STATEMENT BY JULIE ANNA POTTS, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NORTH AMERICAN MEAT INSTITUTE

On behalf of the North American Meat Institute (NAMI or the Meat Institute) based in Washington, DC, and its members around the country, thank you for the opportunity to submit this testimony.

The Meat Institute is the United States' oldest and largest trade association representing packers and processors of beef, pork, lamb, veal, turkey, and processed meat products. NAMI members include over 350 meat packing and processing companies, large and small, and account for over 95 percent of the United States' output of meat and 70 percent of turkey production.

Executive Summary

This testimony provides a comprehensive picture of the uniquely complex, dynamic, integrated, and competitive markets in which cow-calf producers, stockers, backgrounders, cattle feeders, beef packers, processors, distributors, wholesalers, retailers, food service operators, and others operate.

The testimony begins with a summary of the complex cattle and beef markets, followed by an examination of the supply and demand fundamentals driving the markets. U.S. Department of Agriculture (USDA) data show record beef production in 2019, 2020, and 2021, despite capacity constraints at packing and processing plants. Data also show cattle prices rebounded as packing capacity came into balance with the cattle supply, highlighted by cattle prices reaching their third-highest January price in the last decade during January 2022.

The testimony also rebuts claims that industry concentration has led to inflation. The four-firm concentration ratio for fed cattle slaughter has not changed appreciably in nearly 30 years; today's skyrocketing inflation across the economy results from supply chain issues and high demand, not industry concentration.

The testimony addresses proposed legislation and regulation. The cattle cash market mandate proposed by Senators Chuck Grassley and Deb Fischer would increase costs for producers and consumers at a time of high input costs and crippling inflation. Moreover, the mandate would have regional disparities: the Texas-Oklahoma-New Mexico region, Kansas, and Nebraska would shoulder the vast majority of the costs, while the Iowa-Minnesota region would escape relatively unscathed. For these and other reasons, lawmakers should oppose inserting the Federal Government into the free market.

Finally, USDA is promulgating new proposed rules to regulate packers, which are likely to have far reaching, unintended consequences. At the same time, Congress is considering establishing a politically appointed Special Investigator within USDA to add to the Department's existing enforcement personnel, duplicating resources. With the promulgation of the new rules, the Special Investigator (and staff) would be compelled to bring cases to test the legal limits of the new rules, even if those cases are not warranted. The resulting legal uncertainty and chaos will accelerate changes in livestock and poultry marketing that will up-end the supply chain, adding costs to producers, consumers, and packers.

Congress and USDA should resist making radical changes to the cattle and beef markets.

Overview of the Highly Complex and Dynamic Cattle and Beef Markets

Too often, the policy debate around the cattle and beef industry is an overly-simplified discussion limited to cattle producers *versus* beef packers. In discussions on these topics, it is imperative policy makers remember: *packers don't buy fed cattle from cow-calf producers; nor do packers sell beef to consumers.*

As Dr. Dustin Aherin testified before the House Agriculture Committee's Livestock and Foreign Agriculture Subcommittee last summer:

> . . . [C]attle are not beef. Cattle are one of several inputs into beef production. Other major inputs include labor, physical capital, and technology. These inputs are always seeking, but never finding, the perfect balance between one another.[1] [*]

The policy debate should be focused on a much broader context encompassing the dynamics across the whole value chain. For example, a recent paper published by the Federal Reserve Bank of Kansas City notes that one animal—and the beef produced from it—"could be sold as many as six times before it finally reaches the consumer."[2]

Cattle change hands before they get to the slaughter plant, and for beef, each step in the post-slaughter process that are carried out by a variety of entities, is taken to add value and supply specific products for specific uses in various consumer markets.

Though the fundamentals of supply and demand that drive cattle and beef markets are relatively straightforward, the markets themselves are extremely complex. Although highly integrated, cattle markets and beef markets have their own supply and demand factors.

Derrell S. Peel, Ph.D., the Charles Breedlove Professor of Agribusiness in the Department of Agricultural Economics at Oklahoma State University, provides context in Chapter 1 of a must-read research paper for policymakers, ***The U.S. Beef Supply Chain: Issues and Challenges,*** *published by The Agricultural and Food Policy Center, Texas A&M University.*

Dr. Peel emphasizes the sheer complexity and magnitude of the cattle and beef market.

> It is reasonable to ask why the beef cattle industry should be plagued with so many contentious issues that have persisted for so long. Much of the reason is attributable to the fact that the *U.S. cattle and beef industry may well be the most complex set of markets in existence.* In its entirety, the cattle and beef industry represents an extraordinarily complicated set of cattle production and marketing activities which provide the source of a massive set of beef products marketed through a diverse set of final markets and all coordinated by a multitude of inter-related market transactions. (p. 3, emphasis added)

Looking at the cattle market first, from the ranch to the slaughter plant, live cattle typically change ownership two to three times—Dr. Peel describes "multiple distinct and separate" cattle production sectors.[3] Cow-calf producers market their calves to cattle feeders, or to backgrounders who in turn sell those cattle to feeders. While calves are an output for a cow-calf producer, they are an input for backgrounders and feedlots who also operate in the cattle market.

The price for cattle at any of those three most common points of transactions is a function of how many cattle are in each respective market segment at a given point in time. In other words, the price is determined by supply of cattle to sell from one segment and the demand to buy cattle by the next segment. That explains why each segment can experience different margins and why there is a futures contract for two types of cattle: feeder cattle and fed cattle. When any of those segments are out of balance, prices move, and such moves can be dramatic.

But that's just the cattle production side. Once a fed steer or heifer is finished at the feedlot, it is sold to a packer: a feeder's output and one of a packer's inputs are fed cattle. That animal is slaughtered and processed into various primal cuts. Those primal cuts are fabricated by the packers and/or further processors into numerous products, from muscle cuts like steaks, to hamburger or processed beef products. Dr. Peel also shines a light on the complexity and diversity of the processing, retail, and food service sectors:

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[1] Aherin, *Testimony* † (*https://docs.house.gov/meetings/AG/AG29/20210728/113973/HHRG-117-AG29-Wstate-AherinD-20210728.pdf*) before the House Agriculture Livestock and Foreign Agriculture Subcommittee, July 28, 2021.

[*] **Editor's note:** footnotes annotated with † are retained in Committee file.

[2] Cowley, C. *Long-Term Pressures and Prospects for the U.S. Cattle Industry,*† KANSAS CITY FEDERAL RESERVE BANK ECONOMIC REVIEW, December 17, 2021.

[3] See *The U.S. Beef Supply Chain: Issues and Challenges,*† (*https://www.afpc.tamu.edu/research/publications/710/cattle.pdf*) p. 3–4.

> Packers fabricate to specific product specifications for various retail grocery customers, further processing and food service customers, and a variety of export markets. As a result, the major packers produce several thousand different products from a basic fabrication process that begins with several hundred carcass products and byproducts of slaughter and fabrication. Some packing facilities in certain locations have some or all packing capacity dedicated to value-added programs that operate as sole-source for upstream suppliers and downstream markets. (p. 23)
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> *　　*　　*　　*　　*
>
> The COVID–19 pandemic revealed, somewhat to the shock and surprise of both consumers and producers, that the supply chains for retail grocery and food service are largely separate, very specialized, and quite complex. Not only are various beef cuts often used in different supply chains or used differently, but products like ground beef for retail grocery and for food service originate in very different supply chains (Peel, 2021). (p. 24)

That was a lesson learned during COVID: as beef demand skyrocketed but packers' operational capacity to slaughter cattle was constrained, beef prices increased. This was seen across the beef supply chain, from the largest packers down to the local custom slaughter "locker plant."

Supply and Demand Fundamentals at Work in the Beef Industry during COVID

Last summer, testifying before the Senate Committee on Agriculture, Nutrition, and Forestry, Dr. Glynn Tonsor of Kansas State University highlighted the relationship between cattle prices and the size of the cattle herd, which has too often been forgotten or conveniently ignored during cattle market policy discussions. Dr. Tonsor testified:

> Perhaps no relationship is currently more central to economic discussions in the U.S. beef-cattle industry than the relationship of fed cattle inventories to processor capacity.[4]

Cattle herd size must remain top-of-mind during any discussion of cattle prices. USDA released its annual *cattle inventory report* [1] on January 31, 2022, which provides a snapshot of the total cattle herd in the U.S. as of January 1. Compared to a year earlier, the report showed a reduction at every level in the U.S. beef cattle herd:

- Beef cows for breeding down two percent;
- Replacement heifers for breeding down three percent;
- Calf crop born in 2021 down one percent;
- Expected calf crop in 2022 down three percent; and
- Feeder steers and heifers for beef harvest down three percent.

This, combined with strong beef demand continuing from 2021, suggests that 2022 will be a bullish year for cattle producers. This is especially the case as the supply of fed cattle becomes more aligned with the operational capacity of the packing industry's ability to harvest and process the available supply of cattle.

Indeed, after 5 years of growth in the cattle supply, combined with the impact that COVID, insufficient labor, and supply chain disruptions had on the packing industry, cattle supply and demand were out of balance.

Cattle prices hit record highs in 2014 and 2015, when the overall cattle herd was at its smallest since 1952 (for context, that was during the Truman Administration). Those record prices incentivized rapid herd expansion among producers.

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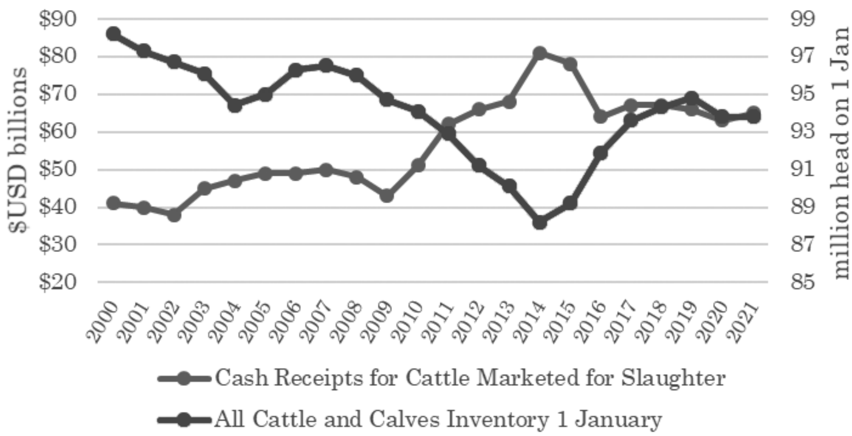
[4] Tonsor, *Testimony* † (*https://www.agriculture.senate.gov/hearings/examining-markets-transparency-and-prices-from-cattle-producer-to-consumer*) before the Senate Committee on Agriculture, Nutrition, and Forestry, June 23, 2021.

