

Fighting for the U.S. Cattle Producer!



R-CALF

USA

Effects of Market Concentration and Consolidation, Reduced Competition, and Anticompetitive and Antitrust Practices in the U.S. Cattle and Beef Industries

Prepared by
R-CALF USA

October 23, 2016

I. Structural Changes Occurring in the U.S. Cattle Industry

Today's U.S. Cattle Industry

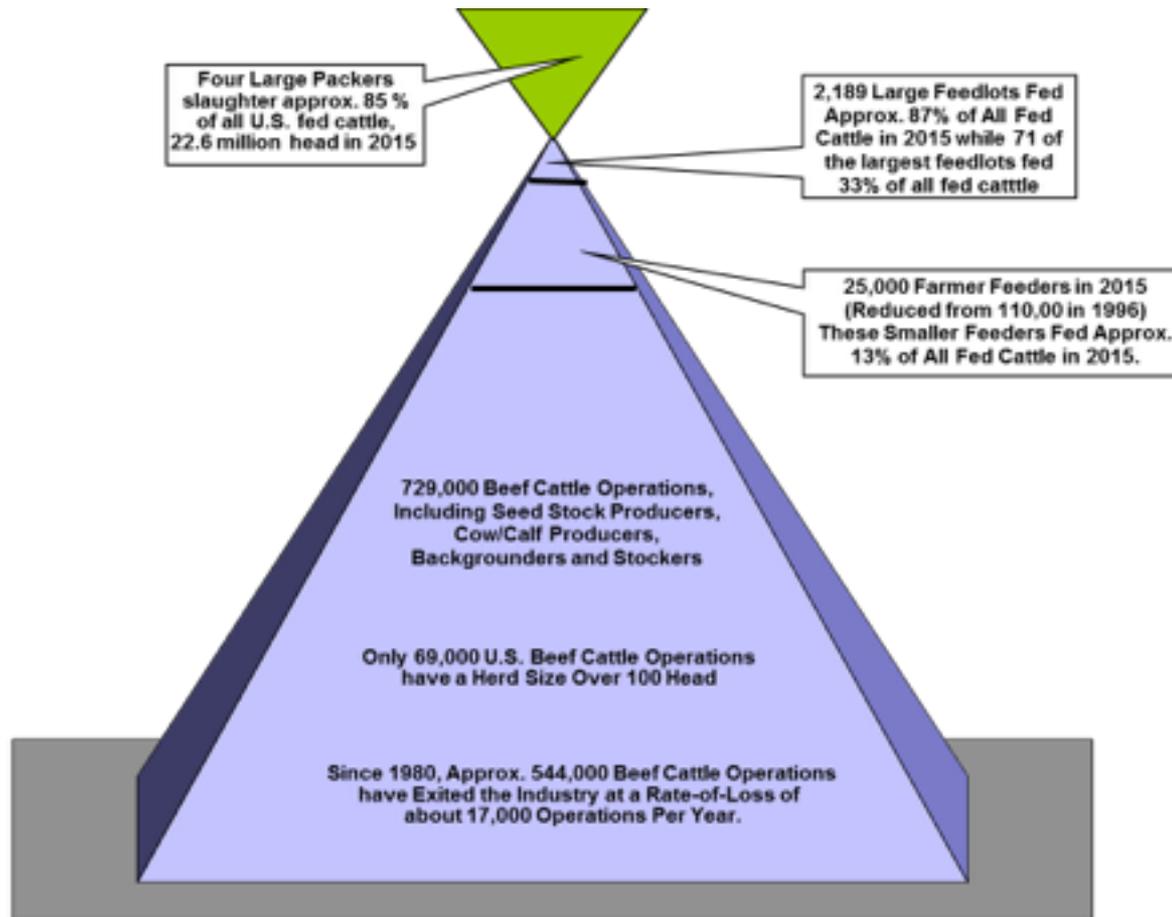
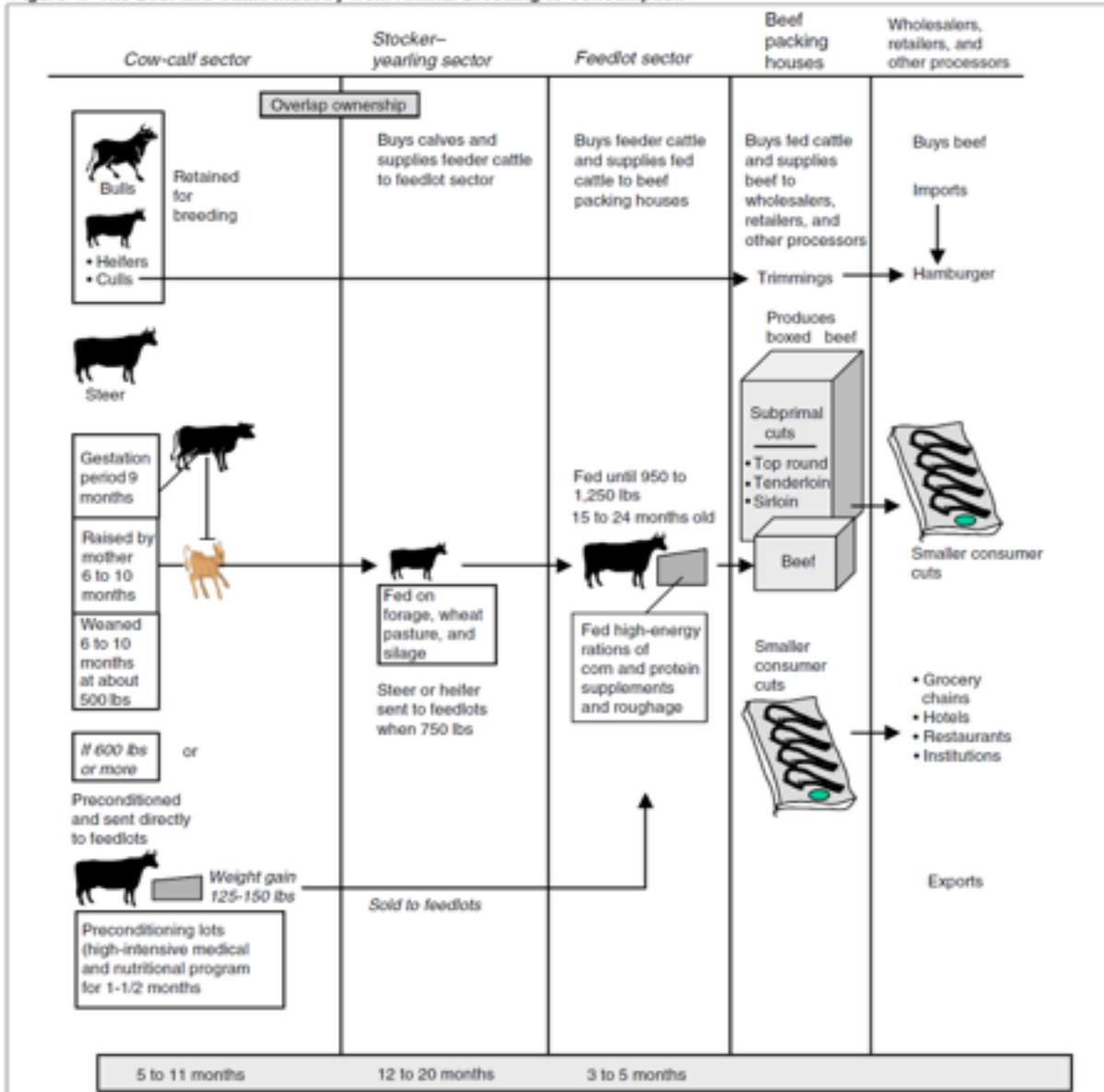
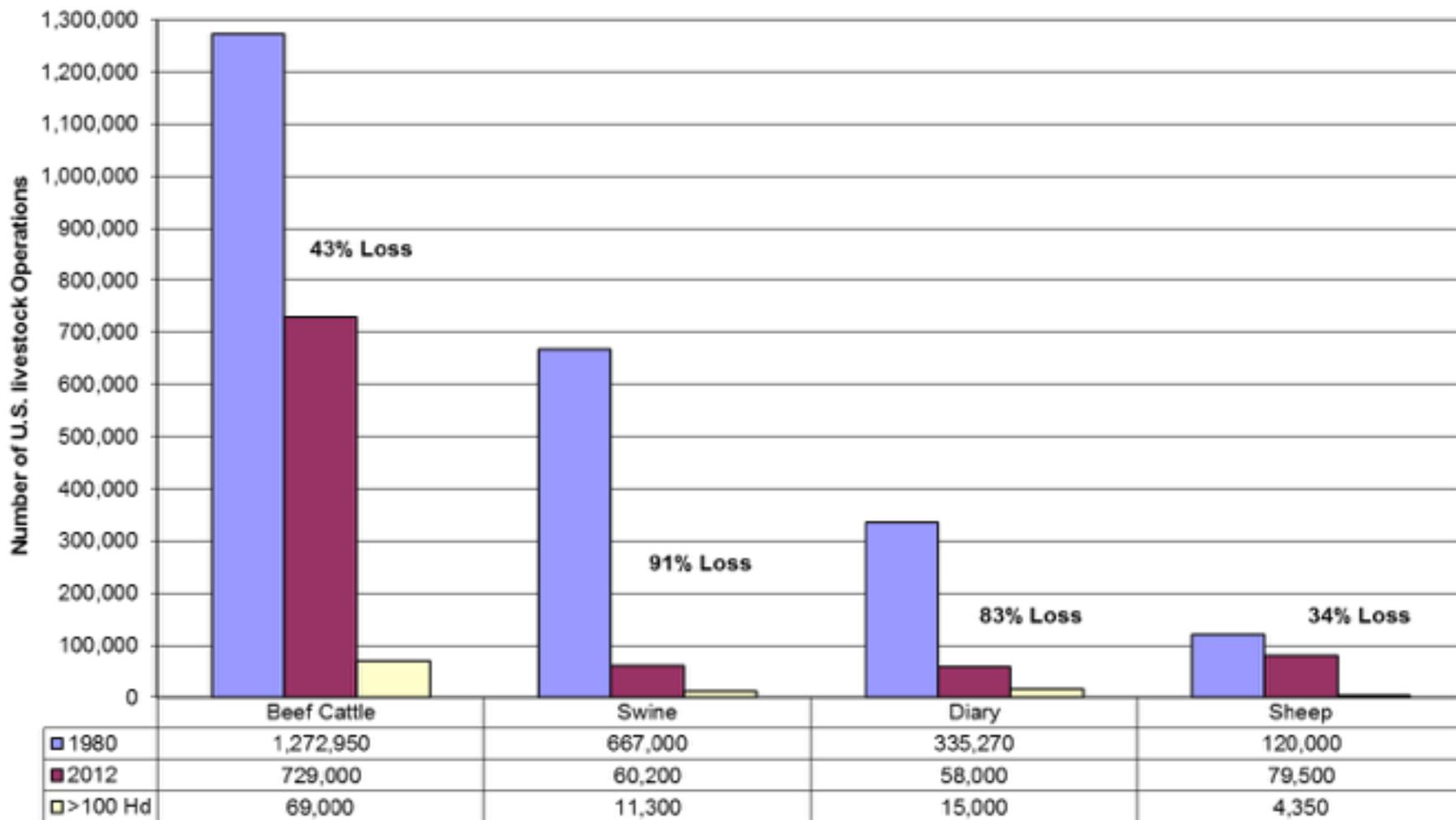


