



"Working for Nebraska beef producers - pasture to plate."

June 28, 2021

The Honorable Dick Durbin, Chairman
The Honorable Chuck Grassley, Ranking Member
Senate Committee on the Judiciary
224 Dirksen Senate Office Building
Washington, DC 20510

RE: Beefing up Competition: Examining America's Food Supply Chair

Dear Chairman Durbin, Ranking Member Grassley and members of the Committee:

Nebraska Cattlemen is grateful for the opportunity to share our member's concerns regarding the impact of lack of competition on live cattle markets, shrinking beef processing capacity, and meat packing industry consolidation. 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.

Live Cattle Market: It is our cattle producer members and their livelihoods that are directly impacted by the 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 beef supply chain profit margins being passed onto cattle producers is near historic lows.

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 has been 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 seven 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 production 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.

Processing Capacity: 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 five years?



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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, there is 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 US 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. Beef packing plants, transporters and our member farms and ranches are all currently experiencing challenges with labor recruitment and retention. Congressional action to reform immigration policy to advance needed H2A visa restructuring and ensuring state and federal resources are available for immigrants to be offered employment opportunities and to successfully thrive in our communities is critical to helping current packing plant infrastructure reach full 100% throughput.

Meatpacking Industry Consolidation: The U.S. meatpacking industry has consolidated rapidly in the last two decades, as today's largest meatpacking companies have built very large plants, with many independent meatpackers disappearing. Today, four meatpacking companies handle nearly 80 percent of all steer and heifer slaughter; just two decades ago, concentration was less than half as high. Moreover, local market concentration may be higher, because the cattle feeding industry is regional, many producers may see buyers from only one or two nearby packers. The other highly concerning reality of meatpacking plant concentration is the percentage of increase of consolidation —from 36 percent in 1980 to 72 in 1990 and 78 in 1997, where it remains today. No other manufacturing industry shows as dramatic an increase since the U.S. Census Bureau began regularly publishing concentration data in 1947.¹

Meatpacking concentration raises important policy issues. If larger packers realize lower costs, then concentration, by reducing industry costs, can lead to improved prices for consumers and livestock producers. However, because these companies face fewer competitors, meatpackers could reduce prices paid to livestock producers, and they may be able to raise meat prices charged to wholesalers and retailers. As we've noted earlier – both of these actions have happened repeatedly.

On April 5th, 2020 – Nebraska Cattlemen sent a letter to the U.S. Department of Justice calling for an investigation into the four major meatpacking companies. We recognize that antitrust enforcement alone cannot wholly address the market volatility concerns of the beef cattle industry. However, antitrust laws are key to ensure market manipulation and anticompetitive conduct do not interfere with competitive market forces within the fragile beef supply chain. Given the opaqueness of this concentrated industry, the Department of Justice, and potentially this committee, is in a distinct position to gather the facts and evidence necessary to determine if collusion or other unfair and deceptive practices that might exist behind identical prices or certain buying and selling patterns among packers.



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Thank-you for the opportunity to share the thoughts and concerns of Nebraska Cattlemen members. As we continue to work towards finding solutions to keep cattlemen and women in business, we look forward to being at the table to talk through these solutions and take actions to protect our members' family legacies.

Best,

A handwritten signature in black ink that reads "William H. Rhea III". The signature is written in a cursive style with a prominent initial "W".

William H. Rhea III
President - Nebraska Cattlemen

CC: Senator Ben Sasse

¹Grain Inspection, Packers and Stockyards Administration, USDA. Economic Research Service - USDA