[1] *https://downloads.usda.library.cornell.edu/usda-esmis/files/h702q636h/pn89f870n/jw828f69f/catl0122.pdf.*†

Cash Receipts for Cattle *Versus* Herd Size



Source: USDA AMS.

While the beginning-of-the-year cattle inventory in the U.S. hit its peak in 2019, given the time needed to raise a calf to market weight, the supply of feeder cattle in the herd on the first of the year did not peak until January 2020. Total feeder cattle supply began 2020 at the highest level in more than a decade.

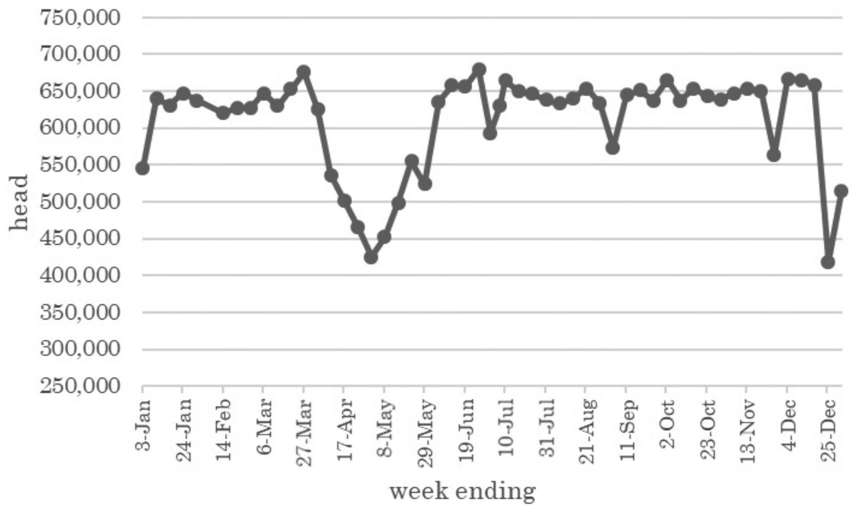
Total Feeder Cattle as of January 1

(combined cattle on feed and feeder cattle outside feedlots)

Source: USDA January 1 Cattle Inventory reports.

Two and a half months later, in March 2020, COVID hit. Slaughter plants were idled beginning in April. By the week ending May 1, 2020, weekly slaughter dropped by 40 percent and didn't recover until late June, but still lagged behind what would have been normal volumes during the season.

2020 Weekly Cattle Slaughter

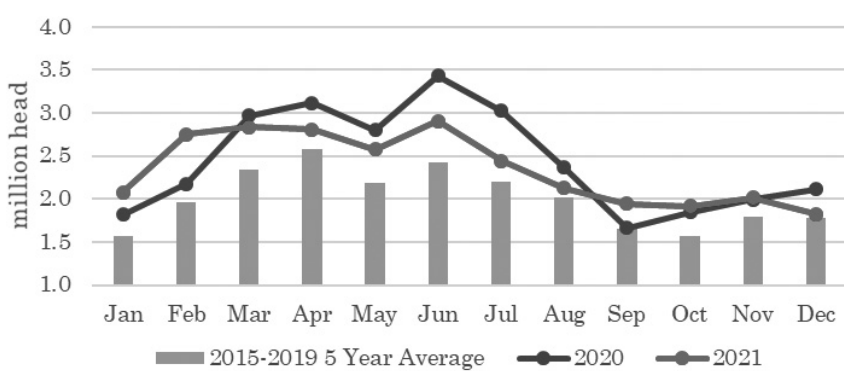


Source: USDA AMS.

This situation—more cattle and constrained ability to process them—created a backlog of cattle inventory already in feedlots. That can be measured by the number of cattle on feed for 150 days or more. These "long fed" cattle make up the supply of cattle closest to being ready to be marketed to packers for slaughter and processed into beef. The backlogged oversupply resulted in low prices for fed cattle, even as consumer and export demand for beef remained high and resulted in increased wholesale beef prices.

Monthly Cattle on Feed 150 Days or More

(feedlots of 1,000 head+ capacity)



Source: USDA NASS.

But in the face of the many challenges, the beef packing sector proved resilient. Total beef production in 2020 was a record 27.24 billion pounds, slightly larger than the previous record of 27.22 billion pounds in 2019. The increased volume was based on heavier slaughter weights. As expected, cattle weights increased because of the bottleneck of cattle on feed. Total head of commercial slaughter in 2020 was only down two percent from 2019, despite the dramatic disruption to the cattle harvest during the second quarter of 2020 due to the pandemic.

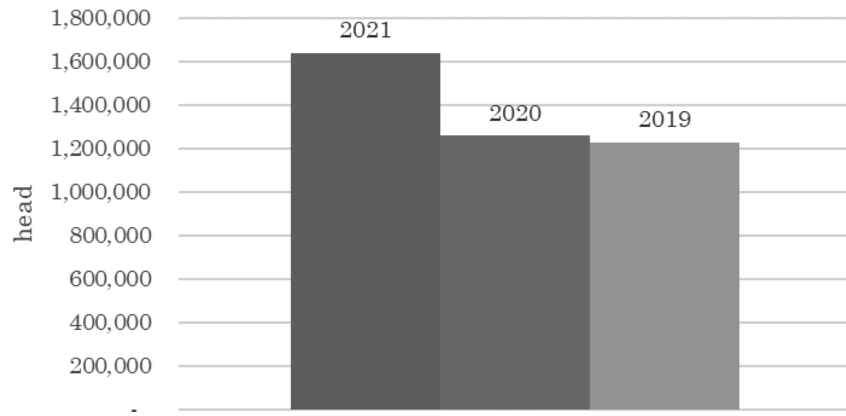
The supply of cattle remained large in 2021. USDA reports that in 2021, the cattle-on-feed inventory reached the second highest monthly total on record for 7 months, each month from February through June, and then again in September and October.

Throughout 2021, even as the comprehensive COVID–19 protections instituted by the meat industry since the spring of 2020 successfully lowered transmission among meatpacking workers and held case rates lower than case rates in the general U.S. population, worker shortages persisted. Through 2021, the Meat Institute regularly heard from member companies having up to 20 percent absenteeism on any day.

However, packers worked their way through the supply of market ready cattle last year, primarily by adding Saturday shifts, especially during the first half of the year. Total Saturday slaughter during January through July 2021 was up 30 percent over 2020 and 33 percent over 2019.

Total Saturday Cattle Slaughter

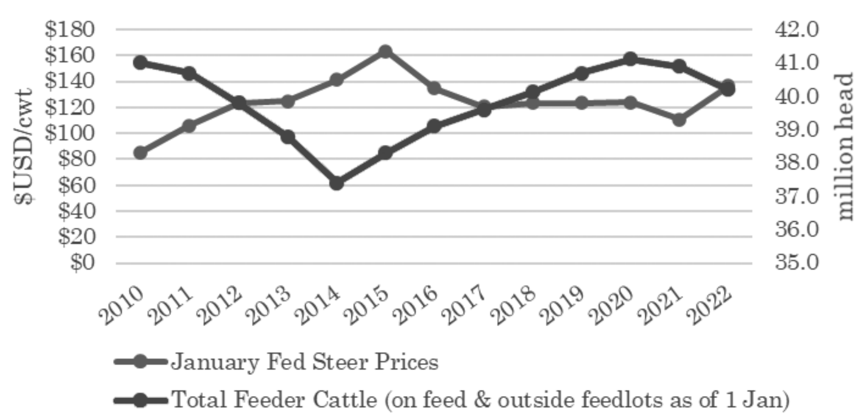
(January through June)



Source: USDA AMS.

In 2021, beef production and cattle slaughter both were up three percent from 2020, making 2021 another record year for beef production at 28 billion pounds. As slaughter rates recovered, and the industry worked through the backlog of cattle, supply and demand balance was restored. As a result, in January 2022, fed cattle prices rebounded to the highest January price since 2015, and the third highest January price in the past decade.

January Feeder Cattle Supply *vs.* Fed Cattle Prices



Source: ERS Domestic Livestock and Meat Data (3/29/22).

For 2022, based on the supply and demand trends for fed cattle, the outlook for cattle prices is bullish across the board. On January 1, 2022, the total number of cattle on feed on all sizes of feedlots was 14.7 million head. That is the same inventory as 2021 and tied for the highest in more than a decade.

However, unlike 2021, the inventory of feeder cattle outside of feedlots to be placed on feed during the year is smaller. Based on the numbers of steers, heifers not intended for cow replacement, and calves under 500 pounds, the beginning of the year supply of feeder cattle outside of feedlots is at its lowest since 2015 when fed cattle prices were at their historical peak.

Feeder Cattle Outside Feedlots

(as of 1 January)

Source: USDA NASS.

The beginning of the year supply of feeder cattle outside of feedlots is a reliable indicator of a strong cattle market through 2022 into 2023. Operational capacity at packing plants has increased. In February, cattle slaughter was 2.69 million head, which was a six percent increase over February 2021. Beef production was an all-time record for the month of February.

In addition to 7 year highs for the January average fed cattle price, February, March, and April average fed cattle prices are also at their monthly high since 2015. In short, supply and demand fundamentals continue to drive the cattle and beef markets, as they did throughout the pandemic.

COVID–19 hit as the feeder cattle supply peaked at a point higher than it had been in the previous decade; packers and processors navigated changing markets (far less food service/far more retail), labor shortages, and other supply chain disruptions; all while beef demand boomed. But beef production met the challenge, with record production in 2019, 2020, and 2021.

Today, with the cattle herd contracting, meaning supply is tightening, and operational slaughter capacity increasing, meaning demand is expanding, cattle prices are rising. It is the cattle cycle in action. *Policymakers should not intervene and attempt to control the free market fundamentals.*

Misplaced Claims about Increasing Consolidation and Concentration

Members of the Meat Institute—and the entire industry supply chain—benefit from, and depend on, a fair, transparent, and competitive market.

Much of the rhetoric about concentration in the beef packing sector wrongly implies that consolidation is on-going and that packers' market power is becoming more and more concentrated. That is not the case. The four-firm packer concentration ratio for fed cattle slaughter has not changed appreciably in nearly 30 years. According to the Agricultural Marketing Service's (AMS) Packers and Stockyards Division (P&S Division), the four firm concentration ratio was 82 percent in 1994; today it is 85 percent.