Figure 4: The Beef and Cattle Industry from Animal Breeding to Consumption



A. The Cow/Calf & Backgrounder-, Stocker-Yearling Sector

Loss of U.S. Livestock Operations 1980-2012

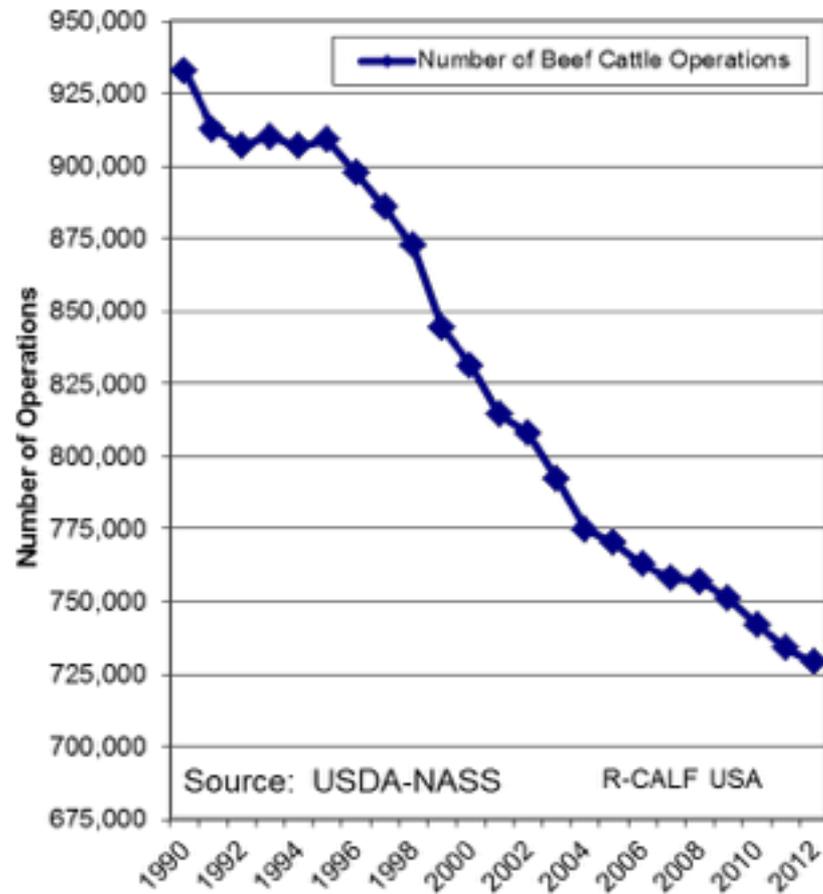


Source: USDA-NASS

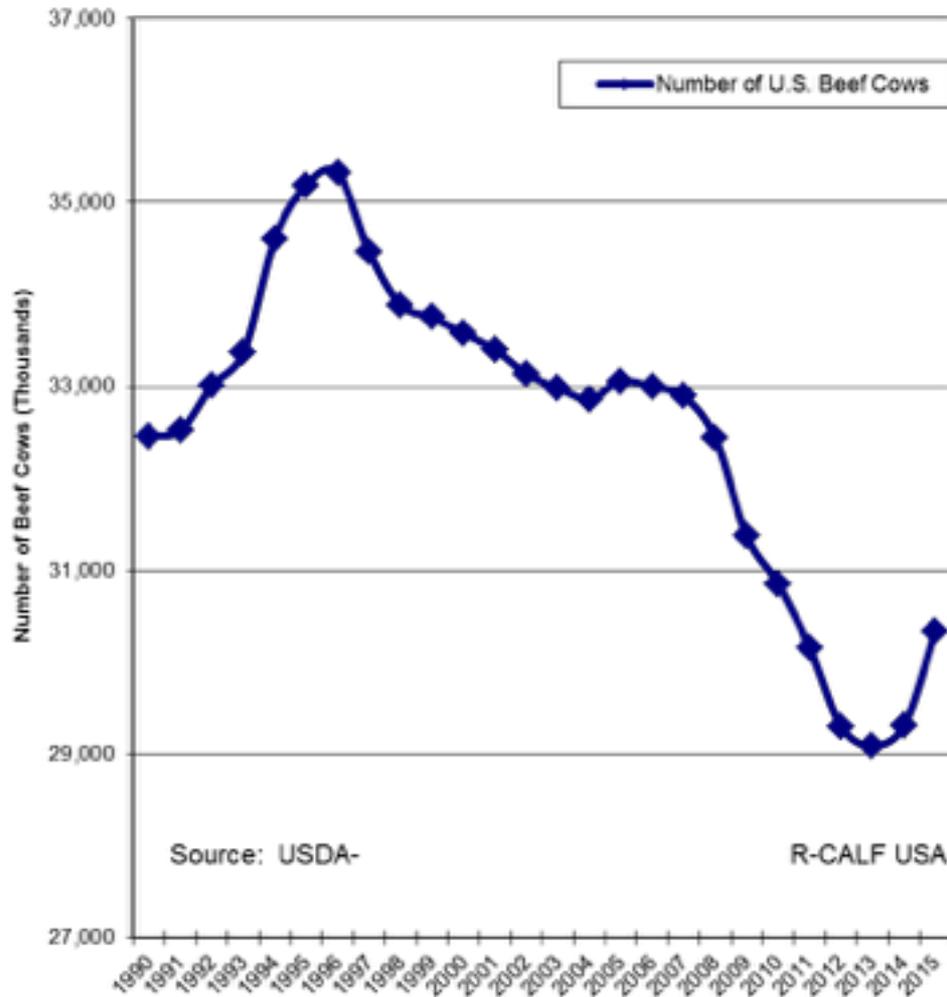
Type of Livestock Operations

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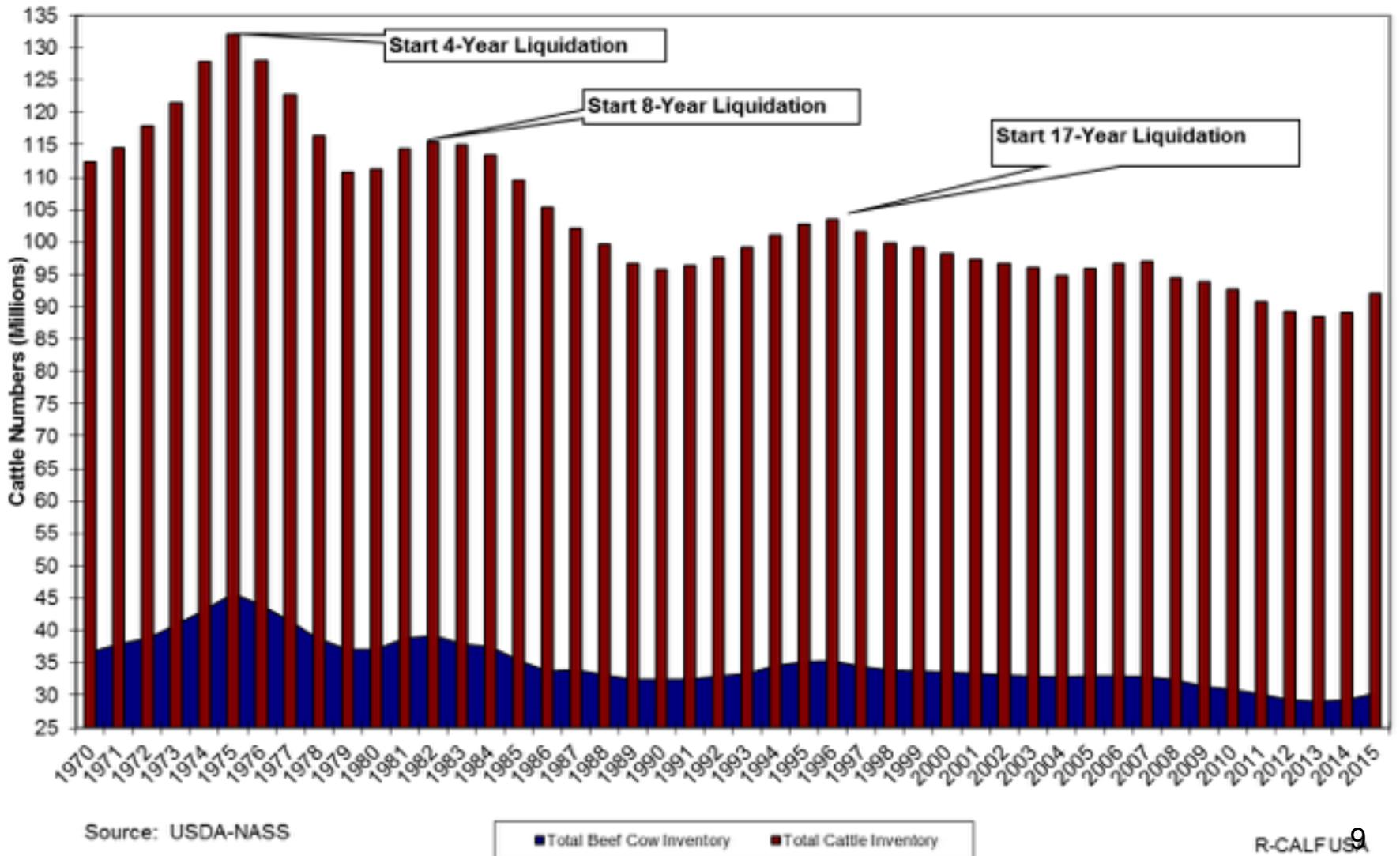
Exodus of U.S. Beef Cattle Operations 1990-2012



Shrinking Size of U.S. Beef Cattle Herd Based on Jan. 1 Inventory



Disruption of U.S. Cattle Cycle

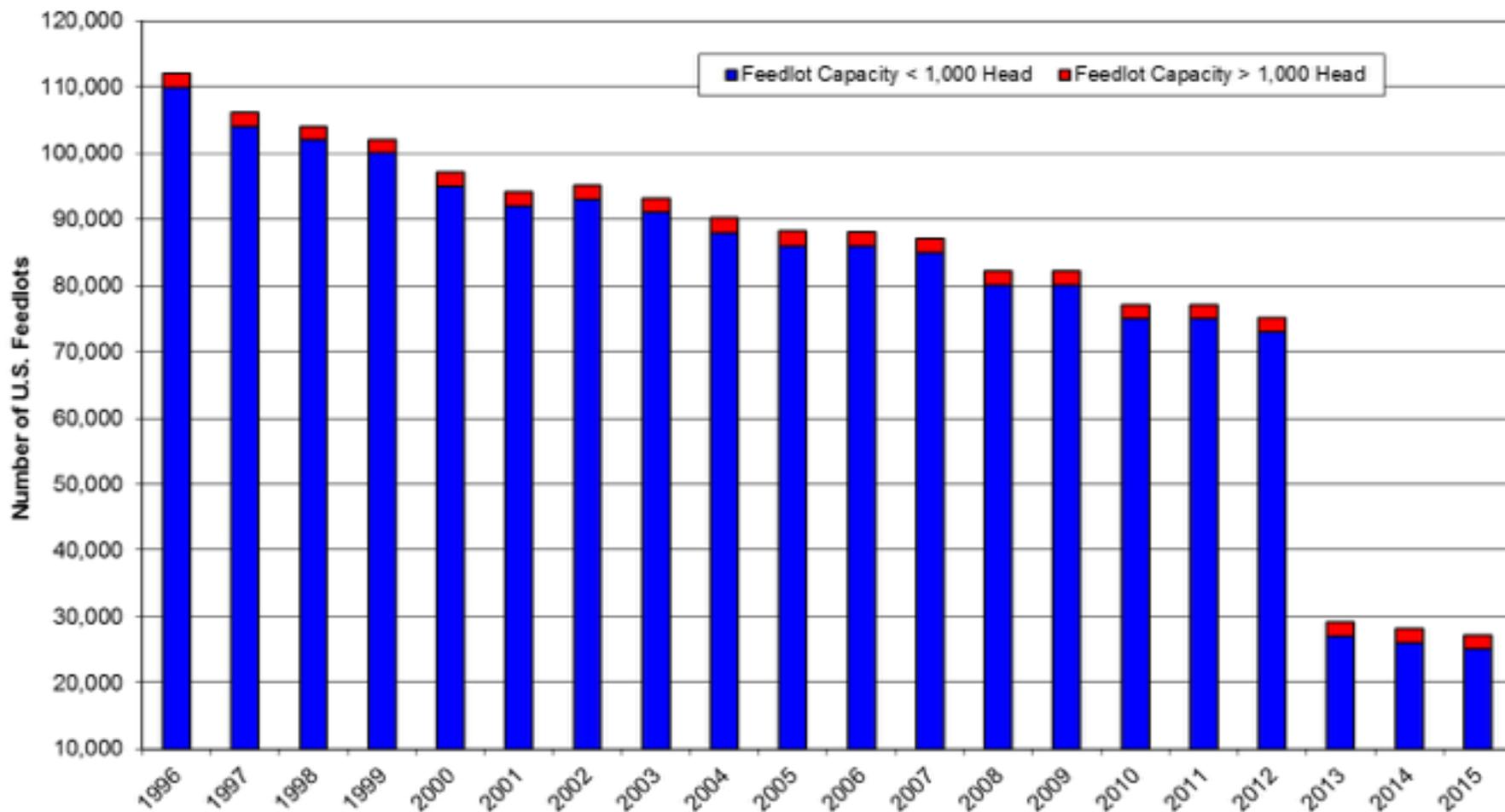


B. The Feedlot Sector

TOP 30 CATTLE FEEDERS 2015

	COMPANY NAME	ONE TIME CAPACITY	NUMBER OF FEEDLOTS	2014 MARKETINGS	PREFERRED CATTLE TYPE
1	JBS Five Rivers Cattle Feeding Greeley, Colo.	930,000	11	1,800,000 est.	English Exotic Crossbreds
2	Cactus Feeders Amarillo, Texas	527,000	9	1,000,000 est.	English-Exotic Cross
3	Cargill Cattle Feeders LLC (1) Wichita, Kan.	300,000	4	800,000 est.	Cattle that fit Cargill brands
	Friona Industries LP Amarillo, Texas	300,000	4	680,000	English Cross
5	Cattle Empire LLC (2) Satanta, Kan.	245,500	5	Not disclosed	Lightweight cattle, Holsteins
6	Foote Cattle Company Bucyrus, Kan.	233,000	5	Not disclosed	English Cross
7	J. R. Simplot Co. Boise, Idaho	230,000	2	Not disclosed	Angus, Hereford
8	Irsik & Doll Cimarron, Kan.	215,000	6	Not disclosed	All breeds
9	Four States Feedyards Lamar, Colo.	195,000	8	Not disclosed	All types
10	Gottsch Livestock Feeders (3) Elkhorn, Neb.	195,500	3	Not disclosed	English
11	Agri Beef Co. Boise, Idaho	180,000	5	Not disclosed	Choice
	Innovative Livestock Solutions Great Bend, Kan.	180,000	10	Not disclosed	Yearlings, Holsteins

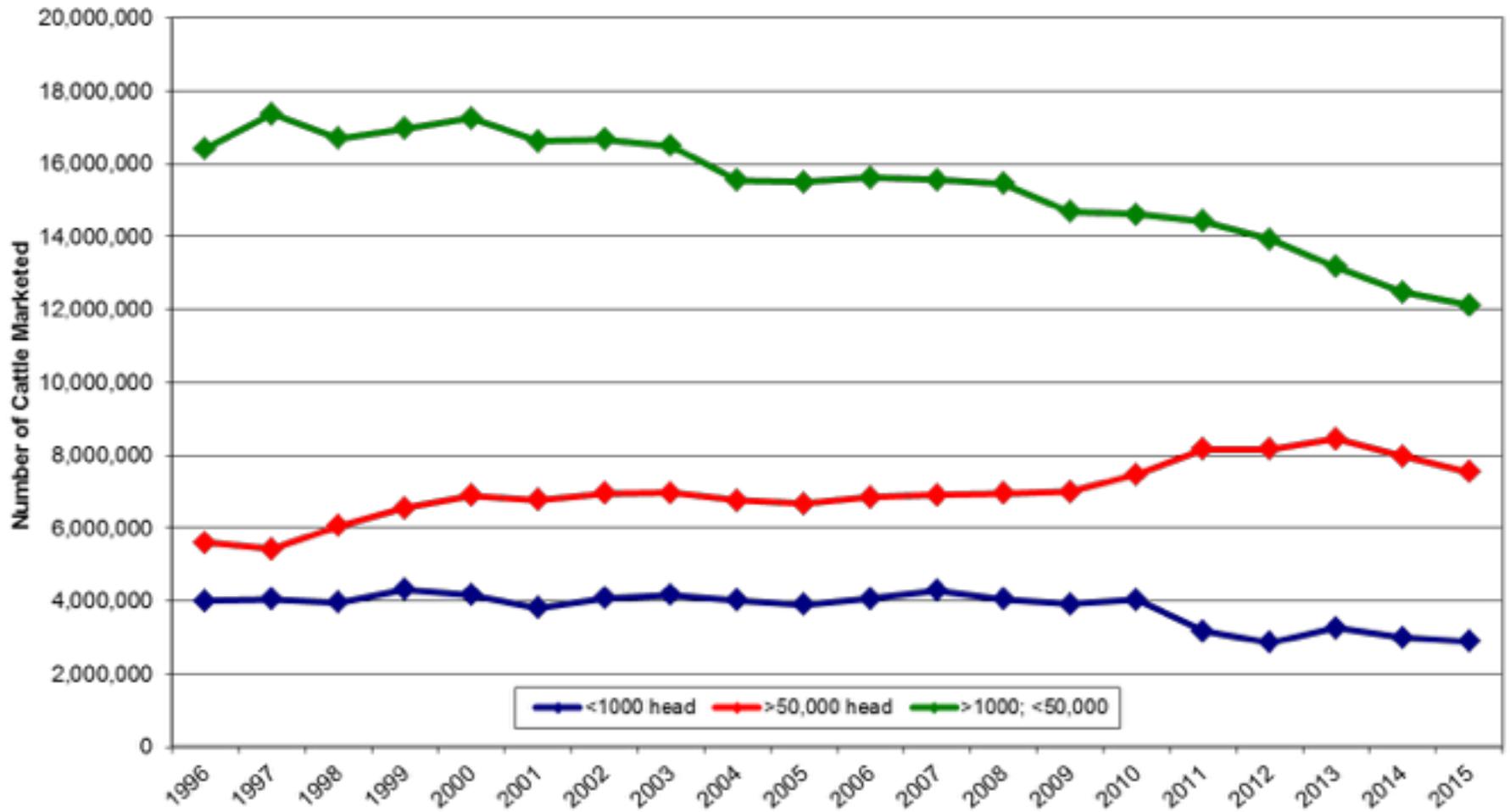
**Decline in Numbers of U.S. Feedlots
1996-2015
(loss of 84,920 feedlots in past 19 years)**



