R-CALF USA's Bill Bullard Provides Insights on Critical Issues Facing Cattle Producers

Editor's note: Following are the answers provided by Bill Bullard, CEO of R-CALF USA, to *The Milkweed's* questions submitted in early September about critical questions facing U.S. cattle producers, including factors driving the continued decline in the national cattle inventory and USDA's August 28, 2014 announcement and proposed rule to allow fresh beef imports into the U.S.

Ranchers-Cattlemen Action Legal Fund, United Stockgrowers of America represents thousands of U.S. cattle producers on domestic and international trade and marketing issues.

Question 1: *USDA this month estimated all U.S. cattle and calves numbers at 90,095,200 head as of January 1, 2013 – the lowest number in over 60 years – with the steady downtrend continuing. Given the many challenges facing beef/dairy cattle producers (including ongoing severe drought across cattle country and recent years' high feed prices), when do you expect U.S. cattle numbers to recover?*

Bullard: It is important to note that the ongoing liquidation of the U.S. cattle herd was not triggered by drought. It was triggered by long-term depressed prices. While our cattle herd has been shrinking, so too has the number of cattle producers. More than half a million cattle operations exited our industry since 1980. We are now in unchartered territory. Our cattle cycle, which has been our bellwether indicator that our industry was competitive, ceased functioning properly in the early 80s. The liquidation phase that began in the early 80s lasted 8 years and was unprecedented at the time. This current liquidation phase that began in 1996 has now lasted 18 years and is literally off the charts. In addition, our industry has changed radically in terms of its structure. The unprecedented concentration of our meatpacking industry not only severely reduced the number of marketing outlets available to our industry, but also, it resulted in the loss of genuine competition between competing proteins. This is because our major beef packers now control all three major proteins and their new goal is to manage their protein mixes, not pit one against another in head-to-head competition like we've seen in the past. This helps to explain why the per-capita consumption of beef, which is the highest-cost protein, has decreased considerably since 1985 (by nearly 23 pounds per person). In the meatpackers' new managed protein mix, maximizing beef sales is no longer needed to maximize shareholder earnings. Our radically changed industry lacks an historical context with which to predict what our beef industry will look like when the dust from this ongoing liquidation settles. If we look at what happened to the poultry and hog industries after they went through the radical structural changes the cattle industry is now experiencing, decisions regarding the sizes of their respective industries, who participates in their industries, and how their production is marketed are now made in the meatpackers' corporate board rooms. If the cattle industry does not steer itself away from the vertically integrated meat production model that we are driving headlong into, then the answer to the question of when will cattle numbers recover will depend on how much beef the meatpackers want to manage in their future protein mixes.

Question 2: *Assuming no change in current U.S. trade policy regarding beef imports, what are your expectations for domestic cattle price trends over the next few years?*

Bullard: Up through the 90s our industry was told that if cattle prices increased from their then depressed levels, consumers would quit eating beef. However, this was soon proven false when domestic cattle prices skyrocketed after the BSE incident in Canada and both cattle prices and beef prices thereafter jumped to a new plateau. So far we have seen a willingness on the part of consumers to continue buying beef at record setting prices but we don't really know how long this will continue or how much higher beef prices can go before consumer demand begins to wane. Given the extremely tight supply situation we are in, the current predictions for feed prices, and assuming the U.S. economy does not falter, cattle prices should remain strong into the foreseeable future.