The meat packing industry has been, and continues to be, one of the most highly scrutinized industries when it comes to antitrust review. The P&S Division is uniquely charged, by statute, to provide on-going oversight for fair business practices and to ensure competitive markets in the livestock, meat, and poultry industries. Any potential merger or acquisition regulators believe threatens "too much market power" is subject to review by the Justice Department or the Federal Trade Commission. The last proposed merger of two of the "big four" fed cattle slaughterers occurred in 2008—and it was blocked by the Department of Justice.

Another clarification is needed. It is frequently claimed that the big four packers control 85 percent of beef production in the U.S. Again, that is not the case and a misleading exaggeration. Fed cattle make up 79 percent of the total cattle slaughter.

Cows and other non-fed cattle, make up the balance, primarily slaughtered to be made into hamburger. The lean meat from these animals is a necessary ingredient to be made into America's supply of hamburger produced in combination with the less demanded muscle cuts from the fed cattle. This distinction is important because up to 50 percent of all beef in the U.S. is consumed as hamburger. Even factoring in the non-fed cattle slaughter plants they own; the four largest beef packers represent about 70 percent of total U.S. beef production.

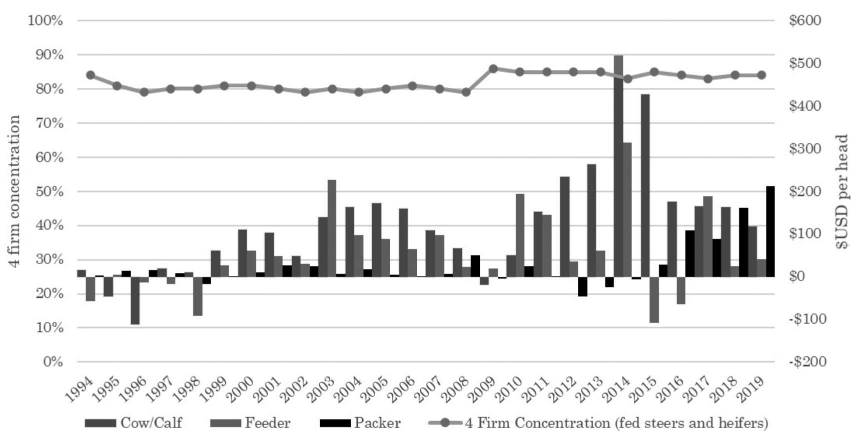
Critics of the industry frequently mistake individual packing plant size with overall industry concentration. The size and location of plants, however, reflect basic economic factors like the cattle supply and the economics of plant operations. Indeed, the cattle supply itself is concentrated. The farms and ranches that produce about half of all beef cattle in the U.S. are in just seven states. Further, more than 70 percent of all fed cattle are in just five states. Economies of scale drive the capacity and production of a packing plant. That is especially true in areas with large numbers of fed cattle. Likewise, cow slaughter plants rely on a supply of cull cows from pasture-based cow-calf farms or dairy farms and are structured based on those factors.

Each packing plant has its own cost structure. Packers bid on cattle based on the supply and demand factors in their own region. Owning a plant in Texas does not change the bottom-line to a company's operation in Iowa or Colorado.

Finally, given that the structure of the beef packing industry is driven by supply and demand factors, the false premise regarding concentration providing undue market power for beef packers must be corrected. The bottom-line is the current level of four-firm concentration has existed for nearly 30 years and it has not ensured packer profitability at the expense of producers.

No sector—cow-calf, feedlot, nor packer—has realized positive margins every year. For example, the four-firm ratio in 2014, when cow-calf and feedlot margins were at record highs, was the same as in 2017 when all three sectors showed positive margins. However, over this more than 25 year timeline, the cow-calf sector suffered negative margins the fewest number of years of the three as the chart below shows.

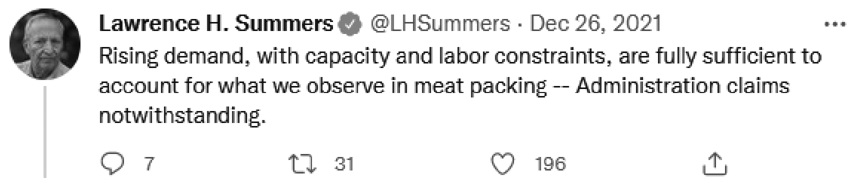
Historical Margins Per Head by Sector *versus* Packer Four Firm Concentration Ratio



Source: USDA Packers and Stockyards Division (concentration); Sterling Marketing (margin).

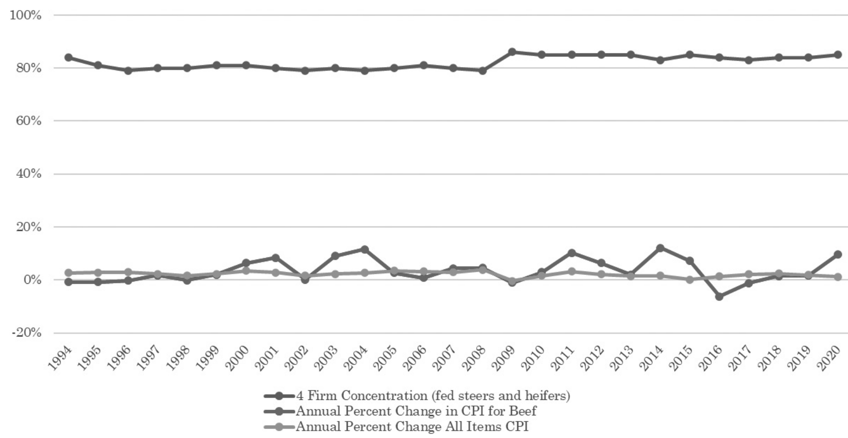
Beef Pricing and Inflation

Despite claims by the Biden Administration, meat industry concentration is not the cause of inflation. As Larry Summers, Secretary of the Treasury for President Clinton, the Director of the National Economic Council for President Obama, and Charles W. Eliot Professor and President Emeritus at Harvard University tweeted:


Lawrence H. Summers @LHSummers · Dec 26, 2021
Rising demand, with capacity and labor constraints, are fully sufficient to account for what we observe in meat packing -- Administration claims notwithstanding.
7 31 196

Again, the four firm concentration ratio in beef packing hasn't changed appreciably in nearly 3 decades, yet meat price inflation has varied from year to year.

Four Firm Concentration *versus* Beef Price CPI and All Items CPI



Source: USDA Packers and Stockyards Division (concentration); BLS (% change in CPI).

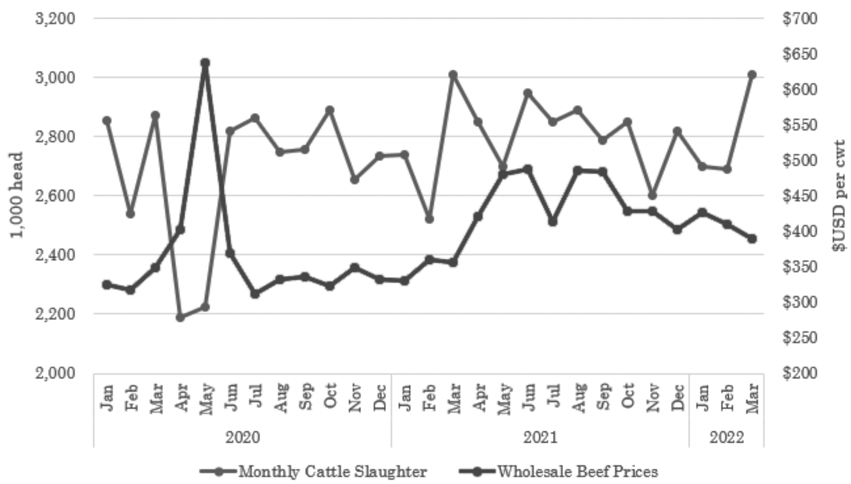
Further, *packers do not set retail prices: packers receive wholesale prices.* Retailers, and the prices for which they sell beef to consumers, are affected by all the supply chain issues and input costs facing the broader economy, from trucking availability and diesel prices, to warehousing, labor, and product demand, which all affect their segment of the value chain.

Wholesale *vs.* Retail Beef Prices

Source: USDA Meat Price Spreads.

Last year, wholesale beef prices peaked as would be expected during the heavy demand period for beef from Memorial Day to Labor Day. Those higher prices resulted from still limited supply in the face of strong demand. The slower pace of slaughter—for the reasons discussed above—constrained the beef supply even as retailers demanded more beef to meet consumers' demand. With limited production and supply relative to demand, wholesale prices rose during the seasonal high demand period.

Monthly Cattle Slaughter *vs.* Monthly Average Wholesale Beef Price



Source: USDA Economic Research Service.

Per capita beef consumption during 2021 was above 2020 consumption by ½ pound, and more than ¾ pound above per capita consumption during 2019.

Consumer demand for beef was high based largely on increased consumer income. According to the Bureau of Economic Analysis (BEA), personal expenditures increased in June, July, August, and September 2021, as personal income (from all sources, not just wages and salaries, but including government social benefits including pandemic-related payments) grew—even compared to 2020.

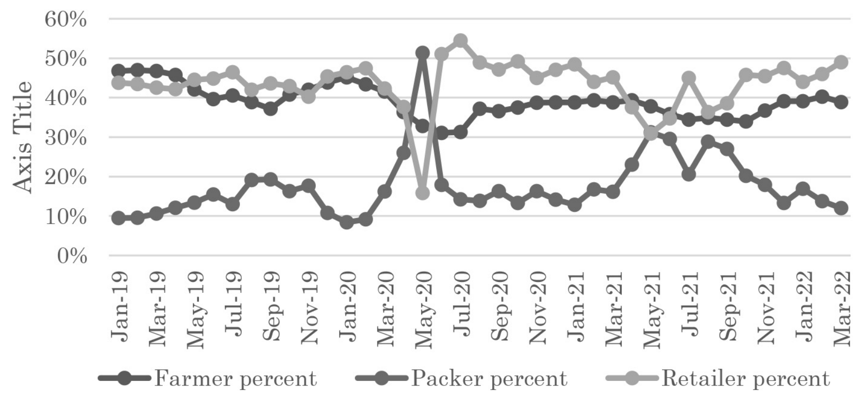
In March 2021, Congress enacted additional COVID relief that included child tax credits, direct payments of $1,400, an increase in nutrition assistance (which supports retail purchases), and extended unemployment benefits. This added $4.232 trillion in government relief payments in addition to that which was paid in 2020. Coupled with economic and job recovery, this added an additional $21 trillion in personal income in 2021, compared to 2020.