Source: USDA-NASS, Various Cattle on Feed Reports

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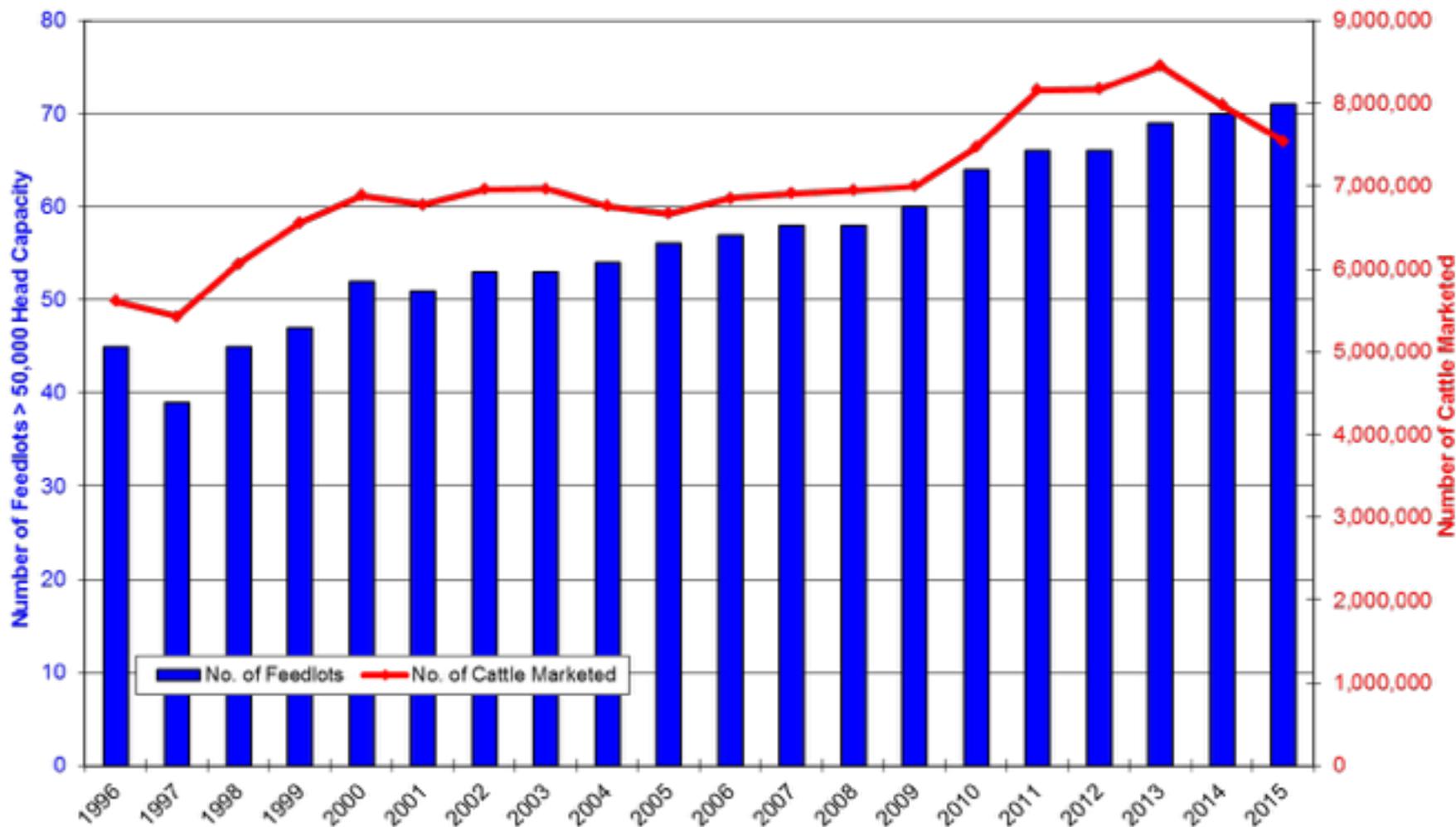
Cattle Marketed by Feedlot Size 1996-2015



Source: USDA-NASS Various Cattle on Feed Reports

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Feedlots with Capacities of 50,000 Head or More and Number of Head Marketed 1996-2015



Source: USDA-NASS Various Cattle on Feed Reports

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C. The Packing Sector

Top 30 Beef Packers 2013

	COMPANY NAME HEAD OFFICE	U.S. CAPACITY (HEAD PER DAY)	NUMBER OF U.S. PLANTS	2012 U.S. BEEF SALES (IN MILLIONS OF \$)	2012 U.S. KILL (000 HEAD)	CATTLE TYPE (INCL. 2012 SLAUGHTER MIX)
1	Tyson Foods Springdale, Ark.	28,950	7	13,755	6,864 *	Choice Fed Fed 100%
2	JBS USA (1) Greeley, Colo.	27,125	9	17,478 (includes Australia)	6,700	Angus/Angus Cross, Holstein/Cow Fed 90%, Non Fed 10%
3	Cargill Beef Wichita, Kan.	25,700	8	11,200	7,00	Fed Steers and Heifers Fed 86%, Non Fed 14%
4	National Beef Packing Co. Kansas City, Mo.	14,000	3	7,481	3,675 *	Angus/English Fed 100%
5	American Foods Group LLC Alexandria, Minn.	7800	5	3,000	1,800 *	Holstein Non Fed 80%, Fed 20%
6	Greater Omaha Packing Co. Omaha, Neb.	2900	1	1,300	780	Angus, Hereford, Natural Fed 100%
7	Nebraska Beef Ltd. Omaha, Neb.	2400	1	750	450	Angus/Angus Cross Fed 100%
8	Caviness Beef Packers Ltd. Hereford, Texas	1800	1	580	470	Cows, Bulls, Fed Non Fed 90%, Fed 10%
9	AB Foods LLC. Boise, Idaho	1500	1	Not Disclosed	400	70% Plus Choice Fed 100%
10	FPL Food LLC. Augusta, Ga.	1400	1	350	221	Cow, Bull Non Fed 98%, Fed 2%
	Kane Beef Corpus Christi, Texas	1400	1	400	285	Crosses Fed 100%
12	Creekstone Farms Premium Beef Arkansas City, Kan.	1350	1	622	292	High Quality Black Angus Fed 100%

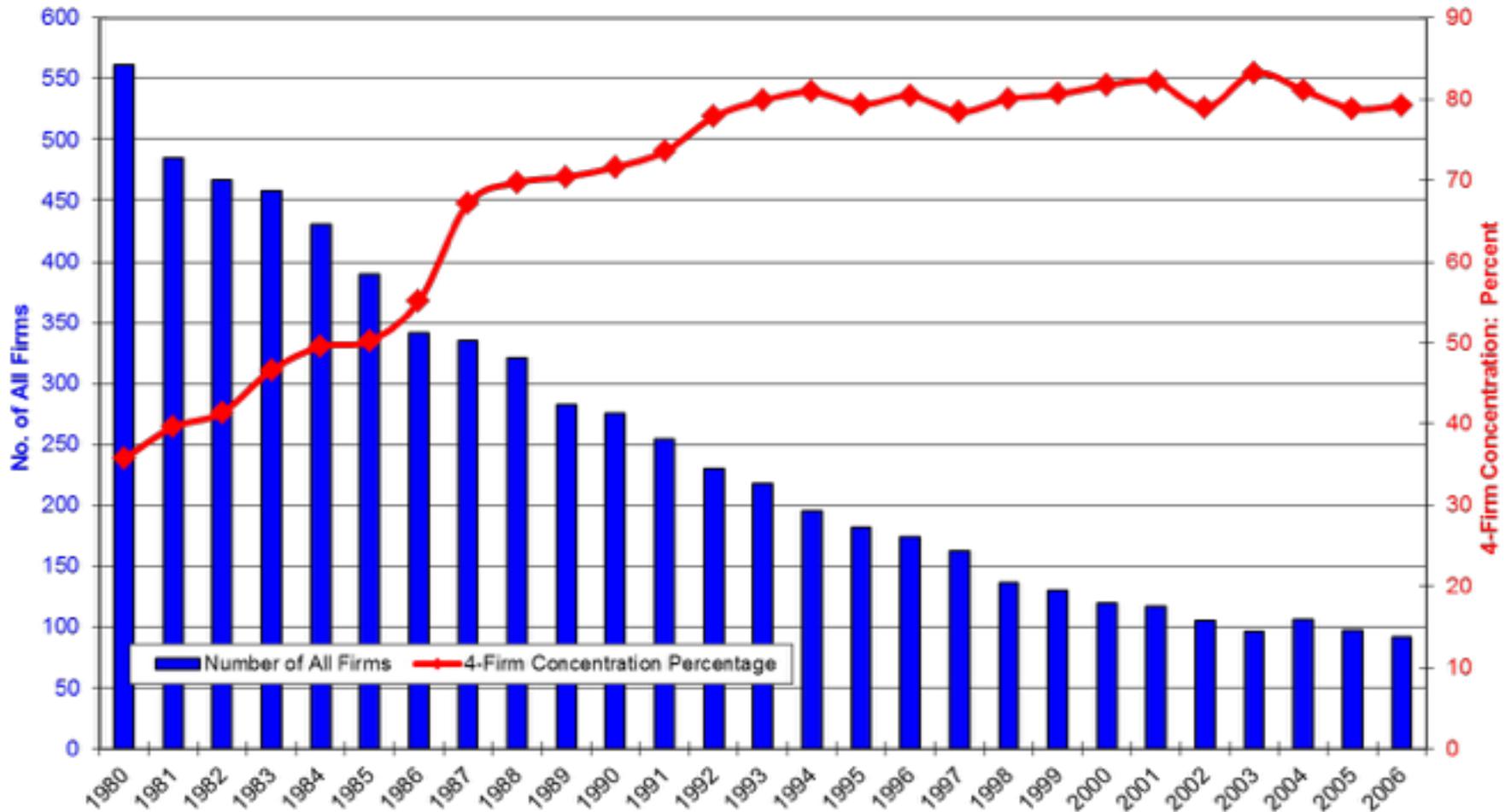
Recent Plant Closures

- National Beef closed its Brawley, CA, plant in about 2014
- Cargill closed its Milwaukee, WI, plant in 2015
- Cargill closed its Plainview, TX, plant in 2013
- Tyson closed its West Point, NE, plant in 2006
- Tyson closed its Boise, ID, plant in 2006
- Tyson closed its Emporia, KS, plant in 2008
- Tyson closed its Denison, IA, plant in 2015
- JBS purchased shuttered XL Foods plant in Nampa, ID, in 2013

Not Big 4

- San Antonio's L&H plant closed in 2014
- San Angelo Beef closed its plant around 2014
- PM Beef in Windom, MN, closed in 2015

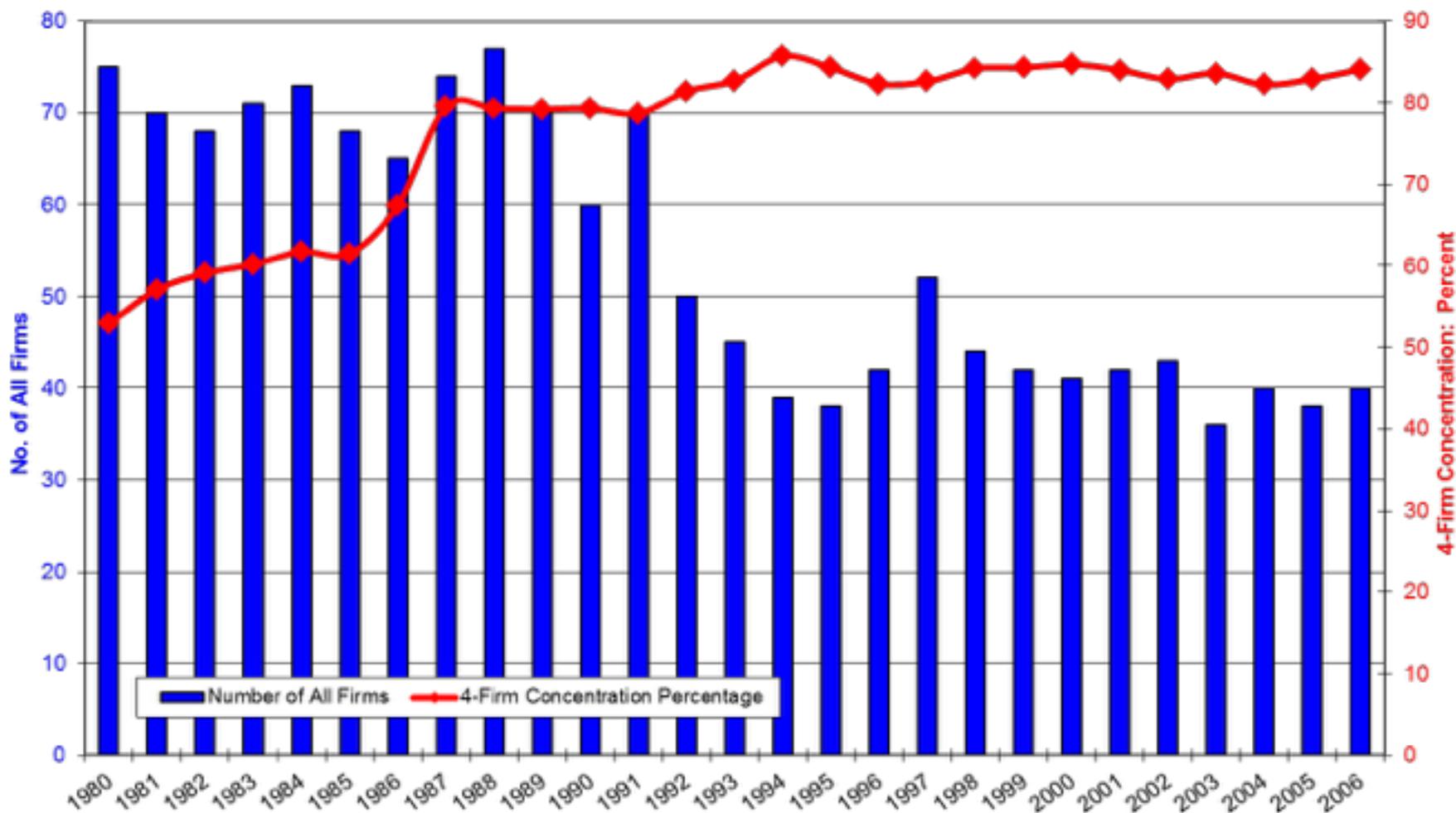
Decreased Number of Firms that Slaughter Steers and Heifers and Increased Four-Firm Concentration (1980-2006)



Source: USDA-GIPSA Statistical Reports 1996-2006 (Based on procurement data reported to GIPSA)

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Decreased Number of Firms that Produce Boxed Beef and Increased Four-Firm Concentration (1980-2006)