Question 3: *What effect have U.S. beef exports had on prices received by domestic producers in recent years, and what is your outlook for future U.S. beef exports?*

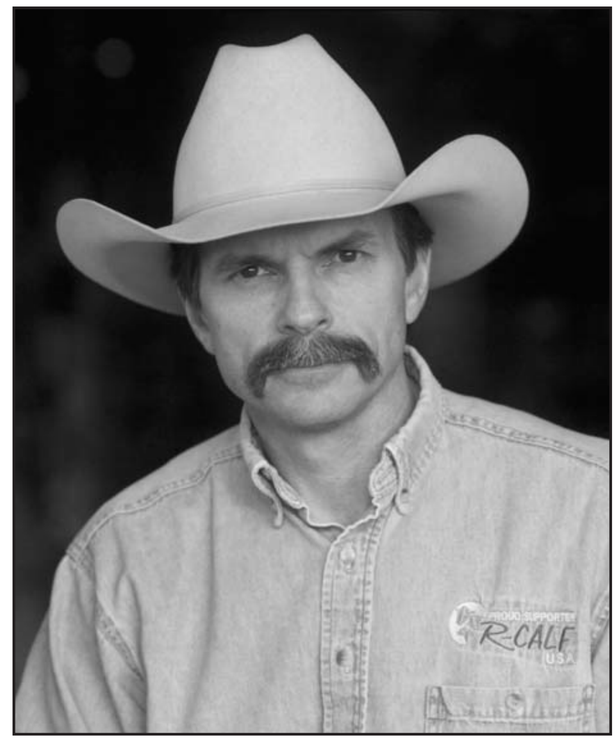
Bullard: Exports are not the price-driver for the cattle industry. Our industry learned this in 2004 when our beef exports fell to a 19-year low and yet domestic cattle prices jumped to historically high levels, and stayed there. One of the main reasons for this is that the U.S. does not produce enough beef to satisfy domestic demand. In 2013, exports represented about 11% of domestic production, meaning that nearly 90% of beef is marketed domestically. We should not allow the tail to wag the dog by focusing exclusively on exports as we work to rebuild our contracted U.S. cattle industry. This is not to say that exports are not important as they certainly provide a market for certain beef cuts and beef products that are not widely consumed in America. Beef exports should be viewed as a demand enhancer for our industry while the demand driver will continue to be our domestic market.

Question 4: *How are the big meatpacking firms that dominate the U.S. beef market adapting to tight domestic cattle numbers?*

Bullard: Industry analysts are reporting that the major meatpackers are operating profitably during this period of tighter cattle supplies and higher cattle prices. We are concerned that some independent packers operating in the heart of the drought areas have shuttered their plants due to lack of supplies as this only contributes to the ongoing concentration of our industry.

Question 5: *USDA's Animal and Plant Health Inspection Service on December 23, 2013 proposed "regionalized" beef imports from Brazil, and the industry is awaiting details on a somewhat similar plan for Argentine beef imports announced on August 28, 2014. Both of these South American countries have long histories of Foot-and-Mouth Disease, which continues today. While no decision has yet been announced on either proposal, how would you expect approval of beef imports from either Brazil or Argentina, or both, to impact U.S. cattle markets and prices?*

Bullard: Approval of beef imports from either Brazil or Argentina, or both, would allow importers to effectively offset the current tight supply situation with lower-cost imports. This would drive U.S. cattle prices downward. USDA's economic model predicts that allowing Brazilian imports into the U.S. would harm U.S. cattle produces by as much as $316 million per year. Given USDA's history of understating the negative impacts of cheap imports, that estimate is likely to be very low. With a growing cattle herd already more than twice as large as the U.S. herd, Brazil is the world's largest beef exporter and each year it overproduces for its domestic market by about 4 billion pounds. This means Brazil must export at least that amount each year even if it has to sell such beef in the export market at a discount price. The only tool that U.S. cattle producers have to compete against these lower-cost imports is country of origin labeling (COOL), which can be used to encourage U.S. consumers to purchase domestic beef.



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Question 6: *When do you expect a decision to be announced on the APHIS Brazilian beef import proposal, and what will the decision will be? Any thoughts on what's holding up the decision?*

Bullard: The only information we have regarding timing is that the USDA sent a document to the White House Management and Budget in May that indicates the final Brazil beef import rule would be published in November 2014. We are currently working with members of Congress to introduce legislation that would stop the Brazilian and Argentinian rules.