Much of the additional personal income was spent on food, and of that, spending focused on beef. Beef is the protein that is most sensitive to economic changes—consumption increases with higher income and decreases with lower income relative to other proteins. Also, during that time restaurants continued to re-open—increasing demand for wholesale beef. According to BEA spending on food service (restaurant demand) increased through 2021.

The bottom line is neither beef nor industry concentration has driven the record inflation we've experienced. In the calculation of the Consumer Price Index, beef accounts for 0.546%, so even at a 12 month increase of beef prices from January 2021 to January 2022 of 16%, beef added 0.08% inflation to the economy.

Finally, *in the 627 months beginning January 1970 through March 2022, packers have received the smallest share of the consumer beef dollar in all months but May 2020, at the peak of the COVID related shutdowns on slaughter which reduced beef supplies.*

Share of Consumer Beef Dollar

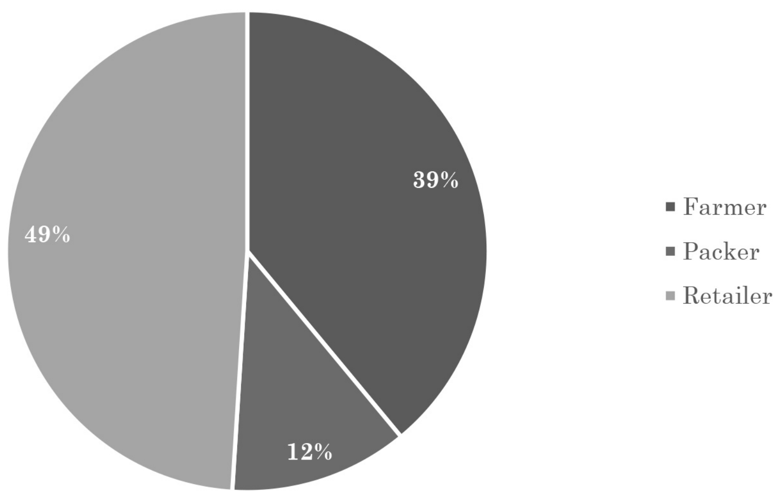


Source: USDA Meat Price Spreads Report.

As of last month, the USDA reported the retail value of Choice beef at $7.685 per pound. *The packer share of the retail beef dollar in March was 12 percent.*

March 2022: Share of Consumer Beef Dollar

(USDA Meat Price Spreads data released 12 April)



On January 10, the ***Washington Post****'s editorial board*[2] rightly called out the Administration's attempts to blame inflation on businesses:

> President Biden is facing mounting criticism for inflation's rise to its highest level since 1982. Unfortunately, the White House's latest response *is to blame greedy businesses.*[3]
>
> Economists across the political spectrum are rightly *calling out the White House*[4] for this foolishness. Even some within the White House are questioning this approach, *The Post reports.*[5]

[2] *https://www.washingtonpost.com/opinions/2022/01/10/white-house-again-offers-bizarre-message-inflation/.*†

[3] *https://www.washingtonpost.com/us-policy/2022/01/10/white-house-inflation-strategy/?itid=lk_inline_manual_2.*†

[4] *https://twitter.com/LHSummers/status/1475230223985786889?s=20.*†

[5] *https://www.washingtonpost.com/us-policy/2022/01/10/white-house-inflation-strategy/?itid=lk_inline_manual_3.*†

> Inflation, which was relatively low for years, did not suddenly rise in recent months because businesses decided now was the ideal time to squeeze their customers. What actually happened is that demand soared for many products as the economy recovered. Often, there were not enough products to meet it, thanks to supply chain hiccups and labor shortages, so prices went up. In a surprise to many, consumers kept buying goods such as cars and washing machines even at higher prices.

As explained above, we could add beef to the list of highly demanded products that consumers kept buying at higher prices.

Legislating and Regulating to "Fix the Problem."

There have been several proposals to restructure and regulate the cattle market through significant government intervention. Prominent among the proposals is to require cattle feeders to sell cattle to packers, and packers to buy from feeders, a mandatory minimum volume of fed cattle on a cash, spot market, or "negotiated" basis. These proposals, however, threaten the industry with numerous adverse and unintended consequences.

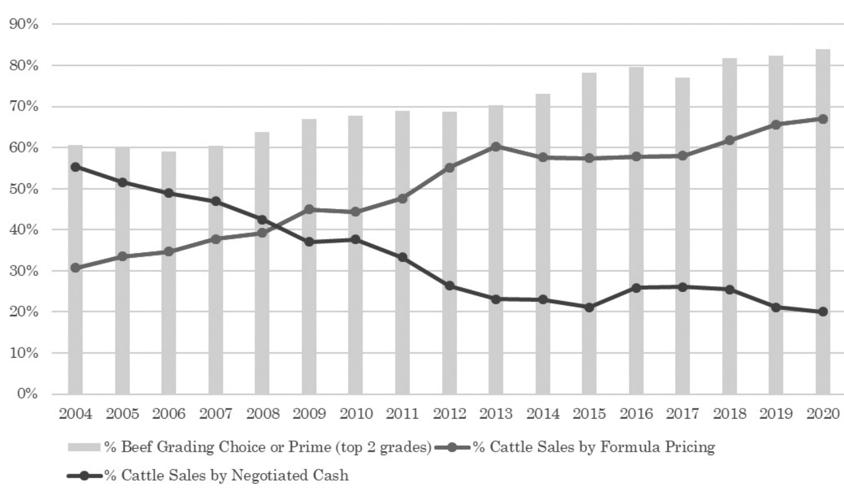
Innovation via formula and contract sales—collectively known as alternative marketing arrangements (AMAs)—originated with cattle feeders attempting to capture value associated with improved quality cattle.

Turning back to Dr. Peel, he describes the advent of AMAs and value-based marketing that shifted packers away from buying cattle on the average:

> Until the 1990s most fed cattle were priced on averages, at the pen level and even entire showlists. Very little quality differentiation meant that high quality cattle were undervalued, and low-quality cattle usually received the average price. Packers had little incentive to differentiate cattle quality since they had to process all the cattle anyway. All that was important to packers was to get the average correct. The lack of quality signals meant that producers had little incentive to improve cattle. The problem was apparent; quality grading was low and beef demand was declining. This led to a major push in the industry for "value-based marketing," which aimed to differentiate and value cattle according to quality differences. (p. 32)

The resulting shift towards AMAs and value-based marketing corresponded to an improvement in beef grade quality and has helped drive increased consumer demand.

U.S. Beef Quality Grade *vs.* Type of Cattle Sale



The success behind value-based marketing and AMAs is based on transmitting market signals about consumers' preferences to producers. The results include increased choices for consumers and premiums and certainty for producers. Yet the black swan events of the past 3 years have brought calls for change from some producers—even though regulating the terms of fed cattle sales would not have resulted in a fundamental change in the cattle market over that period. The volume of cash market sales is roughly the same today as it was during the record cattle price years of 2014 and 2015.

Again, Dr. Peel:

> Indeed, the emotions, anger and frustration accompanying recent events such as the Holcomb packing plant fire in 2019, the ongoing COVID–19 pandemic beginning in 2020, and the winter storm of February 2021 have fueled demands for an array of potential legislative actions that attempt to jump to a solution without addressing the complex structural and behavioral issues that brought the industry to the current situation. *The risk is that these overly simplistic solutions will have long term detrimental impacts on cattle producers, the industry, and consumers, and jeopardize the ability of the industry to compete in dynamic global protein markets for a successful future.* (p. 2) (emphasis added)

Cattle Price Discovery and Transparency Act

Senators Chuck Grassley and Deb Fischer have introduced the Cattle Price Discovery and Transparency Act. The Grassley-Fischer bill mandates cattle feeders sell and packers buy a certain percentage of cattle on the negotiated, spot market, restricting the use of AMAs. In other words, some cattle producers who want to market their cattle through AMAs would be prohibited from doing so, by government fiat.

The Grassley-Fischer bill requires the Secretary of Agriculture to establish minimum thresholds below which negotiated trade volumes cannot fall. Those minimums would vary by region, cannot be less than the average percent of negotiated sales and negotiated grid sales in each region made during the 2 year period between January 1, 2020, and January 1, 2022—a period when cattle markets were most disrupted by COVID, labor shortages, and supply chain issues.

As expert witnesses have testified, even if 100 percent of fed cattle were sold on the cash market, prices for cattle producers would not have been any higher than what the market allowed in 2020 and the first half of 2021.

Interestingly, under this plan, no region may have a mandatory minimum of negotiated sales that exceeds 50 percent. According to an analysis of the legislation released last week by Texas A&M University's Agriculture and Food Policy Center (AFPC),[5] the upper limit for the mandate in the legislation—50 percent cash sales—would only affect the Iowa-Minnesota region. Iowa-Minnesota is the only region in which the mandatory minimum would be set below the actual market. The 24 month average of negotiated sales in that region during the 2020–2022 baseline period established in the legislation was 51.3 percent. *In short, this bill could reduce—albeit marginally—the percent of cash negotiated sales in Iowa and Minnesota, while forcing dramatic increases elsewhere.*

Producers and feeders in Texas, Oklahoma, New Mexico and Kansas, have the most to lose. According to Texas A&M, based on the formula in the legislation, 53 percent of the weekly cattle marketings in 2020–2022 would not meet the mandatory minimum established. In the Texas, Oklahoma and New Mexico region, based on 2020–2022 actual cattle marketings, the proposed minimum would not be met 98 percent of the time. Moreover, the legislation gives the Secretary of Agriculture authority to set the mandatory minimum as high as 50 percent. In that scenario, the Texas A&M briefing paper projects the number of negotiated sales to "explode, increasing from roughly 1.7 million head . . . to more than 12 million head from 2022 to 2026," which would make the cost estimates "far greater than the estimates in this report." [6]

At the 2022 American Farm Bureau Federation Annual Convention in Atlanta, Dr. Stephen R. Koontz, professor in the Department of Agricultural and Resource Economics at Colorado State University said, "Mandated cash trade is not going to get you better price discovery. It's going to put a $50 cost on calves impacted."