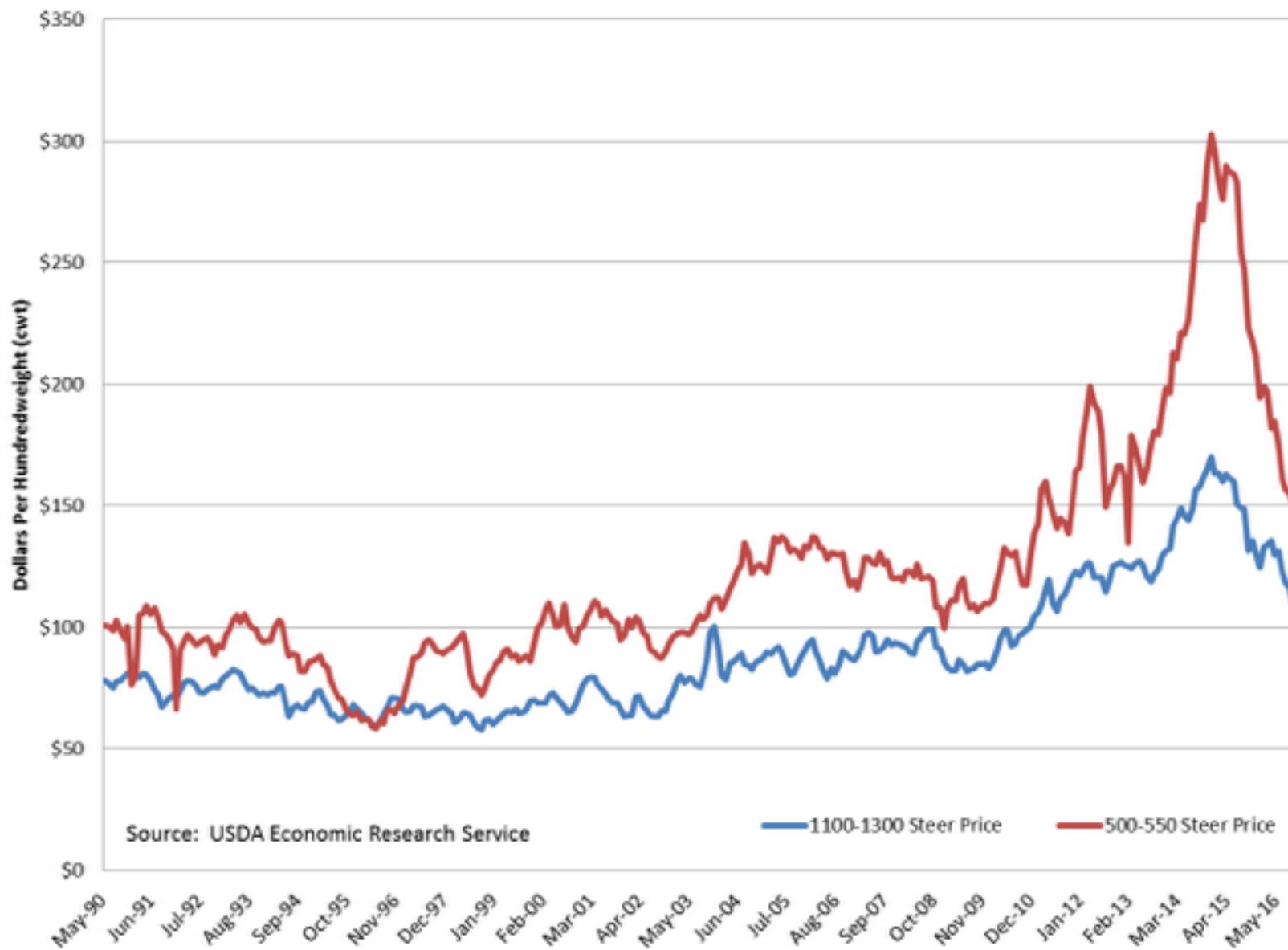


Source: USDA-GIPSA Statistical Reports 1996-2006

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II. Economic Trends

TX/OK Fed Steers and Lighter OK Feeder Steer Prices



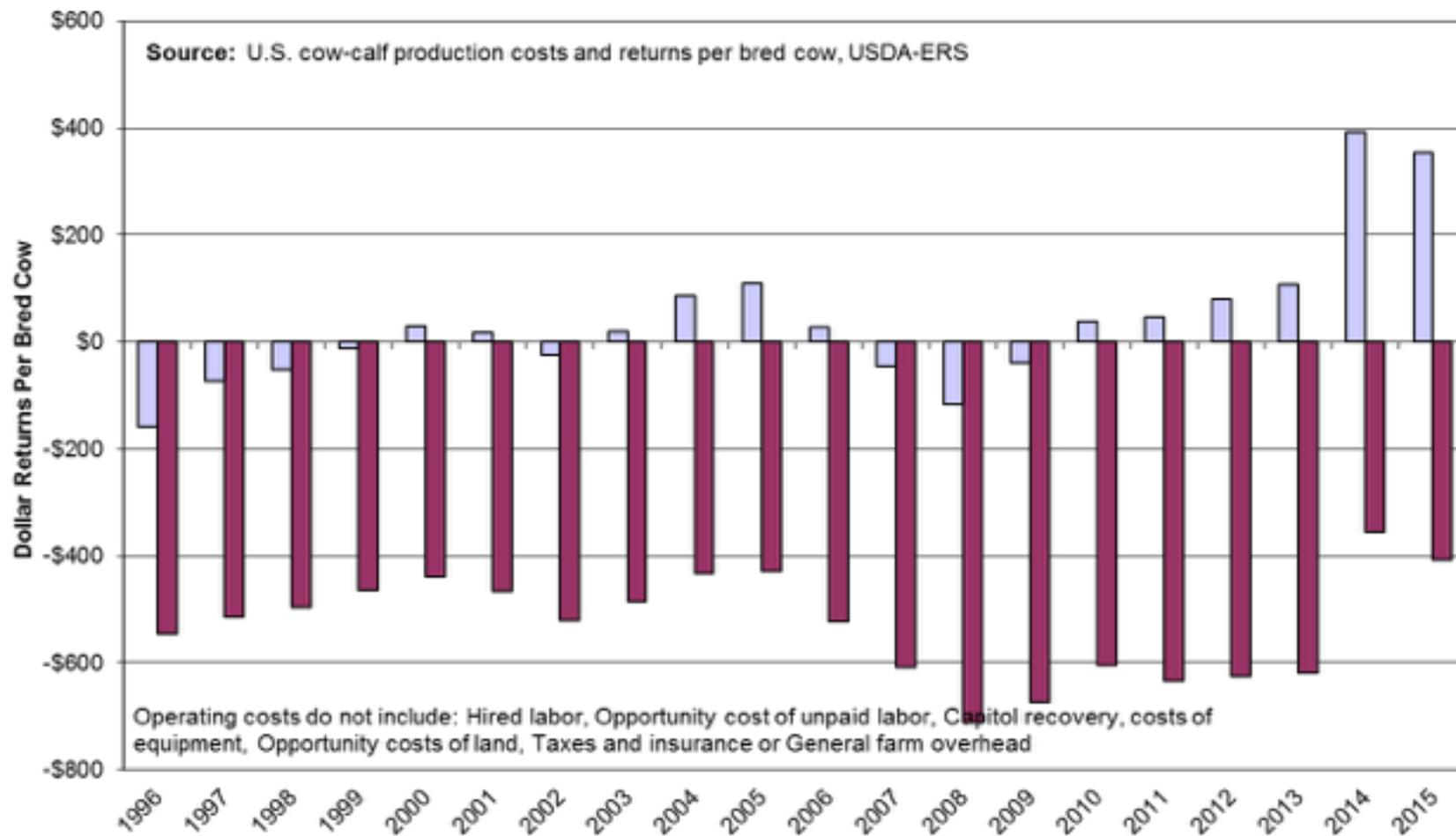
Source: USDA Economic Research Service

— 1100-1300 Steer Price

— 500-550 Steer Price

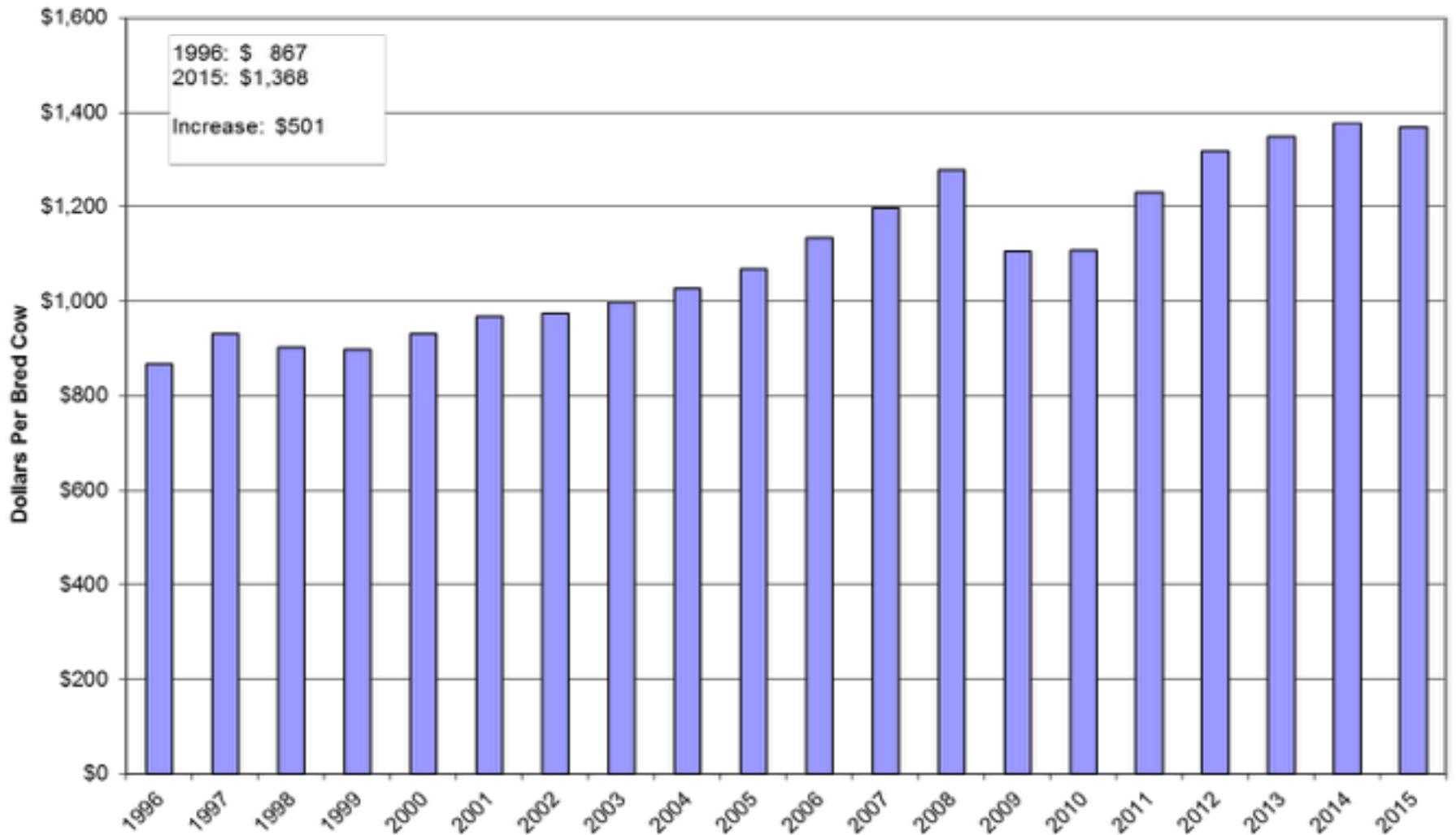
U.S. Cow-Calf Returns Per Bred Cow

Returns based only on operating costs
 Returns based on total costs



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Cost Per Cow of Raising One Calf

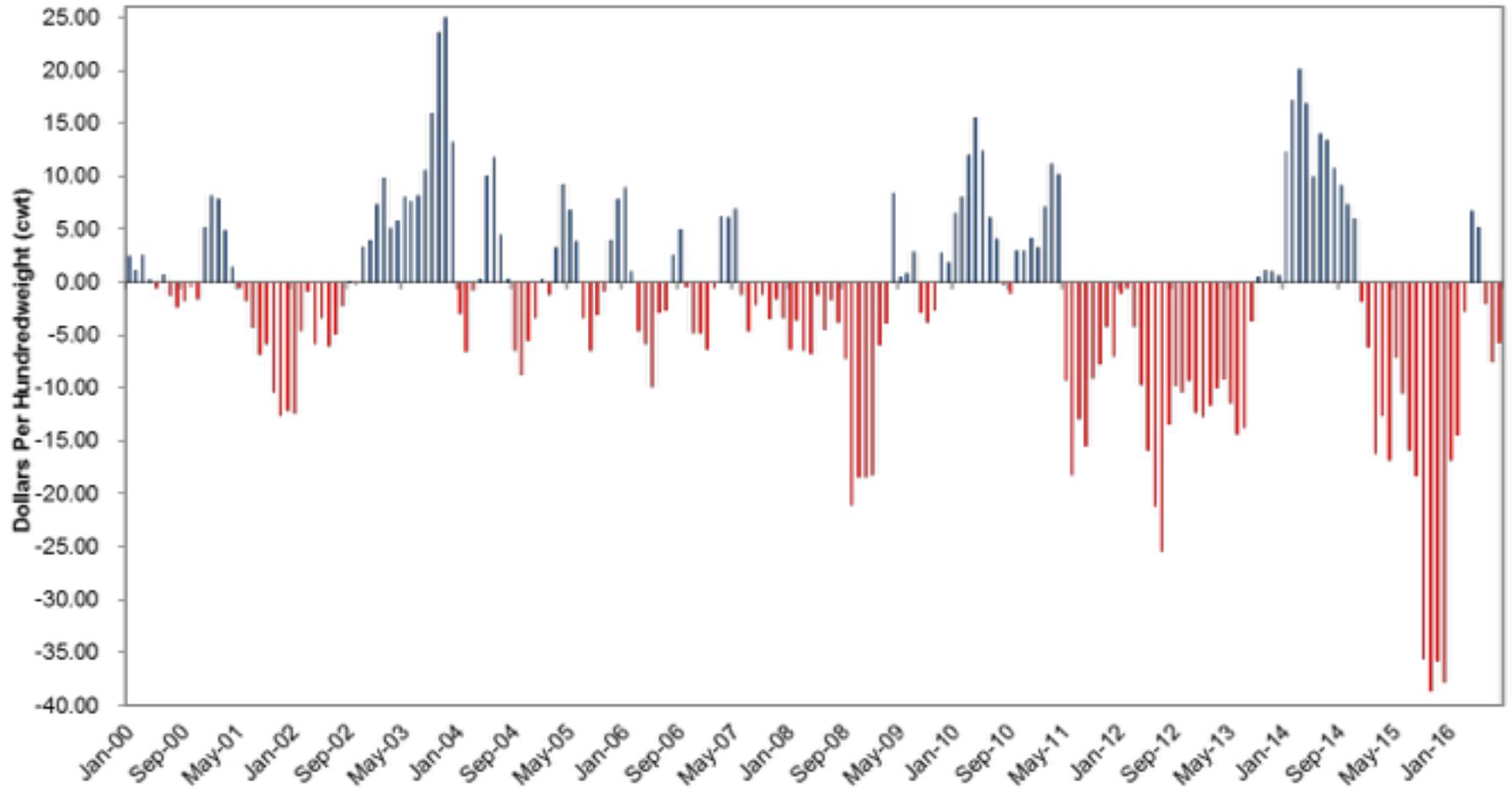


Source: USDA-ERS

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Returns to U.S. Cattle Feeders (Jan. 2000 - August 2016)