Question 7: *A senior U.S. Department of Homeland Security official in 2006 estimated the cost of an*

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July 2014 Milk Production

STATE	MILK COWS [1/] 2013 [3/]	MILK COWS [1/] 2014	MILK PER COW [2/] 2013 [3/]	MILK PER COW [2/] 2014	MILK PRODUCTION [2/] 2013	MILK PRODUCTION [2/] 2014	% CHANGE FROM 2013
	THOUSANDS		POUNDS		MILLION POUNDS		PERCENT
AZ	188	193	1,845	1,960	347	378	8.9
CA	1,780	1,778	1,895	1,980	3,373	3,520	4.4
CO	137	145	2,100	2,135	288	310	7.6
FL	123	123	1,630	1,710	200	210	5.0
ID	574	580	2,045	2,105	1,174	1,221	4.0
IL	97	95	1,550	1,660	150	158	5.3
IN	177	179	1,785	1,875	316	336	6.3
IA	210	207	1,835	1,890	385	391	1.6
KS	136	142	1,820	1,845	248	262	5.6
MI	381	391	2,010	2,120	766	829	8.2
MN	465	460	1,645	1,660	765	764	-0.1
NM	324	323	2,125	2,130	689	688	-0.1
NY	610	615	1,860	1,935	1,135	1,190	4.8
OH	271	266	1,650	1,735	447	462	3.4
OR	123	123	1,765	1,750	217	215	-0.9
PA	534	530	1,630	1,690	870	896	3.0
SD	95	97	1,830	1,845	174	179	2.9
TX	435	470	1,885	1,840	820	865	5.5
UT	92	95	1,915	1,940	176	184	4.5
VT	135	132	1,620	1,730	219	228	4.1
VA	95	92	1,480	1,585	141	146	3.5
WA	268	272	2,040	2,070	547	563	2.9
WI	1,272	1,270	1,820	1,885	2,315	2,394	3.4
23 STATE TOTAL	8,522	8,578	1,850	1,911	15,762	16,389	4.0

1/ Includes dry cows. Excludes heifers not yet fresh.
2/ Excludes milk sucked by calves.
3/ Survey was not conducted in April and July, resulting in no milk cow and milk per cow data for March through June.
Source: U.S. Department of Agriculture. National Agricultural Statistics Service. Agricultural Statistics Board. *Milk Production, July 2014.*

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FMD outbreak in the U.S. in the range of "hundreds of billions of dollars." Any thoughts as to why Secretary of Agriculture Tom Vilsack, the former governor of a leading agricultural state, could allow USDA to go forward with the Brazilian and Argentine beef import proposals that pose such costly and devastating risks of spreading FMD to U.S. livestock herds?

Bullard: It is unfortunate but the Secretary of Agriculture has bought into the flawed argument that the promised benefits of increased trade are more important than preventing the introduction of foreign animal diseases. We are convinced that USDA is motivated to expose the U.S. livestock herd to an unnecessary and avoidable risk of foreign animal diseases for the fundamental reason that it wants to fulfill its perceived commitments under international trade agreements. Unfortunately, USDA is trying to level the proverbial global playing field not by requiring other countries to raise their standards to meet ours, but rather, to lower our standards to that of our potential trading partners.

Question 8: *What are the biggest concerns of R-CALF USA delegates and members coming out of your organization's annual convention held in late August?*

Bullard: The biggest concerns continue to be: 1) defending country of origin labeling (COOL) from the meatpackers' incessant attacks in Congress, in the courts and at the World Trade Organization; 2) ending the meatpackers' chokehold on USDA that is preventing the agency from writing rules to properly implement and enforce the Packers and Stockyards Act; and, 3) protecting the health of our domestic cattle herd from USDA's irresponsible proposals to resume trade with countries that have not yet eradicated or controlled highly contagious livestock diseases.