A January analysis [7] by Texas A&M of an earlier version of the Grassley Fischer bill concludes:

> Mandated levels of negotiated trade are expected to have negative effects on cattle and calf prices. That is to say that the mandate will result in lower short

[5] Benavidez, J., Anderson, D., Fischer, B., Outlaw, J., *Analysis of S. 4030—Cattle Price Discovery and Transparency Act of 2022* † (*https://www.afpc.tamu.edu/research/publications/files/715/BP-22-4-Cattle-Market-Transparency.pdf*) Briefing Paper 22–04, Texas A&M AFPC, April 2022.

[6] *Ibid.* at p. 6.

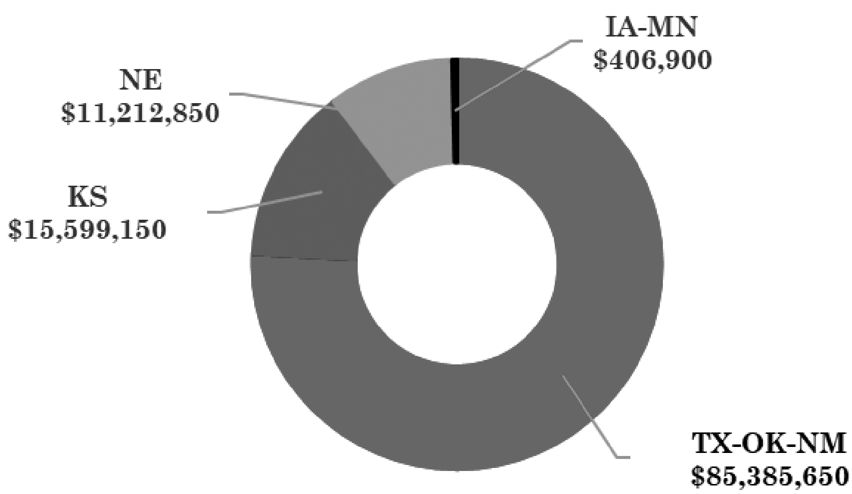
[7] Benavidez, J., Anderson, D., Fischer, B., Outlaw, J., *Analysis of S. 3229—Cattle Price Discovery and Transparency Act of 2022* † (*https://www.afpc.tamu.edu/research/publications/files/712/BP-22-Cattle-Market-Transparency.pdf*) Briefing Paper 22–02, Texas A&M AFPC, January 2022.

term fed cattle prices due to the increase in the costs of the feeder-packer cattle sale transaction. Research has shown there is a value to AMAs in the form of lower costs, improved logistics, and reduced risk. Mandating higher levels of negotiated trade will result in higher transaction costs. The higher transaction costs will result in lower cattle and calf prices and higher wholesale and retail beef prices. Lower prices will have the long-term effect of reducing cattle and beef production resulting in higher prices. We would suggest that fed cattle and feeder calf prices would increase back to their long-term expected levels, but not necessarily increase to higher levels. The long run price reversion back to earlier equilibrium levels is driven by the reduction in cattle and beef production. Based on this, one might argue that the industry will be smaller.

That paper analyzed the cost of cash market mandates projected over the next 5 years at the $50 per head cost calculated by Dr. Koontz. While that specific proposal is no longer on the table, a look at the regional disruption and inequity is apt. The Texas-Oklahoma-New Mexico region, at $50 per head cost, stood to lose $123.9 million, followed by Kansas at $102.9 million. Nebraska would have fared better at "only" $75.3 million in losses. As for Iowa, the aggregate 5 year cost was projected at a mere $52,520.

Under the revised Grassley Fischer bill, Texas A&M estimates that in the Five Area region, the mandatory minimum if enacted now, would be expected to subject 2.252 million head of fed cattle to the $50 per head loss under the mandatory negotiated sales minimum. Again, the regional inequity is instructive, as shown in the chart below.

2022–26 Aggregate Losses by Region under S. 4030



Based on Texas A&M analysis and estimates.

The legislation could have far wider adverse impacts that are yet unknown and currently impossible to analyze. The proposal directs the Secretary to establish five to seven contiguous regions that encompass the entire continental U.S.—from Maine to Arizona, Washington to Florida—that reflect "similar fed cattle purchasing practices." A tall order. This effectively would cause regulatory gerrymandering for no other reason than to impose unnecessary and costly mandatory minimums for negotiated fed cattle sales.

Now, as cattle markets return to balance, is not the time to disrupt the cattle market with a sweeping new government mandate. At the end of 2021, cattle prices were at a 5 year high. In the first quarter of 2022, cattle prices were at 7 year highs. And, as discussed below, USDA is drafting proposed regulatory changes under the Packers and Stockyards Act.

Proposals to implement a mandatory minimum volume of negotiated cash sales go far beyond the purported objective of market transparency and price discovery and instead would directly regulate the terms of sale in a private transaction between two businesses, the producers and packers. A cash market mandate would represent the beginning of the Federal Government regulating more—or all—terms of sale in the *cattle market.* Such behavior should be concerning to producers given the number of transactions among the segments of the cattle production supply chain described earlier.

Further, there have been suggestions Congress should amend the confidentiality provisions in the Agricultural Marketing Act applicable to Livestock Mandatory Reporting (LMR). One bill has been introduced that would prohibit USDA from withholding any "information, statistics, and documents." This concept has data privacy and antitrust implications for both packers and feeders. USDA has examined the LMR confidentiality requirements and determined relaxing the requirements would not ensure anonymity among the market participants. Producers are not the only market participants using the published LMR data: packers and others constantly analyze the data, and any loosening of the confidentiality requirements could provide some market participants full view of their competitors' actions in the market.

By design, a mandate for packers to meet a minimum volume of negotiated cash sales would limit a producer's ability to use other, preferred types of cattle procurement and marketing tools, including forward contracts and various formula-based purchases that comprise the majority of transactions for market-ready cattle. These pricing methods, combined and balanced with the negotiated cash market pricing, have served U.S. cattle producers, the beef industry, and consumers well over the past 2 decades by:

- Providing producers and cattle feeders with an effective risk management tool;
- Reducing marketing costs for cattle feeders and producers;
- Improving efficiency though the supply chain;
- Improving the quality of U.S. beef;
- Meeting U.S. consumer demand and building trust by incentivizing not only quality, but the safety, sustainability, and consistency of U.S. beef; and
- Enhancing the competitiveness of U.S. beef in global export markets.

The Grassley-Fischer bill contains a Sense of the Senate that begins:

> SENSE OF THE SENATE.—It is the sense of the Senate that—
>
> (1) *all participants in the fed cattle market* have a responsibility to contribute to sufficient levels of negotiated trade of fed cattle in all cattle feeding regions in order to achieve competitive bidding and maximum transparency in all relevant markets and robust price discovery for the benefit of all market participants . . . (emphasis added)

Despite the rhetoric, the latest version of the Grassley-Fischer cash market mandate targets the mandate so it only applies to the largest beef packers. The reduction in the scope of the mandate is illuminating. On one hand, it confirms the benefits and importance of AMAs for producers, packers, and consumers: if the cash market provided the same benefits as AMAs, there would have been no need scale-back the mandate.

But applying the cash market mandate to only the largest packers reveals the proposed mandate for what it is: a punitive tool. Under the latest version of the bill, if a beef packer gets too large, they will be forced to buy a certain percentage of cattle on the cash market. But per the analysis discussed above, it will be the producers supplying these packers who will pay much of the price. Gone is the illusion that the cash market is somehow more virtuous than other means of marketing cattle; gone is the argument that the cash market is necessary for transparency and price discovery. *Instead, the cash market mandate is just that: a government mandate designed to punish the largest companies and their suppliers. In this sense, the mandate is an antitrust tool that could be used in any industry.* If a company gets too large, it will be punished with a government mandate directing how the company can purchase inputs. Such a government mandate should elicit opposition from anyone interested in protecting the free market.

The Grassley-Fischer cash mandate is rooted in the belief that a government-managed market is preferable to the free market; in the belief that legislators know the best way for cattle producers to market cattle; in the belief that when black swan events occur, the government, with an inflexible, prescriptive mandate, will be better situated to respond than the resilient free market.

Ultimately, all cattle are purchased by a packer. The packer will buy cattle by whichever method producers want to market them. If cattle marketing become less efficient and transaction costs go up, the packer will spread those costs elsewhere. As Dr. Peel noted, when cattle were purchased on the average, high quality cattle were undervalued, and low-quality cattle were overvalued, receiving the average price. Packers have little incentive to differentiate cattle quality since they have to process all the cattle anyway. All that will be important to packers is to get the average right to generate a margin.

Market Transparency

Despite claims to the contrary, there is robust price discovery in the cattle and beef markets.

Congress established and USDA administers the Livestock Mandatory Reporting Act (LMR) program to facilitate open, transparent price discovery and provide all market participants, both large and small, with comparable levels of market information for slaughter cattle and beef, and other species. Under LMR, packers must report to AMS daily the prices they pay to procure cattle, and other information, including slaughter data for cattle harvested during a specified time period and with net prices, actual weights, dressing percentages, percent of beef grading Choice, and price ranges, and then AMS publishes the anonymized data.

AMS publishes 24 daily and 20 weekly cattle reports each week. Weekly reports start Monday afternoon and end the next Monday morning. These reports cover time periods, regions, and activities and the data include actual cattle prices.

Further, packers report all original sale beef transactions in both volume and price through the Daily Boxed Beef Report. This data is reported twice daily, at 11:00 a.m. and at 3:00 p.m. Central Time. The morning report covers market activity since 1:30 p.m. of the prior business day until 9:30 a.m. of the current business day. The afternoon report is cumulative, including all market activity in the morning plus all additional transactions between 9:30 a.m. and 1:30 p.m., and is on the USDA DataMart website. The boxed beef report covers both individual beef item sales and beef cutout values and current volumes, both of which are derived from the individual beef item sales data.

Few if any other industries have this magnitude of transparency via mandatory reporting of detailed price and product data on an on-going, daily basis, published for all other market participants—including up-stream sellers, downstream buyers, and direct competitors—to view, analyze, and use strategically.

Meat and Poultry Special Investigator Act

The Meat and Poultry Special Investigator Act duplicates existing regulatory enforcement authority and is unnecessary.

The Agricultural Marketing Service's P&S Division *currently investigates* [6] allegations of impropriety and brings administrative cases and levies fines when warranted. Under certain circumstances, the P&S Division takes civil action working through the Department of Justice (DOJ). Penalties for violations of the Packers and Stockyards Act (P&S Act) can include civil penalties, permanent injunctions, fines, and even jail sentences.