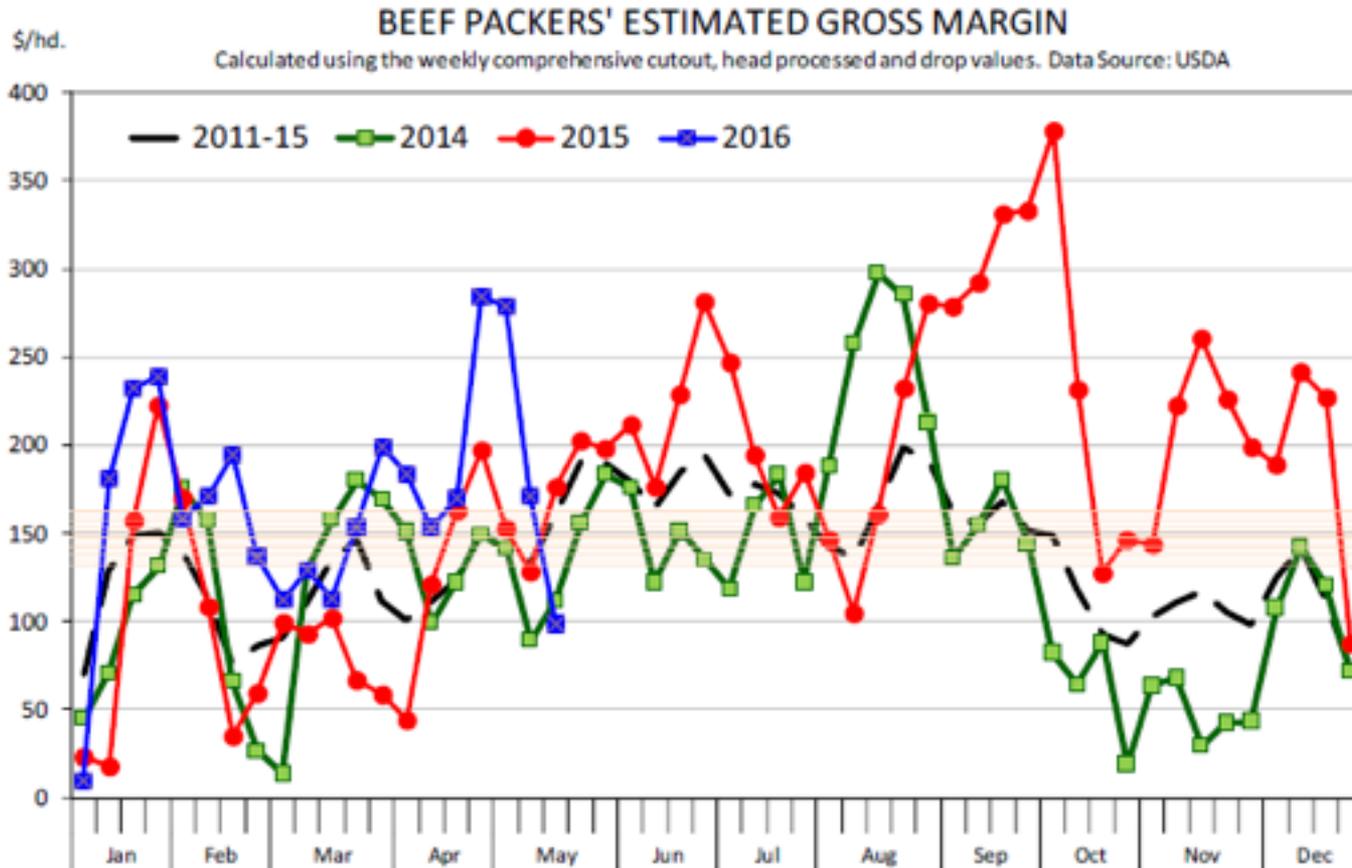
Prolonged and Persistent Losses to Cattle Feeders (Ave. loss of \$26.52 per head per month)



Source: USDA-ERS High Plains Cattle Feeding Simulator

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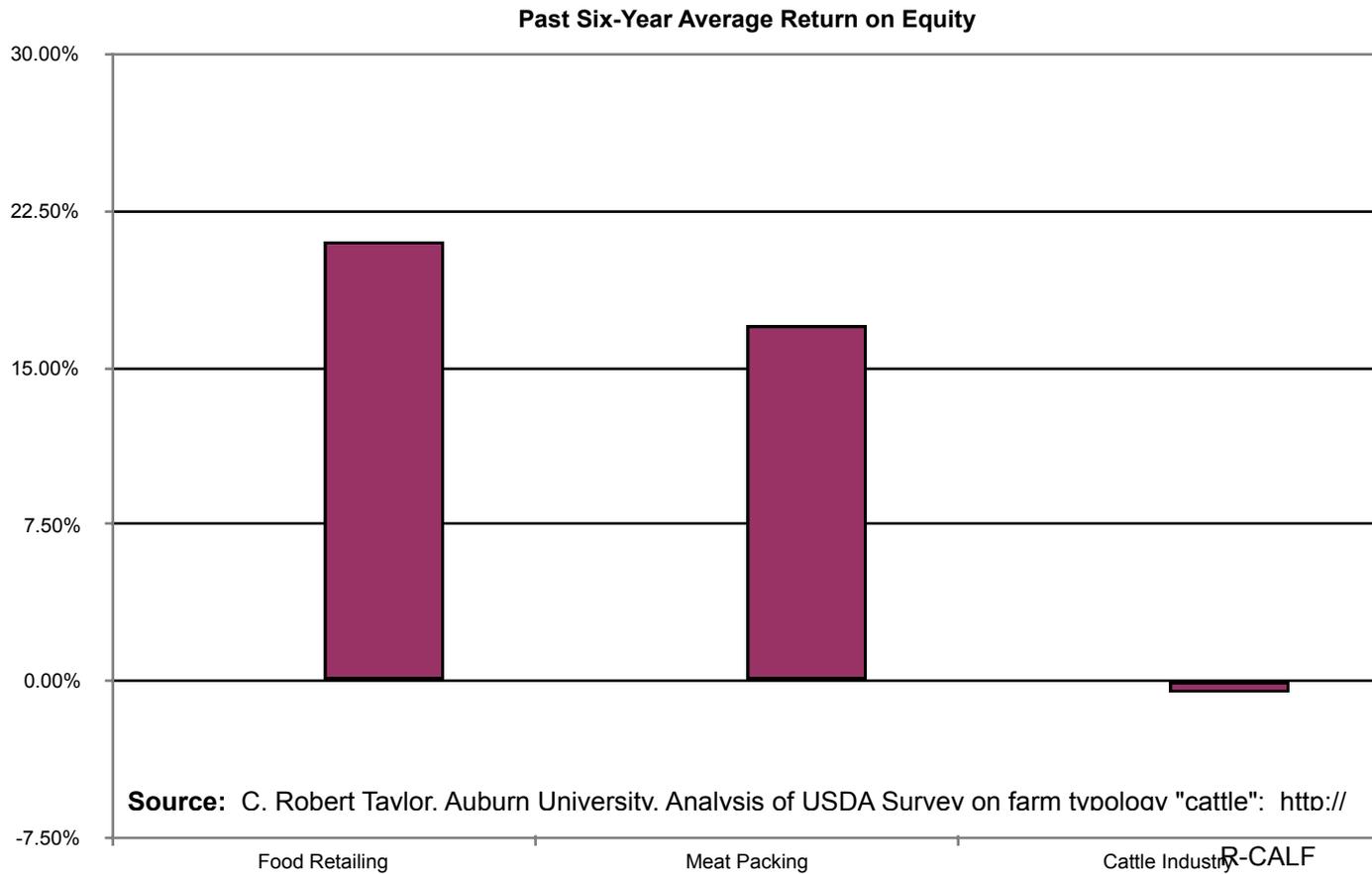
Daily Livestock Report, CME Group, Vol. 14, No. 97 / May 17, 2016



**Daily Livestock Report, CME Group, Vol. 14, No. 177 /
September 7, 2016**

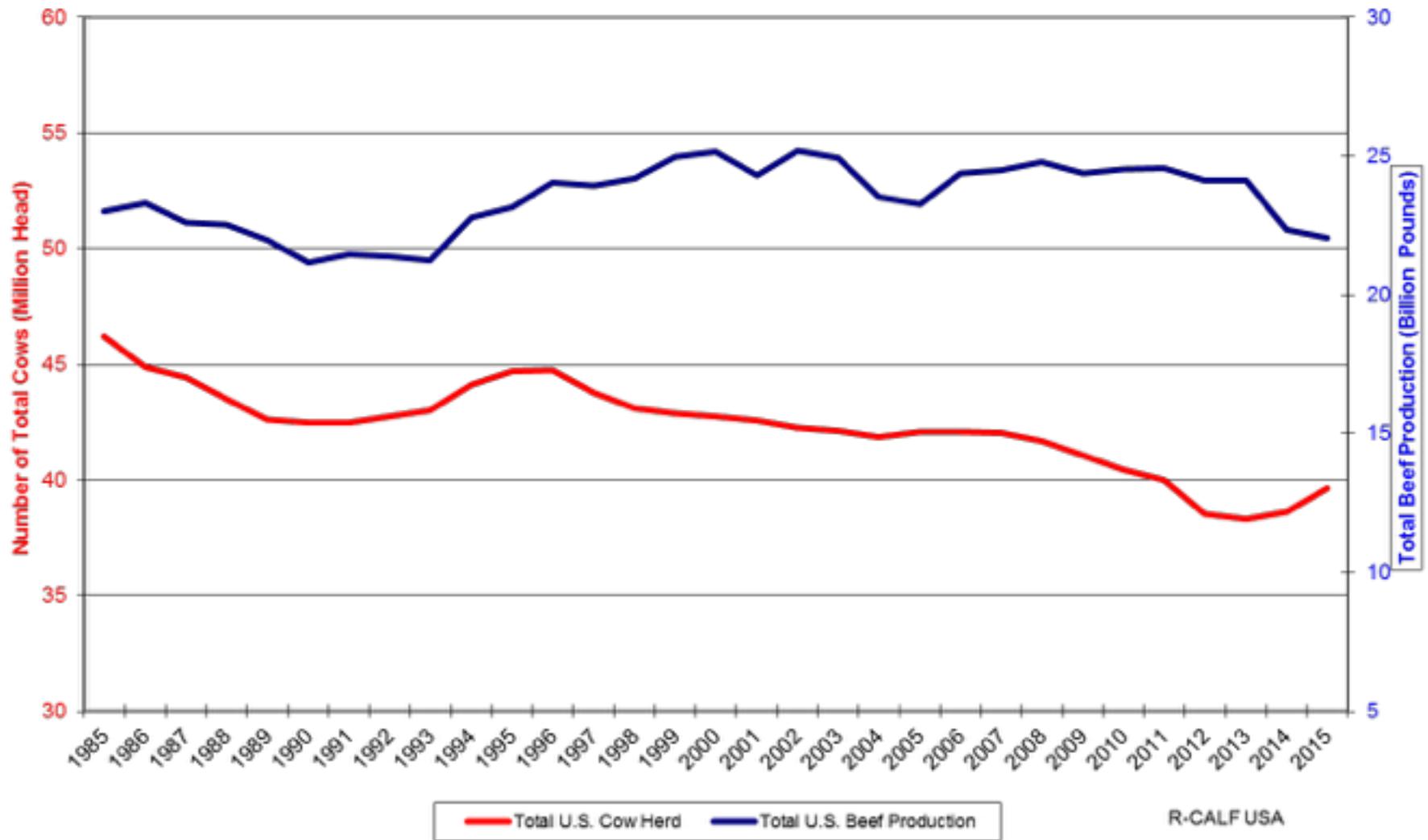
“Annually, the calculated gross margin for slaughtering steers and heifers in 2015 was the third highest in the last two decades; the higher years were 2003 and 2006. Note that those higher years were pre the latest cowherd liquidation and resulting packer excess capacity period and also were pre-recession. This year could easily surpass 2015’s level by more than 30% and set a new 20-year high beef packer margin.” (Emphasis in original).

Long-Run Negative Return On Equity for U.S. Cattle Industry (2010)

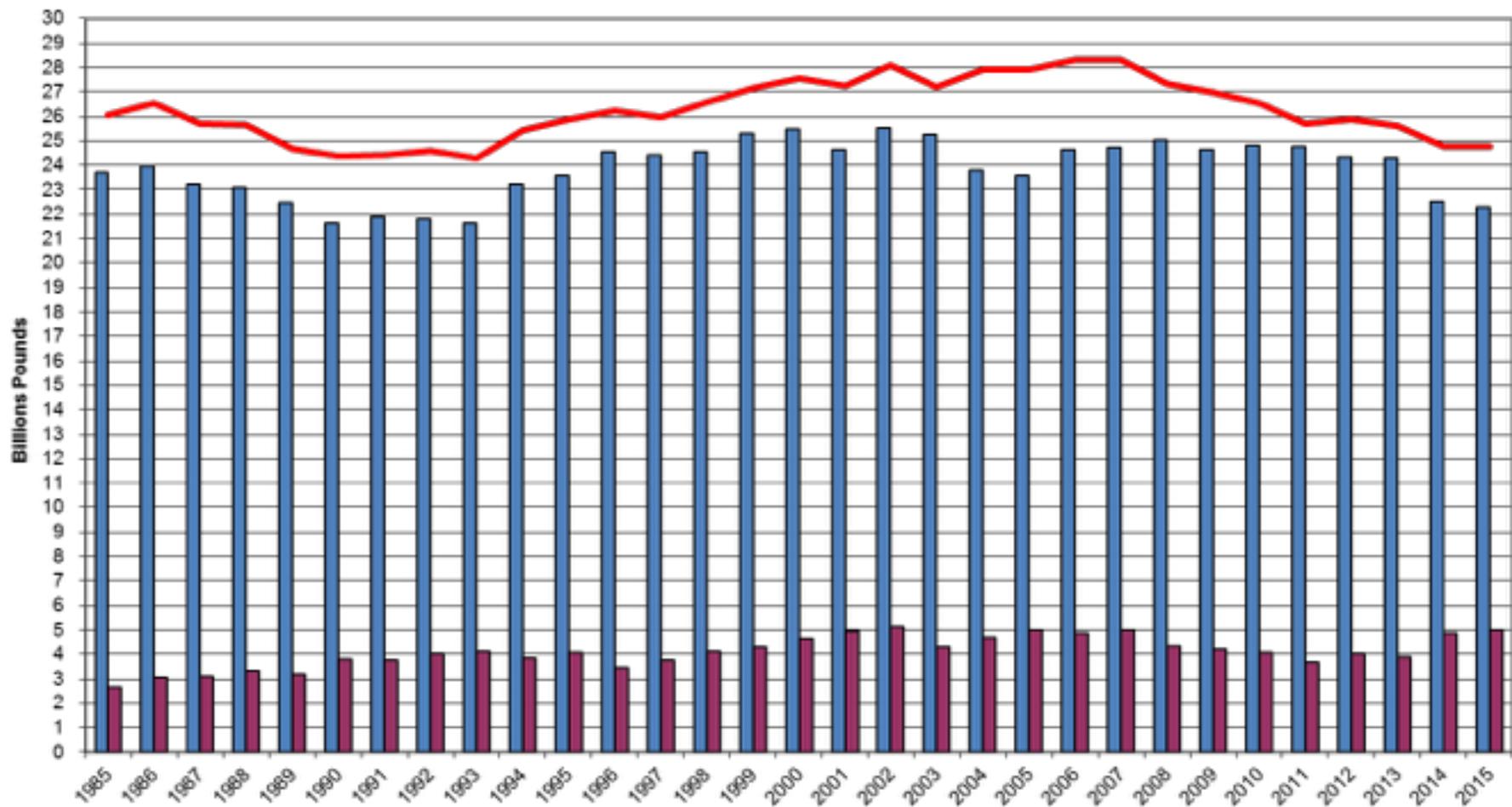


III. Industry Productivity

U.S. Cow Herd & Exclusively U.S. Beef Production
 (Domestic Production Initially Stabilizes as More Cows go to Slaughter after 1996)