The bill, however, would create a new office led by a political appointee with the same responsibilities for enforcing the same authority, the P&S Act, as the current P&S Division has. A duplicative regulatory office is wasteful and unnecessary, and a political appointee leading a regulatory enforcement office such as this would have to respond to the political whims of the Administration.

Just this year, USDA established a *complaint portal* [7] for producers to use to submit allegations of P&S Act violations to USDA and DOJ. The new tool provides producers and the P&S Division another resource for submitting, evaluating, and, if necessary, prosecuting violations. If the P&S Division staff are not doing their jobs, there are other ways to address it than by adding a political appointee into the regulatory and enforcement mix.

USDA is promulgating new proposed rules under the P&S Act, discussed further below, which are likely to have far reaching, unintended consequences. Establishing a politically appointed Special Investigator at the same time is a regulatory timebomb. The Special Investigator (and staff) would feel emboldened and obligated to bring as many cases as possible, whether warranted or not, to test the legal limits of the new rules. The resulting legal uncertainty and chaos will accelerate changes in livestock and poultry marketing that will likely add cost to producers and packers and up-end the supply chain.

The Special Investigator Act is a solution in search of a problem, and would result in a politically-driven, substantial expansion of USDA's regulatory regime.

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[6] *https://www.ams.usda.gov/services/enforcement/psd*.†

[7] *https://www.usda.gov/farmerfairness*.†

Proposed Regulatory Actions by USDA Under the Packers and Stockyards Act will Adversely Affect Producers and Packers.

In June 2021, USDA announced plans to propose rules to "strengthen enforcement" of the Packers and Stockyards Act (PSA).[8] The expected proposed regulations would be problematic for several reasons, including their impact on livestock producers' options to market their cattle, as described.

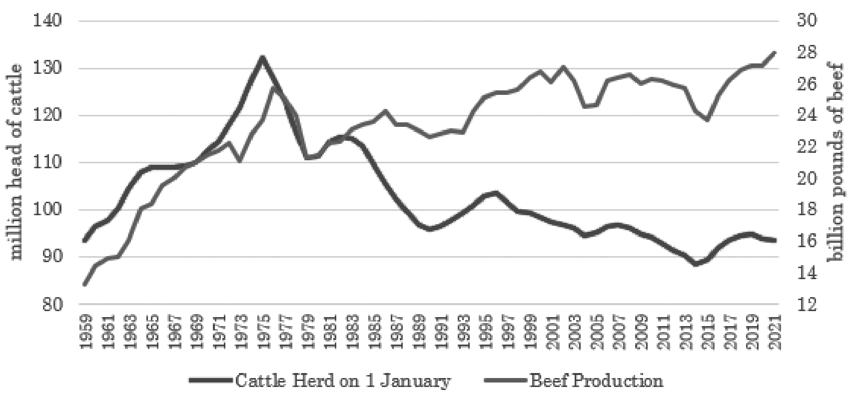
The concepts expressed in USDA's announcement are not new and were considered, and rejected, in the past. When proposed, they will conflict with legal precedent in no less than eight Federal appellate circuits, and will hurt livestock producers, packers, and consumers.

For example, USDA plans on re-proposing a rule to clarify that a plaintiff need not demonstrate harm to competition to bring and prevail in Packers and Stockyards Act litigation. Additionally, USDA indicates that it intends to "propose a new rule that will provide greater clarity to strengthen enforcement of unfair and deceptive practices, undue preferences, and unjust prejudices."[9] It is beyond dispute that eliminating the need for a plaintiff to show harm to competition, or likely harm to competition, will encourage litigation, most of it likely specious litigation. That threat will severely limit or terminate AMAs with all the adverse unintended consequences discussed.

One unintended consequence so far overlooked could come in the form of compromising the livestock and meat industry's significant gains and ambitious goals for improving sustainability.

Today, the industry produces more than twice as much beef with roughly the same number of cattle as in 1959, and 18 percent more beef than when the U.S. cattle herd hit its largest size in 1975. Farmers and ranchers produce beef using 33% less land, 12% less water, and with a 16% smaller carbon footprint in 2007 compared to 1977.[10] That is an astounding sustainability success story.

Productivity in Sustainable Beef Production



The U.S. meat industry cannot continue to build on this remarkable sustainable productivity growth and meet consumer expectations if the government restricts interactions between packers and producers. By design, USDA's proposed rules will discourage the use of AMAs—the very tools that have improved efficiency, productivity, and risk management over the past 2 decades and allowed the sector to meet consumer expectations for increased beef quality and sustainably produced cattle and beef.

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[8] *https://www.usda.gov/media/press-releases/2021/06/11/usda-begin-work-strengthen-enforcement-packers-and-stockyards-act.*†

[9] *Ibid.*

[10] Neumeier and Mitloehner doi:10.2527/af.2013–0022.†

As multiple agricultural economists[11] and cattle producers[12] have explained, AMAs increase market efficiency by transmitting market signals about consumers' preferences to producers. Restaurants, retailers, food service customers, and investors are moving rapidly to align their product and financial portfolios with environmental, social and corporate governance goals. This realignment—driven by consumers—will not be achieved by eliminating value-based marketing and turning back the clock to the days of commodity cattle purchased on the average.

In his testimony before the House Agriculture Committee's Livestock and Foreign Agriculture Subcommittee, Dr. Jayson Lusk stated:

> [S]trengthening of consumer demand for beef over the past several decades has occurred over a period in which there was increased use of formula pricing that rewarded quality improvements. Eroding the ability of consumers, retailers, and packers to incentivize quality through formulas and vertical coordination may have detrimental impacts on demand.[13]

Conclusion

The discussion above demonstrates the complexity of the cattle and beef markets that defy overly simplistic policy prescriptions. Market fundamentals drive the cattle and beef markets, and what we saw before and during the course of the pandemic was to be expected. Indeed, cattle and beef markets were not the only sectors of the economy adversely impacted in the past 2 years. Congress and USDA should not make radical changes to the cattle and beef markets: such changes will up-end the markets, increase costs for the entire supply chain, including for consumers during this time of record inflation, and bring unintended consequences.

The North American Meat Institute is prepared to discuss these issues and work with the Committee on the issues facing the industry. Thank you for the opportunity to provide this testimony.

SUBMITTED QUESTIONS

Response from David W. MacLennan, Board Chair, President, and Chief Executive Officer, Cargill, Inc.

Questions Submitted by Hon. Alma S. Adams, a Representative in Congress from North Carolina

Question 1. My question, Mr. Chairman, has to do with our HBCUs and specifically our 1890 Land-Grant Universities who specialize in agriculture and farming. As you know, in no small part, these institutions and our Black farmers, have helped feed their communities for decades. But these farmers also have lost their farms due to decades of discrimination by banks and actions by our very own USDA. I know that Cargill has taken a first step by investing $1 million over 3 years in scholarships and fellowships at Tuskegee University and Alcorn University, each.

However, if Cargill were a publicly traded company, it would rank at near the top of Fortune 500 corporations. So, what else can you be doing, and I'd like to also hear from Tyson, JBS and National Beef what each of you are doing with HBCUs?

And I'd like each of you to follow up in writing specifically what collaboration you have with non-HBCU Universities so we can see what is also possible?

Answer. Thank you for mentioning the Cargill University THRIVE Program. Many college students face barriers to success, from affording tuition to accessing promising career paths when stepping into the job market. The program was created to address this challenge, working with university partners to ensure more equitable access for women and minority students in Science, Technology, Engineering

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[11] See the following: *The U.S. Beef Supply Chain: Issues and Challenges, Proceedings of a Workshop on Cattle Markets,*† Agriculture and Food Policy Center, Texas A&M University, 2021, cattle.pdf (*tamu.edu*) (*https://www.afpc.tamu.edu/research/publications/710/cattle.pdf*); Anderson, *et al.,* Univ. of Arkansas, 2022, *https://cpb-us-e1.wpmucdn.com/wordpressua.uark.edu/dist/6/907/files/2022/01/CPDTA-analysis-01.18.22.pdf*;† Koontz, S., *Costs and Benefits of Mandatory Negotiated Cash Participation in Fed Cattle Markets,* 2022; Glynn Tonsor, Ph.D., Professor, Department of Agricultural Economics, Kansas State University, testimony before the Senate Agriculture Committee, June 23, 2021, *https://www.agriculture.senate.gov/imo/media/doc/Testimony_Tonsor%2006.23.211.pdf*.†

[12] See Gardiner, *Testimony*† (*https://www.agriculture.senate.gov/hearings/examining-markets-transparency-and-prices-from-cattle-producer-to-consumer*) before the Senate Committee on Agriculture, Nutrition, and Forestry, June 23, 2021.

[13] Jayson Lusk, Ph.D., Distinguished Professor and Head, Department of Economics, Perdue University, testimony before the House Agriculture Subcommittee on Livestock and Foreign Agriculture, July 28, 2021, *https://docs.house.gov/meetings/AG/AG29/20210728/113973/HHRG-117-AG29-Wstate-LuskJ-20210728.pdf*.†

and Mathematics (STEM), as well as agriculture and business. Focused on universities serving minority students, the THRIVE program provides financial support through scholarships and expands further to encourage long-term academic success through mentoring, development programming and career coaching. The goal is to help participating students convert their education into meaningful careers.

The THRIVE program was initially offered at Alcorn State University and Tuskegee University (both Historically Black College & Universities), Texas A&M University (a Hispanic-Serving Institution) and long-standing Cargill partner institutions including Iowa State University; Kansas State University; University of Minnesota; Minorities in Agriculture, Natural Resources and Related Sciences (MANRRS); and the Association of Latino Professionals for America (ALPFA).

Cargill is also the first company to sponsor an 1890 Universities Foundation Congressional Fellow, who is currently in his first year with the House Committee on Agriculture.

Attracting and retaining great talent is extremely important to Cargill. We realize that those who choose to work for us have options. We have increased pay and benefits to better compete in today's employment environment. Because we employ people from 160 different countries, speaking 50+ languages, we recently announced investments in education, from ESL courses to basic life skills all the way to tuition reimbursement for college degrees.

In addition to the THRIVE program, we provide students and recent graduates from many diverse education institutions many amazing opportunities to learn from the best our industry has to offer. Through our internship program, we engage students in 12 week hands on learning programs. Cargill Internships are typically paid, and in some countries, we offer relocation reimbursement and housing assistance for those who qualify.