Beef
Domestic Consumption vs Domestic Production and Imports
1985-2015

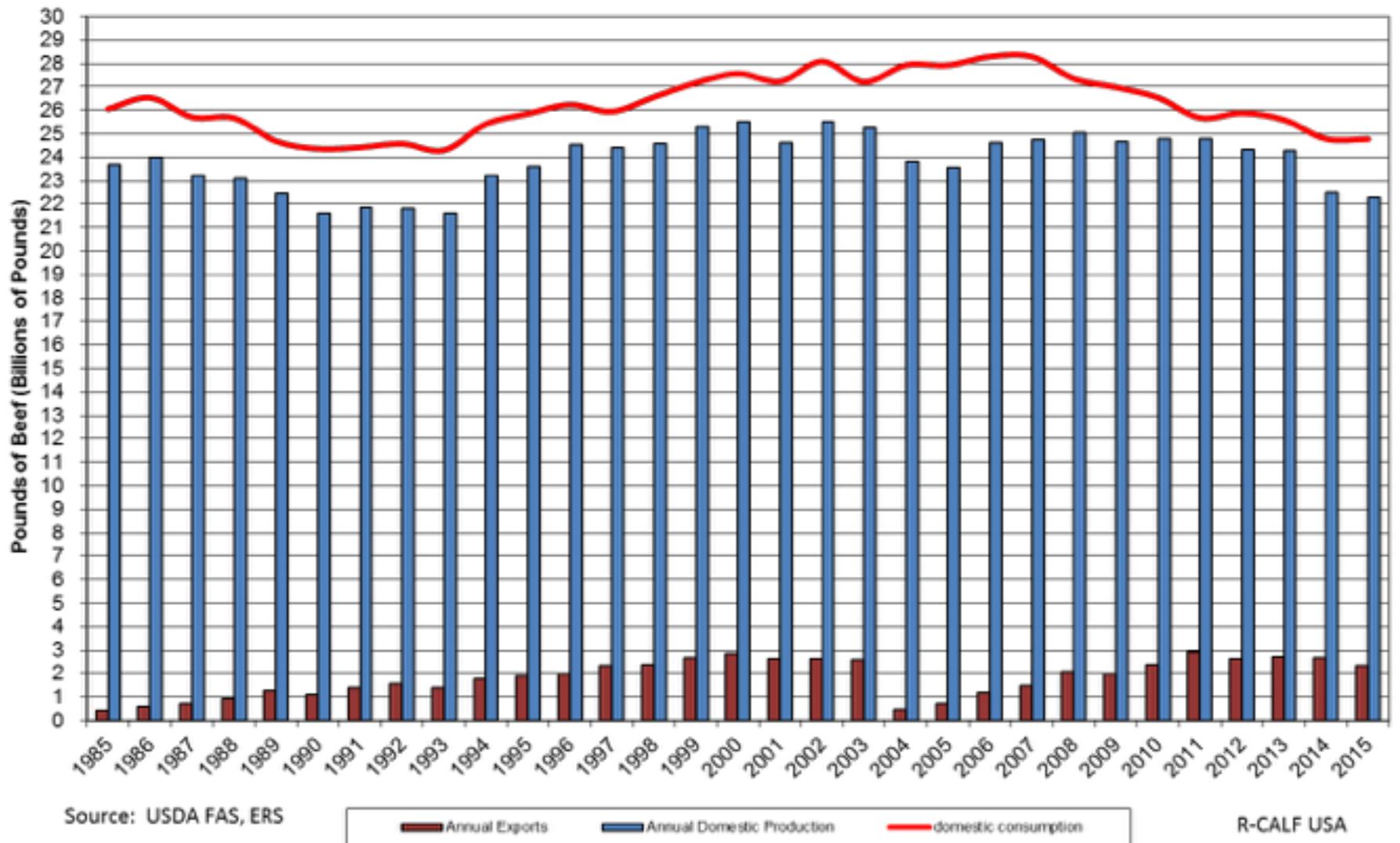


Source: USDA-FAS; USDA-ERS

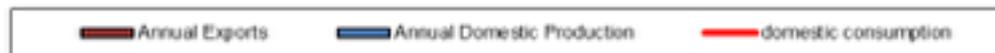


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Volume of Beef Exported Versus Domestic Beef Production

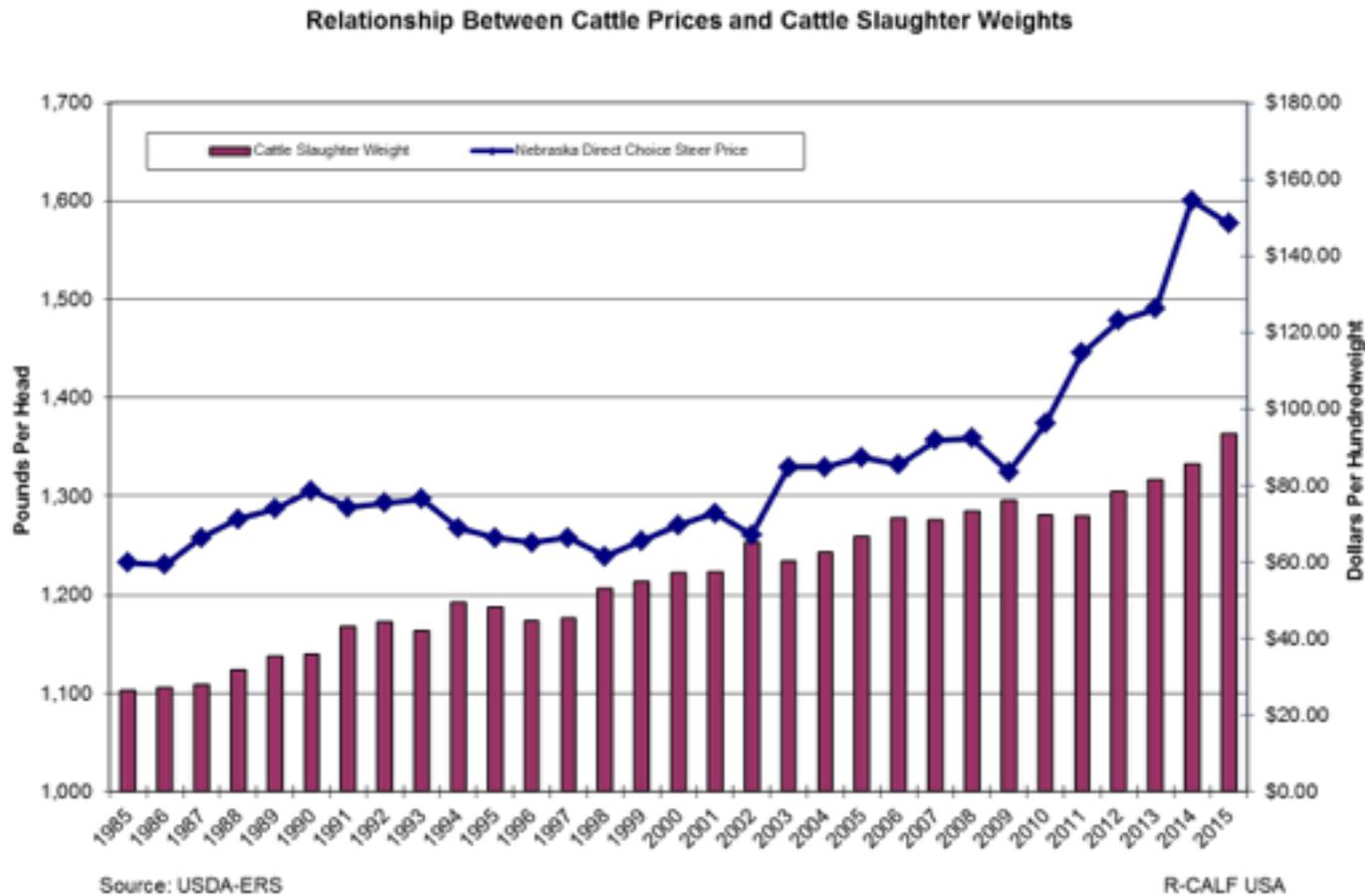


Source: USDA FAS, ERS

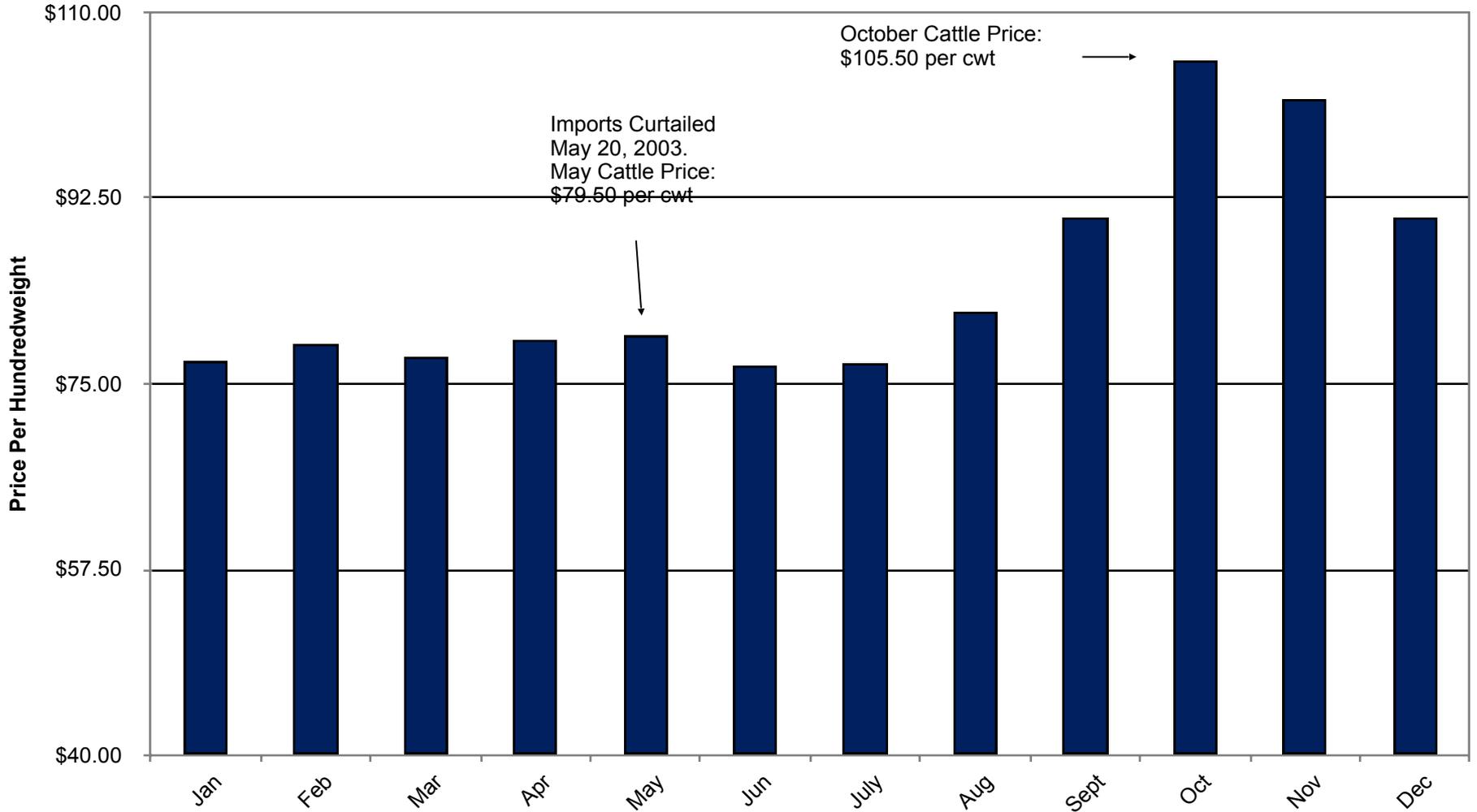


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Packers Can Cause Carcass Weights to Increase to Manipulate Price & Production