Our U.S. co-op programs are 8 month, paid terms running from January to August or May to December. Available roles are based on current and future business needs at Cargill and pull from universities and colleges across the U.S. Our co-ops may require relocation; we provide housing assistance and relocation reimbursement for those who qualify.

The Cargill Global Scholars Program (CGSP) is a distinctive, 2 year scholarship program that provides financial support to undergraduate students in Brazil, China, India, Indonesia, and the United States. The CGSP offers leadership development opportunities through seminars, networking events and a one-on-one mentoring program facilitated by Cargill volunteers globally, and an alumni network that will help them keep connected with past, current, and future scholars.

The students selected are those who demonstrate exemplary academic achievement and leadership potential and study in a field relevant to Cargill's world of food, agriculture and risk management. We believe these students will become leaders in industries and fields that will have an impact on Cargill's businesses in the future.

Question 2. I know some folks enjoy a good hamburger or a good cut of steak. However, we cannot ignore the truth that the agriculture industry is a major polluter with annual emissions equivalent to 143 million cars. The emissions produced by the livestock industry alone are larger than Exxon Mobil, Shell, and BP.

The stakes for future generations could not be higher. And so, I pose this question to all of you. What will the industry do to foster a better working relationship to produce a cleaner environment that our country and world desperately needs?

Answer. Thanks to the hard work of ranchers, the North American beef supply chain is already the most sustainable in the world. But we will never rest with the *status quo.* In our beef business, we are working with partners and directly with producers to continue to reduce the climate impact of America's beef production.

For decades, Cargill has been working with thousands of family farmers, ranchers and producers to increase the efficiency of beef production. We are a founding member of the Global Roundtable for Sustainable Beef and are helping lead efforts with the Canadian Roundtable for Sustainable Beef and U.S. Roundtable for Sustainable beef. We collaborate with industry partners and customers to improve the sustainability and transparency of the beef supply chain.

We also continue to improve livestock feed efficiency. Over the last 15 years we have seen an overall trend in reducing the volume of feed for each pound of beef produced. We focus on developing more sustainable ways to manufacture feed and improve the nutritional and feed conversion value of feed. We participate in the Canadian Roundtable for Sustainable Crops, whose work also includes a focus on sustainable feed.

We are partnering with U.S. cattle ranchers, NGOs such as the National Fish and Wildlife Foundation; the World Wildlife Fund; The Nature Conservancy, and with some of the largest consumer food brands in the U.S. including McDonald's and Burger King to continue advancing the sustainability of beef production.

Together we will achieve a 30% greenhouse gas (GHG) reduction across the North American beef supply chain by 2030. This equates to removing two million cars from U.S. highways for a year.

Question Submitted by Hon. J. Luis Correa, a Representative in Congress from California

Question. Mr. MacLennan, your company is active in agriculture around the world, and Cargill recently testified before the subcommittee I chair on the Homeland Security Committee, where we discussed ways your company is working to address the root causes of migration and create jobs and economic opportunity in Central America. I want to commend you for your company's investment in the region and thank you for your continued work in this area.

We've heard today how labor shortages have impacted the meat and cattle markets; can you help us understand who immigration reform would help to address some of the issues we're discussing today?

Answer. Cargill is proud to be a U.S.-based company with 40,000 U.S. employees and we continue to invest in the United States. Like many American businesses, we are trying our best to contend with a nearly unprecedented labor shortage. Cargill is averaging approximately 10% fewer workers in our beef plants—that's nearly 220 employees short in every plant, due to labor constraints.

The recent increase in illegal migration and domestic labor shortages has prompted a renewed focus on the need for an enhanced U.S. immigration policy—an immigration policy that works. Cargill supports comprehensive immigration policy that addresses more than just enforcement. Specifically, we need clearer, faster access to year-round work visas, especially for industries like food manufacturing that are facing these extreme labor shortages.

And at the same time, it is critical that we bring economic opportunities to vulnerable populations in the communities in which we operate, which is why we are also investing in the Partnership for Central America. By investing in our communities through our business and our partnerships, we can help them to become thriving and prosperous.

Cargill's businesses in Central America have benefited American farmers and workers by creating new export markets and increasing the purchasing power of those in the region. Our investments provide jobs, grow local businesses, and raise living standards. This has enabled more people in the region to purchase more American products—directly supporting American farmers and workers.

Response from Timothy O. Schellpeper, Chief Executive Officer, JBS USA Food Company

Questions Submitted by Hon. Alma S. Adams, a Representative in Congress from North Carolina

Question 1. My question, Mr. Chairman, has to do with our HBCUs and specifically our 1890 Land-Grant Universities who specialize in agriculture and farming. As you know, in no small part, these institutions and our Black farmers, have helped feed their communities for decades. But these farmers also have lost their farms due to decades of discrimination by banks and actions by our very own USDA. I know that Cargill has taken a first step by investing $1 million over 3 years in scholarships and fellowships at Tuskegee University and Alcorn University, each.

However, if Cargill were a publicly traded company, it would rank at near the top of Fortune 500 corporations. So, what else can you be doing, and I'd like to also hear from Tyson, JBS and National Beef what each of you are doing with HBCUs?

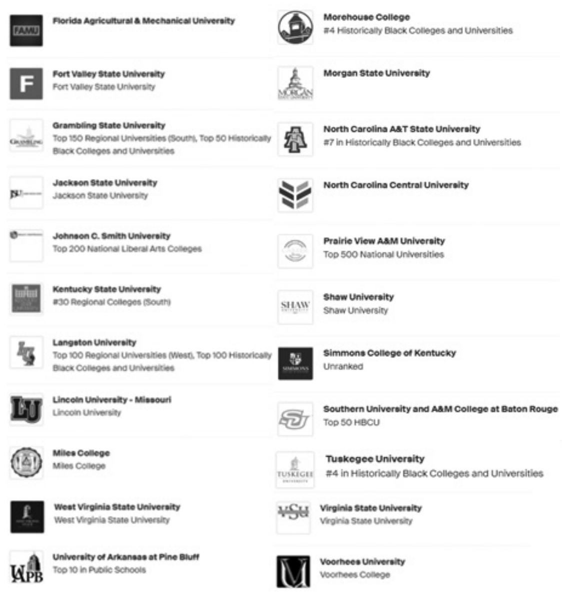
And I'd like each of you to follow up in writing specifically what collaboration you have with non-HBCU Universities so we can see what is also possible?

Answer. Congresswoman Adams,

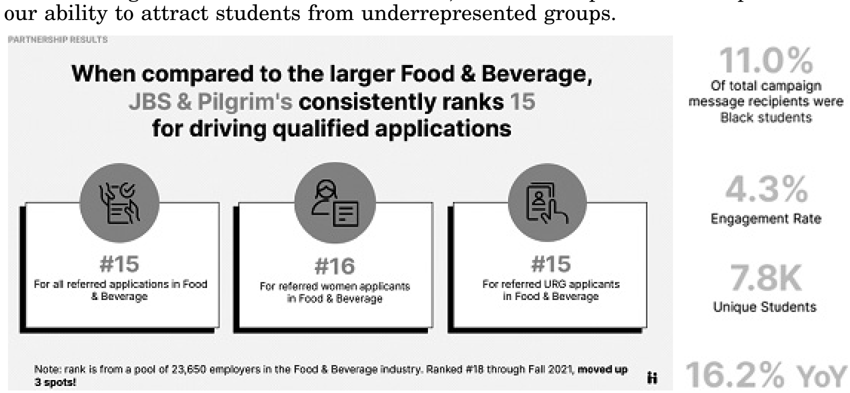
Thank you for your question regarding our collaboration and interaction with HBCUs. At JBS USA, we have several partnerships with HBCUs and non-HBCUs to promote agriculture as a viable career option for the next generation of future leaders.

JBS USA and Pilgrim's has engaged with Historically Black Colleges and Universities as a part of the company's broader recruiting strategy for many years, with the most robust strategy being between 2015 and 2022. Universities that we have regularly engaged with during this timeframe are Tuskegee University, North Carolina A&T, Florida A&M, Alabama A&M, and more recently, Prairie View A&M.

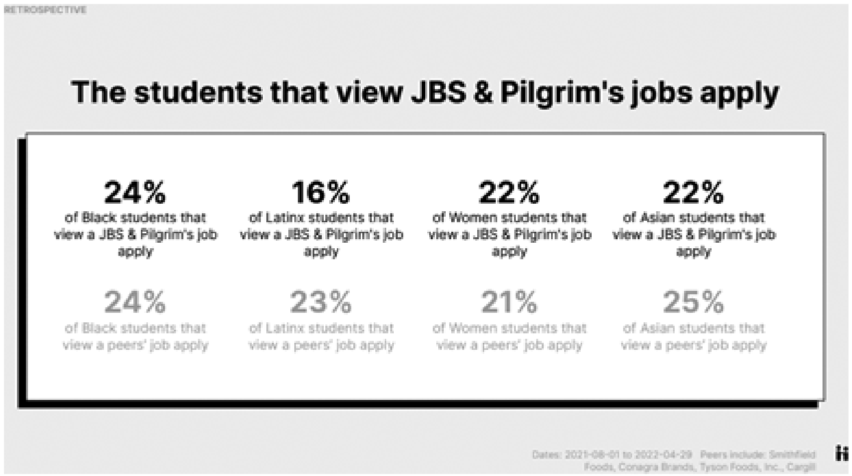
Although in-person engagement is preferred, the COVID–19 pandemic significantly changed the landscape of recruiting, driving the company to use virtual platforms—specifically, Handshake—to reach and recruit students. Fortunately, this shift also dramatically increased the number of schools and students we were able to engage with.



Today, we post positions at 35 HBCU Schools on Handshake—of those, 19 have prominent agriculture programs that we regularly engage with via campaigns and virtual career fairs. Every year, Handshake provides the company with a summary of our efforts and in the 2021–2022 recruiting season, we have shown at 16.2 percent year over year improvement in our engagement with black students. This year, JBS and Pilgrim's ranked number 15 of 23,000 food companies on the platform in our ability to attract students from underrepresented groups.



In comparison to our peers, which include Smithfield Foods, Conagra Brands, Tyson Foods, Nestlé, and Cargill, we are tied for our ability to convert black applicants to apply to our postings (24 percent).



Looking forward into the 2022–2023 recruiting season, JBS and Pilgrim's will continue to engage with Black students attending HBCU schools and non-HBCU schools in order to increase applications from qualified and diverse individuals for our training programs. Regarding in-person engagement, the company will resume campus visits at five prominent HBCU schools with agriculture programs in states where we have operations.