2003 Cattle Price Response to Curtailment of Canadian Imports



Source: USDA-ERS

2003 Nebraska Direct Choice Steer Price

IV. Indicators of Marketplace Dysfunction

Disconnect Between Retail Beef Prices and Live Cattle Prices



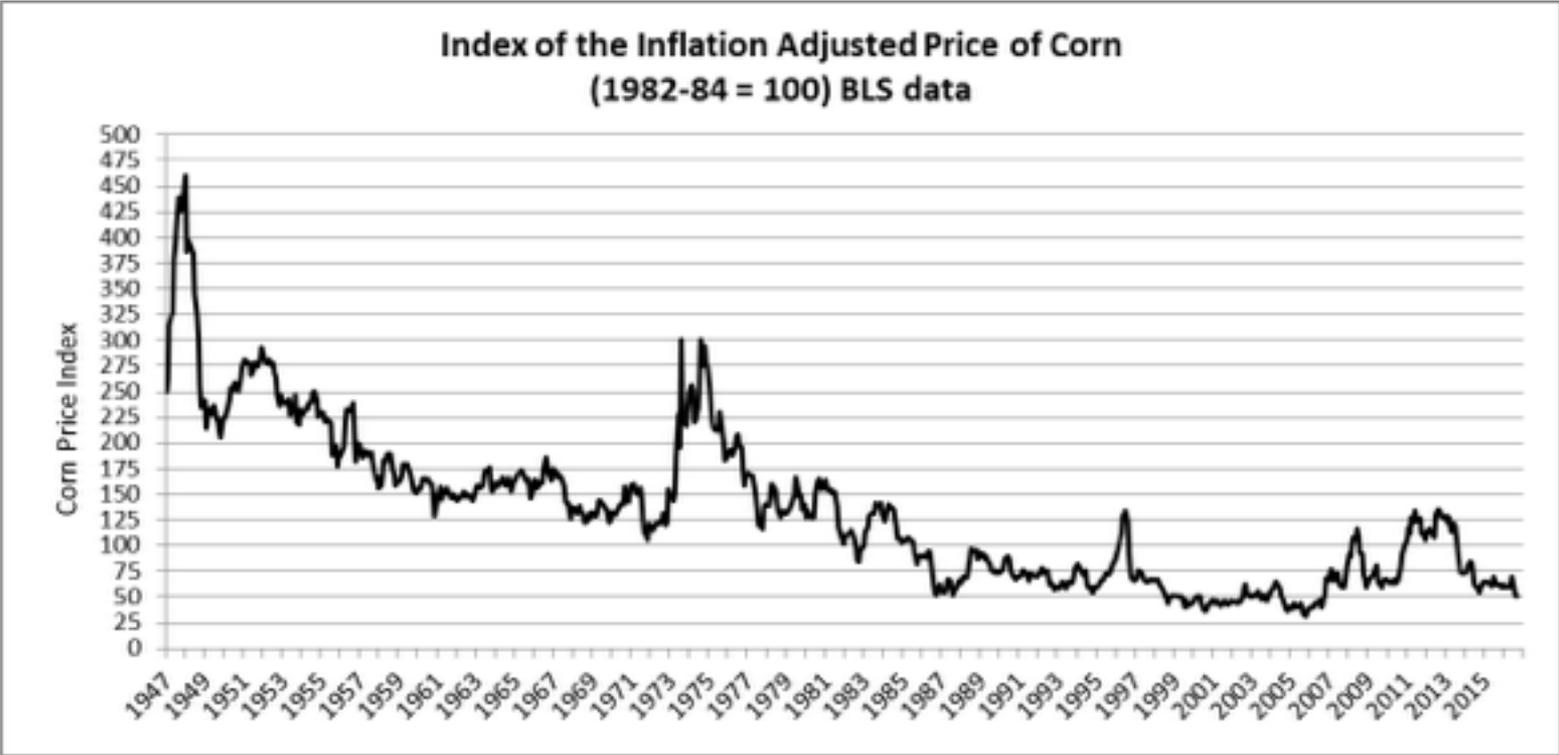
C. Robert Taylor, Auburn University

Retail Beef Prices Lack “Efficiency” Disciplines



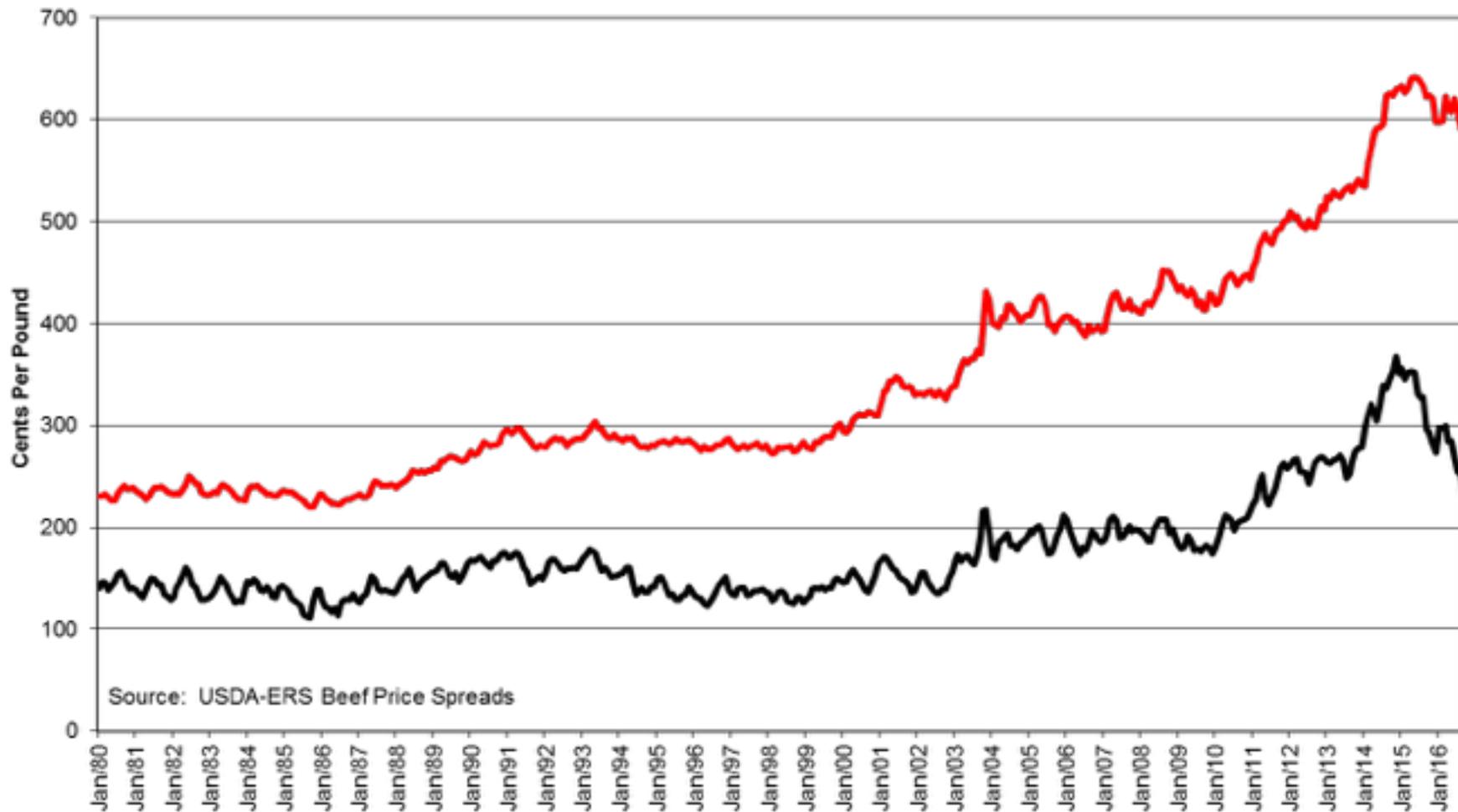
C. Robert Taylor, Auburn University

Feed Prices Contradict Trajectory of Cattle and Beef Prices



C. Robert Taylor, Auburn University

RANCH TO RETAIL BEEF PRICE SPREADS (Nominal Prices)
JAN. 1980 - SEPT. 2016



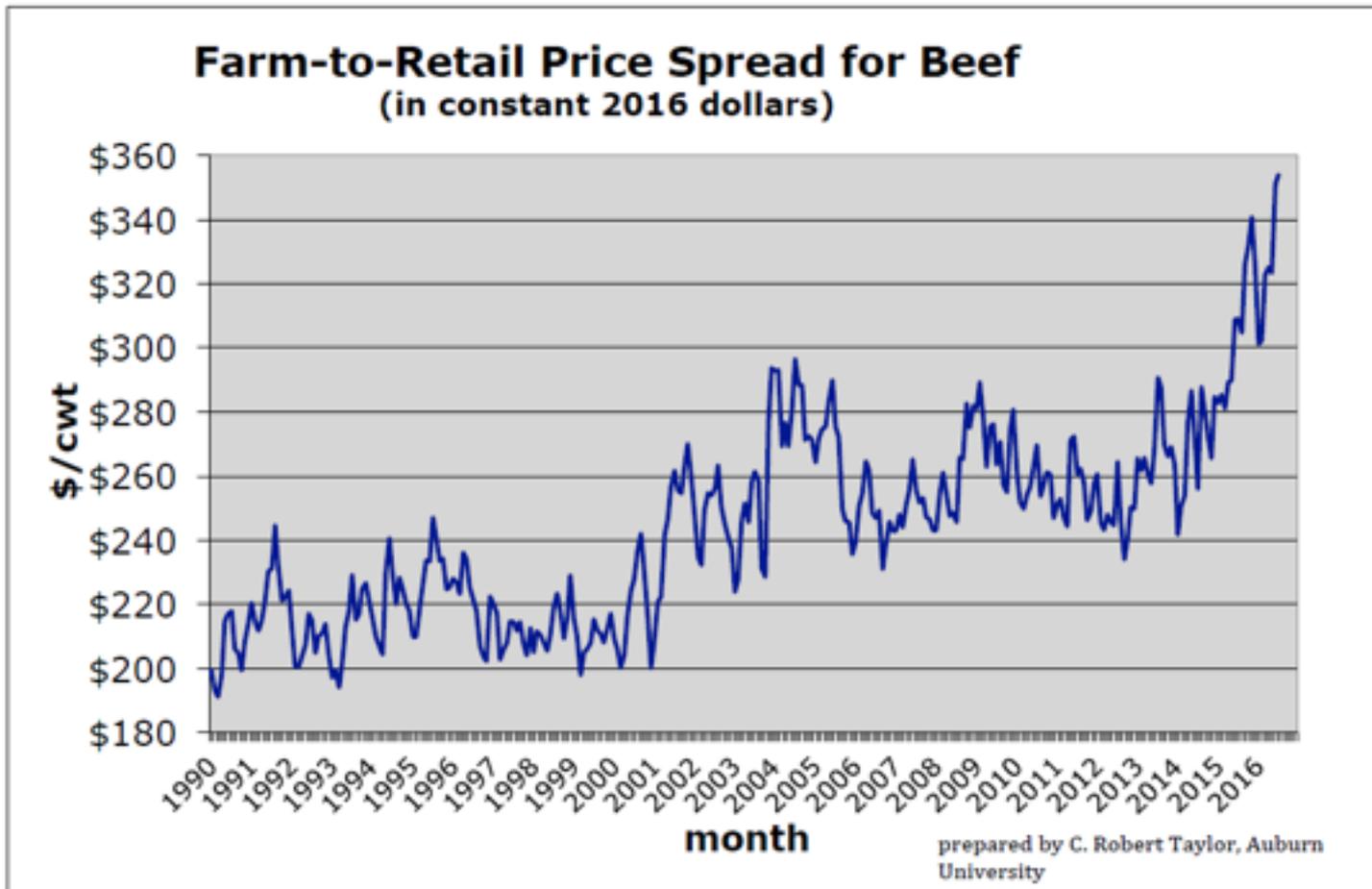
Source: USDA-ERS Beef Price Spreads

Source: USDA-ERS



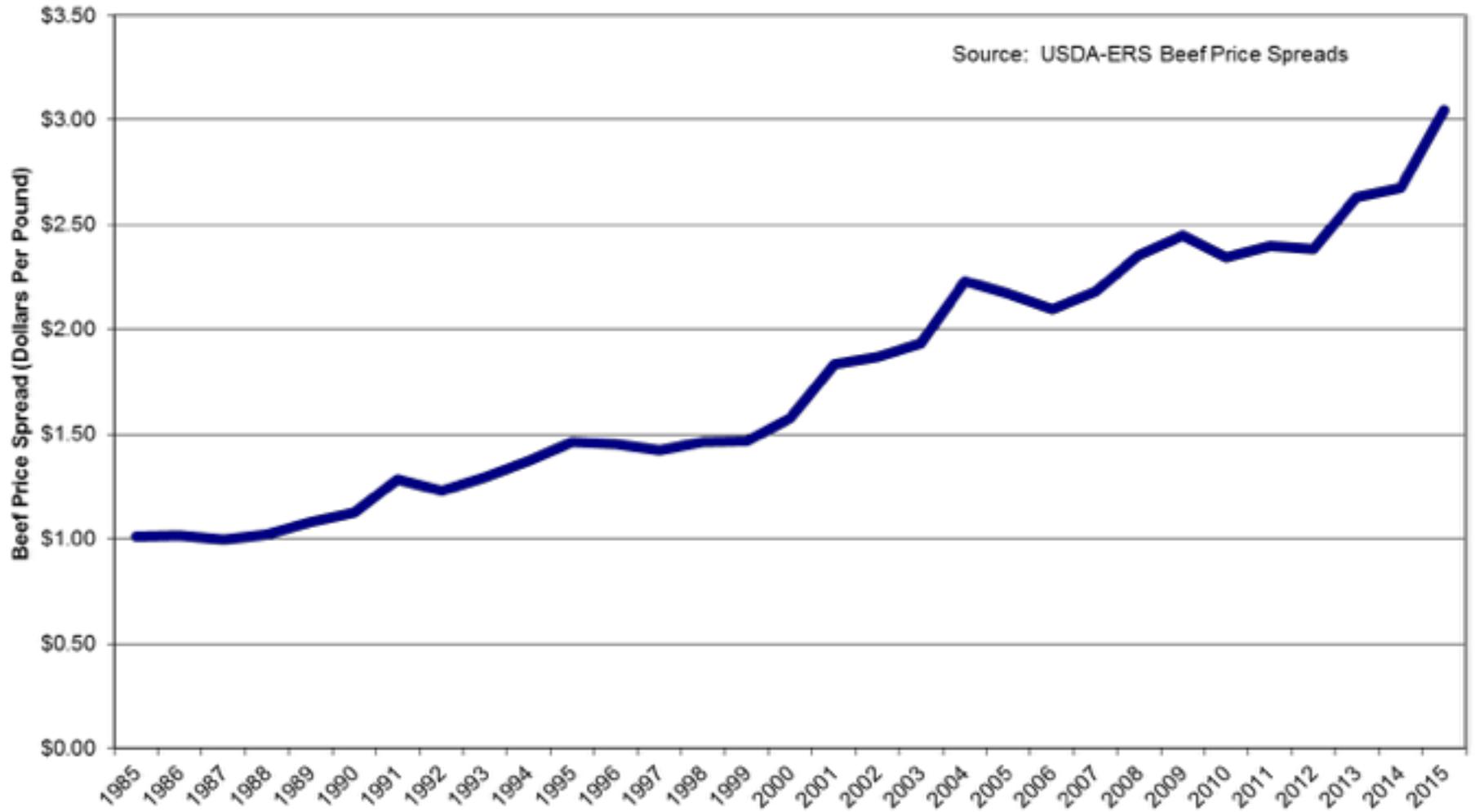
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Exploitation of Producers & Consumers