Texas	**Prairie View A&M University** Top 500 National Universities
Alabama	**Tuskegee University** #4 in Historically Black Colleges and Universities
Georgia	**Fort Valley State University** Fort Valley State University
North Carolina	**North Carolina A&T State University** #7 in Historically Black Colleges and Universities
Florida	**Florida Agricultural & Mechanical University**

JBS and Pilgrim's will continue our work to increase our interactions with black students across the country by engaging with HBCU schools, which will help us to ensure that we maintain a diverse candidate pipeline as we attract, select, and retain talented individuals for our opportunities.

Question 2. I know some folks enjoy a good hamburger or a good cut of steak. However, we cannot ignore the truth that the agriculture industry is a major polluter with annual emissions equivalent to 143 million cars. The emissions produced by the livestock industry alone are larger than Exxon Mobil, Shell, and BP.

The stakes for future generations could not be higher. And so, I pose this question to all of you. What will the industry do to foster a better working relationship to produce a cleaner environment that our country and world desperately needs?

Answer. At JBS USA, we care about our role in the world and embrace our responsibility as a global food company. That's why we were the first global meat and poultry company to commit to achieve net-zero greenhouse gas emissions by 2040. We believe that agriculture can and must be a part of the global climate solution.

JBS USA's net zero ambition reflects our goal to meet the health and nutritional needs of the growing global population in a sustainable manner that preserves the planet's resources for future generations. As part of its commitment, JBS USA has signed on to the United Nations Global Compact's Business Ambition for 1.5°C initiative, which aligns with the most ambitious aim of the Paris Agreement to limit global warming.

We are currently developing GHG emission reduction targets across our global operations and value chains in South America, North America, Europe, the UK, Australia and New Zealand. We will provide a time-bound roadmap that provides interim targets consistent with the criteria set forth by the Science Based Targets initiative for a 1.5°C trajectory. JBS USA will also provide annual updates on progress to ensure transparency.

To accomplish our net-zero goal, we have adopted several strategies to achieve reductions in emissions, including:

- Reducing direct emissions in our facilities: JBS will reduce our global scope 1 and 2 emission intensity by at least 30% by 2030 against base year 2019.
- Investing in the future: JBS will invest more than $1 billion in incremental capital expenditures over the next decade in emission reduction projects.
- Fostering innovation with farmers and ranchers: JBS is investing $100 million by 2030 in research and development projects to assist producer efforts to strengthen and scale regenerative farming practices, including carbon sequestration and on-farm emission mitigation technologies. This investment will contribute to reducing scope 3 emissions across the value chain, in our efforts toward net zero.
- Ensuring accountability: Across the company, performance against environmental goals, including GHG emission reduction targets, will be part of senior executive compensation considerations.

Response from Tim Klein, President and Chief Executive Officer, National Beef Packing Company, LLC

Questions Submitted by Hon. Alma S. Adams, a Representative in Congress from North Carolina

Question 1. My question, Mr. Chairman, has to do with our HBCUs and specifically our 1890 Land-Grant Universities who specialize in agriculture and farming. As you know, in no small part, these institutions and our Black farmers, have helped feed their communities for decades. But these farmers also have lost their farms due to decades of discrimination by banks and actions by our very own USDA. I know that Cargill has taken a first step by investing $1 million over 3 years in scholarships and fellowships at Tuskegee University and Alcorn University, each.

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And I'd like each of you to follow up in writing specifically what collaboration you have with non-HBCU Universities so we can see what is also possible?

Answer. July 6, 2022

Hon. David Scott,
Chairman,
House Agriculture Committee,
Washington, D.C.;

Hon. Glenn Thompson,
Ranking Minority Member,
House Agriculture Committee,
Washington, D.C.

Re: Responses to Questions for the Record from House Committee on Agriculture Public Hearing Entitled "An Examination of Price Discrepancies, Transparency, and Alleged Unfair Practices in Cattle Markets"

Dear Chairman Scott and Ranking Member Thompson:

On behalf of National Beef Packing Company, LLC, enclosed please find responses to Congresswoman Alma Adams' Questions for Record, following the House Committee on Agriculture's April 27, 2022, Public Hearing entitled, "An Examination of Price Discrepancies, Transparency, and Alleged Unfair Practices in Cattle Markets."

Sincerely,

TIM KLEIN,
President and Chief Executive Officer.

National Beef collaborates at times with land-grant colleges and universities on business-related topics such as food safety and sustainability. In addition, National Beef sponsors an annual award given to two food-science students attending a local land-grant university. Each year, National Beef hires as summer interns students who are pursuing agricultural-related degrees at various colleges and universities. These internship opportunities, as well as our open degree-required positions, are posted on our website and any qualified applicant may apply. We do not currently have any collaborative relationships with any HBCU.

Question 2. I know some folks enjoy a good hamburger or a good cut of steak. However, we cannot ignore the truth that the agriculture industry is a major polluter with annual emissions equivalent to 143 million cars. The emissions produced by the livestock industry alone are larger than Exxon Mobil, Shell, and BP.

The stakes for future generations could not be higher. And so, I pose this question to all of you. What will the industry do to foster a better working relationship to produce a cleaner environment that our country and world desperately needs?

Answer. National Beef is committed to producing safe, quality products that feed U.S. families in a manner that optimizes efficiency while minimizing waste. Accordingly, National Beef will always look for new ways in which science, technology, and innovation may help further reduce the environmental footprint of our world-class beef operations.

Response from Donnie King, Chief Executive Officer, Tyson Foods

Questions Submitted by Hon. Alma S. Adams, a Representative in Congress from North Carolina

Question 1. My question, Mr. Chairman, has to do with our HBCUs and specifically our 1890 Land-Grant Universities who specialize in agriculture and farming. As you know, in no small part, these institutions and our Black farmers, have helped feed their communities for decades. But these farmers also have lost their farms due to decades of discrimination by banks and actions by our very own USDA. I know that Cargill has taken a first step by investing $1 million over 3 years in scholarships and fellowships at Tuskegee University and Alcorn University, each.

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And I'd like each of you to follow up in writing specifically what collaboration you have with non-HBCU Universities so we can see what is also possible?

Answer. Rep. Adams, thank you for your question on Tyson's collaborations with Historically Black Colleges and Universities (HBCU's). Tyson's currently has several meaningful collaborations with HBCU's that we hope to build on in the coming years. As you may know, earlier this spring Tyson's signed on as the first ever, 3 year title sponsor of the Black College World Series, which features student-athletes from HBCU's in NCAA Division II and the NAIA. In addition, our African Ancestry Alliance Business Resource Group has initiated a speaker series at North Carolina A&T to engage with students in conversation related to their professional growth and development. Furthermore, we are finalizing strategic recruiting partnerships with eight HBCU's in addition to finalizing a partnership with a third-party organization that has recruiting relationships across diverse universities, including HBCU's, Hispanic Serving Institutions, and Asian American Pacific Islander Serving Institutions. Last, our newest Team Member education benefit—Upward Academy Online—is a partnership with Guild Education to provide access to over 175 flexible academic programs, including college degrees, to all Tyson Team Members. The cost of the education is 100% covered by Tyson and includes degrees and certificate programs at several HBCU's, including North Carolina A&T. We will look to build on and expand these partnerships in coming years.

Question 2. I know some folks enjoy a good hamburger or a good cut of steak. However, we cannot ignore the truth that the agriculture industry is a major polluter with annual emissions equivalent to 143 million cars. The emissions produced by the livestock industry alone are larger than Exxon Mobil, Shell, and BP.

The stakes for future generations could not be higher. And so, I pose this question to all of you. What will the industry do to foster a better working relationship to produce a cleaner environment that our country and world desperately needs?

Answer. By 2050, we anticipate the world will need to find a way to feed an additional two billion people. It's critical that we find solutions that support an equitable and resilient food system—one that supports all people and sustains our planet. Tyson has invested in research and new technologies to protect our planet and provide high quality, affordable food.

We recently announced our ambition of achieving net-zero greenhouse gas emissions, including scope 1, 2, and 3 emissions, by 2050. To reduce greenhouse gas emissions, we have, for example, developed a beef-focused greenhouse gas emissions accounting framework to capture cradle-to-gate emissions and verify emission reductions from producers' use of more sustainable agricultural practices. We are also working alongside universities, conservation specialists, and technical experts, such as the Environmental Defense Fund and Farmers Business Network, to find innovative ways to increase food production while also maximizing positive environmental outcomes. To continually innovate in this area, Tyson Ventures has exceeded $100M in total investments to support startups and other companies focused on emerging proteins, new technologies for food and worker safety, and sustainable food production.

We are also looking beyond emissions and towards good environmental stewardship. One way we are doing this is through a Zero Waste to Landfill initiative, which Tyson launched as pilot projects at three production facilities in 2020. In the first year, we diverted almost 5.2 million pounds of waste from landfills, a 60% increase from the previous year. We've since achieved Zero Waste to Landfill gold-level validation at six U.S. plants where 95–99% of certain waste streams has been diverted from landfills. We are now applying learnings from these pilots and validation achievements to inform an enterprise waste and recycling strategy, as well as set future goals. We are also working to reduce packaging waste by piloting sustainable packaging solutions for several products and testing the validation of new recyclable, pulp fiber trays to replace traditional trays made of foam. Finally, Tyson is tackling water use reduction at our processing facilities, and we are proud to share that three of our U.S. plants have received Alliance for Water Stewardship verification.

As the world grows and changes, we are committed to working with Congress, the Administration, researchers, startups, and nonprofit organizations to find innovative ways to feed people responsibly.

Question Submitted by Hon. J. Luis Correa, a Representative in Congress from California

Question. Mr. King, can you share Tyson's perspective on how immigration reform can address labor shortages?

Answer. Rep. Correa thank you for your question on immigration reform. As you know, labor shortages have been one of the most significant challenges facing the industry over the last several years. Tyson Foods has been an advocate for comprehensive immigration reform for many years. A bipartisan solution that addresses border security, the undocumented individuals currently living in the U.S., an updated employer verification system, and a plan for future flow that takes business needs into consideration would have a direct positive impact on labor shortages. Additionally, providing a pathway for citizenship for individuals currently in the United States with Deferred Action Childhood Arrival (DACA) status, Temporary Protective Status (TPS) and Humanitarian Parolee status would provide stability to both the affected individuals and the business community.

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