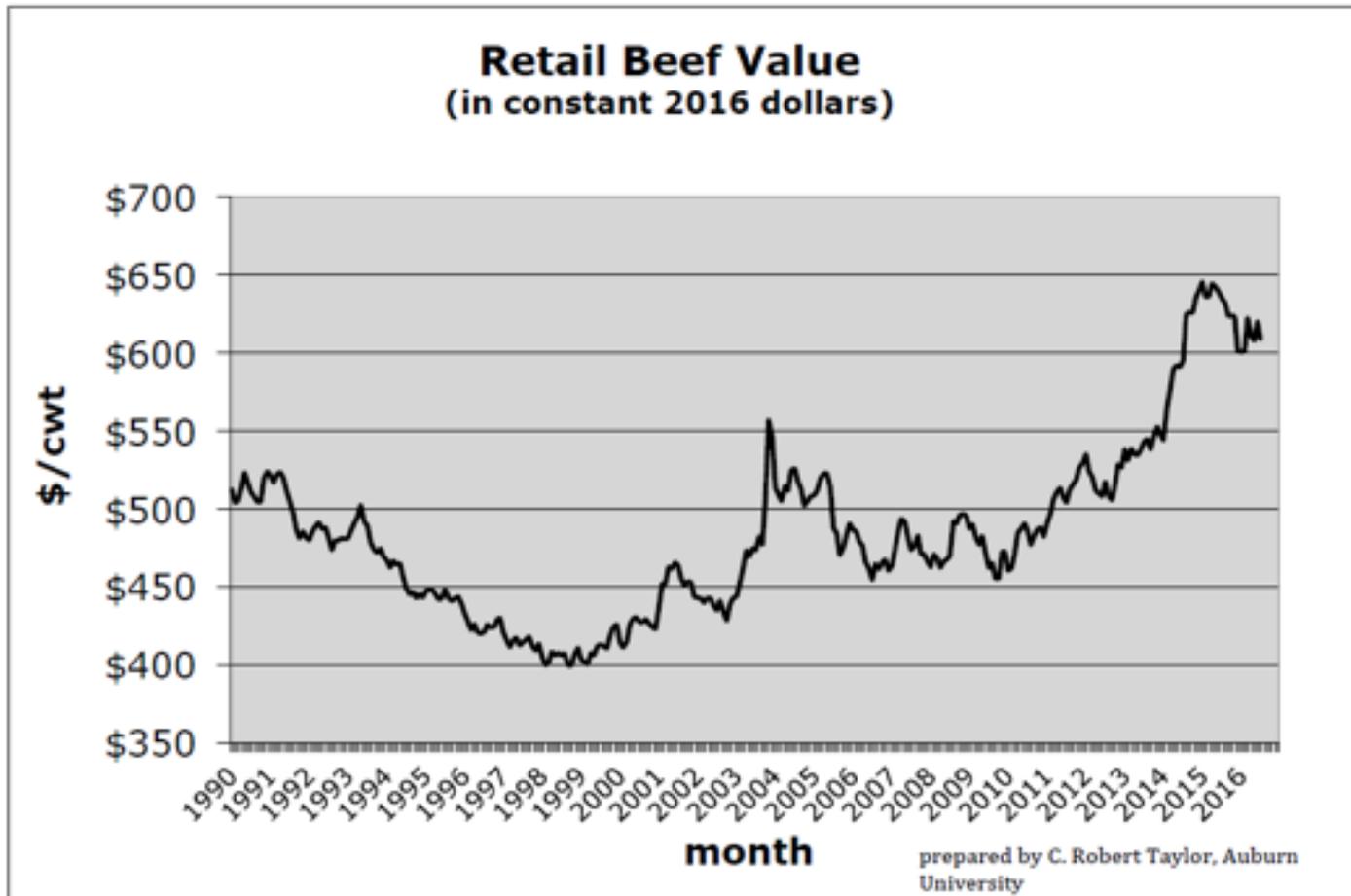


Ranch-to-Retail Choice Beef Price Spread (Cost of Converting Live Cattle to Beef)

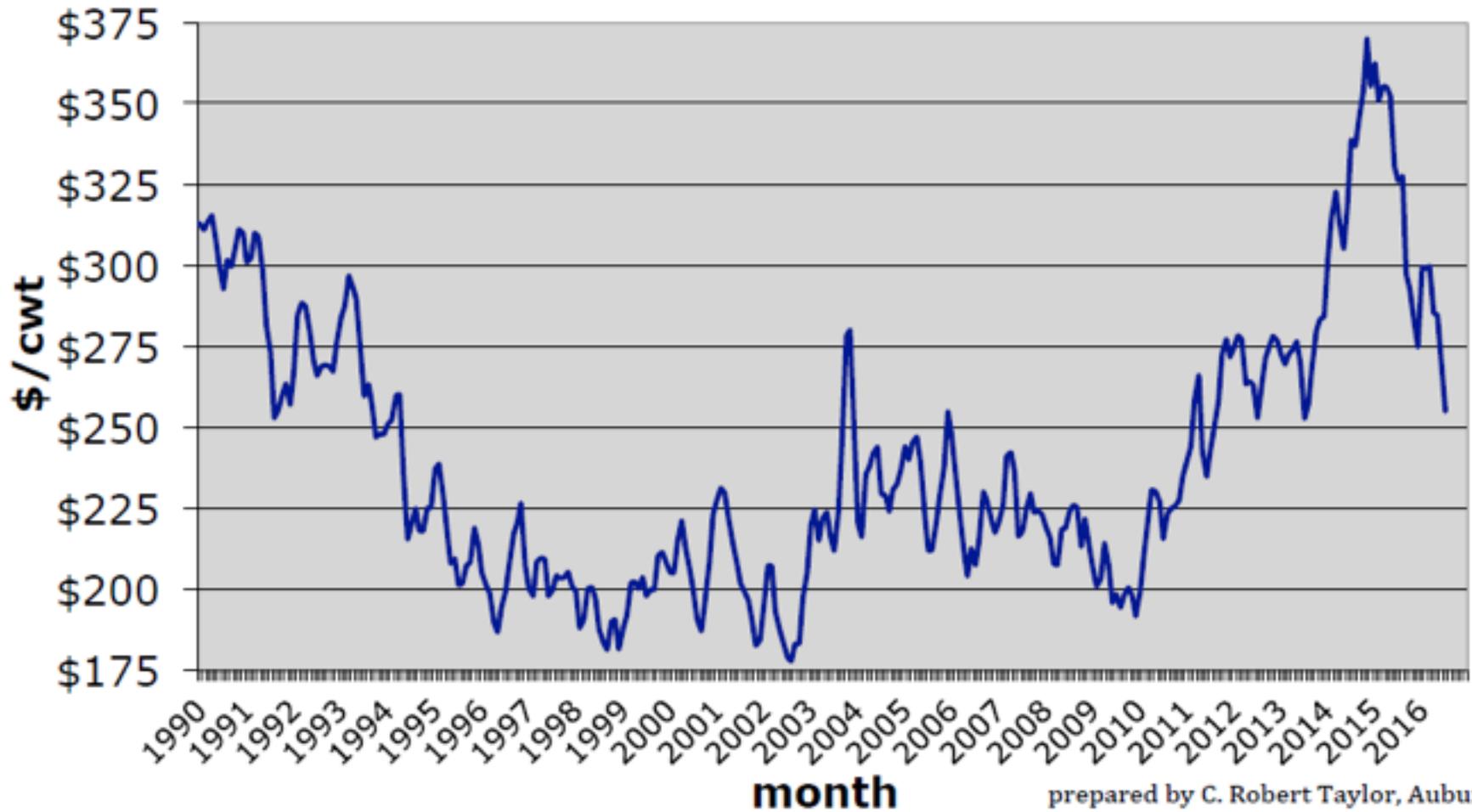
Prepared by R-CALF USA



Exploitation of Producers & Consumers



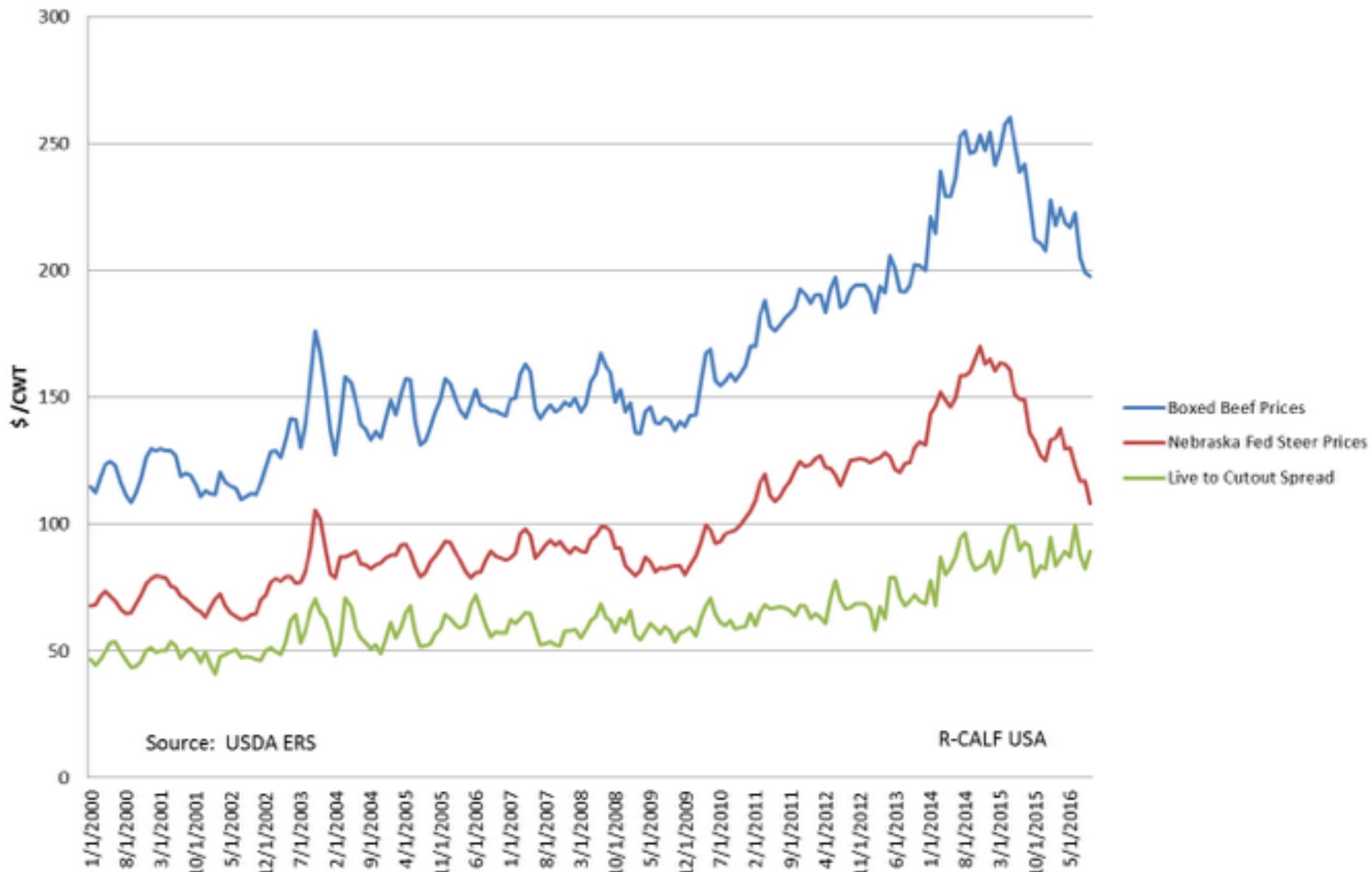
Net Farm Value for Beef (in constant 2016 dollars)



prepared by C. Robert Taylor, Auburn
University

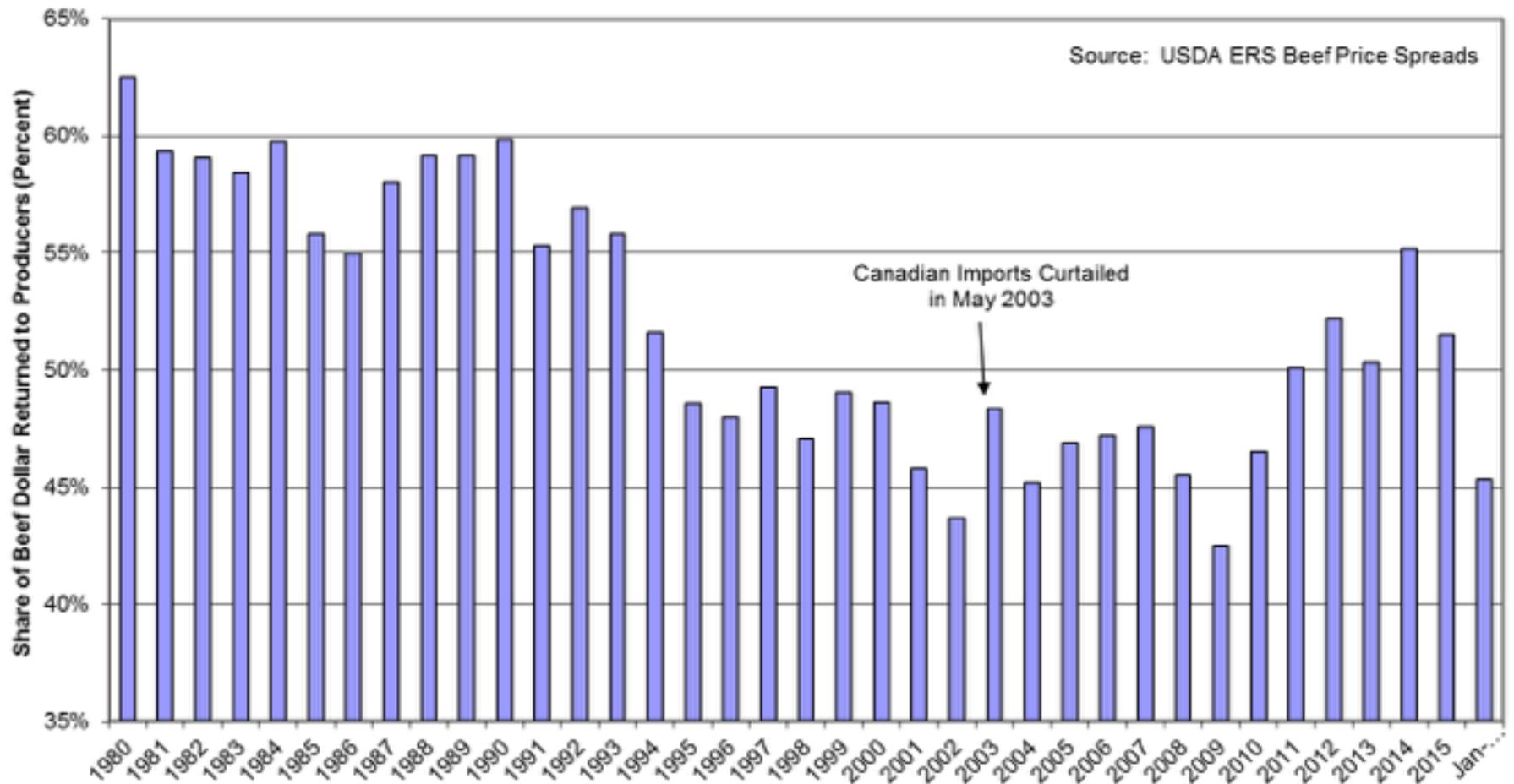
V. Indicators of Anticompetitive & Antitrust Practices

Monthly Wholesale Boxed Beef Prices, Monthly Nebraska Fed Steer Prices, and Monthly Live Cattle to Beef Cutout Spreads



Producers' Share of Consumer Beef Dollar

Prepared by R-CALF USA



Packers are “Thinning” the Price Discovery Market – The Cash Market

LMR Purchase Type Breakdown by Region												
NATIONAL												
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Jan - Aug 2016
Cash	52.1%	49.4%	47.3%	42.6%	38.8%	37.4%	32.6%	26.0%	23.1%	23.1%	21.3%	25.4%
Formula	33.2%	34.3%	37.4%	39.1%	43.7%	43.1%	47.4%	54.8%	59.8%	56.8%	57.0%	57.1%
Forward Contract	4.8%	7.2%	6.8%	11.2%	9.5%	11.9%	13.2%	12.0%	10.8%	15.8%	17.5%	13.5%
Negotiated Grid	9.9%	9.0%	8.5%	7.1%	8.0%	7.6%	6.7%	7.2%	6.3%	4.3%	4.2%	4.0%

Source: USDA AMS Livestock, Poultry & Grain Market News

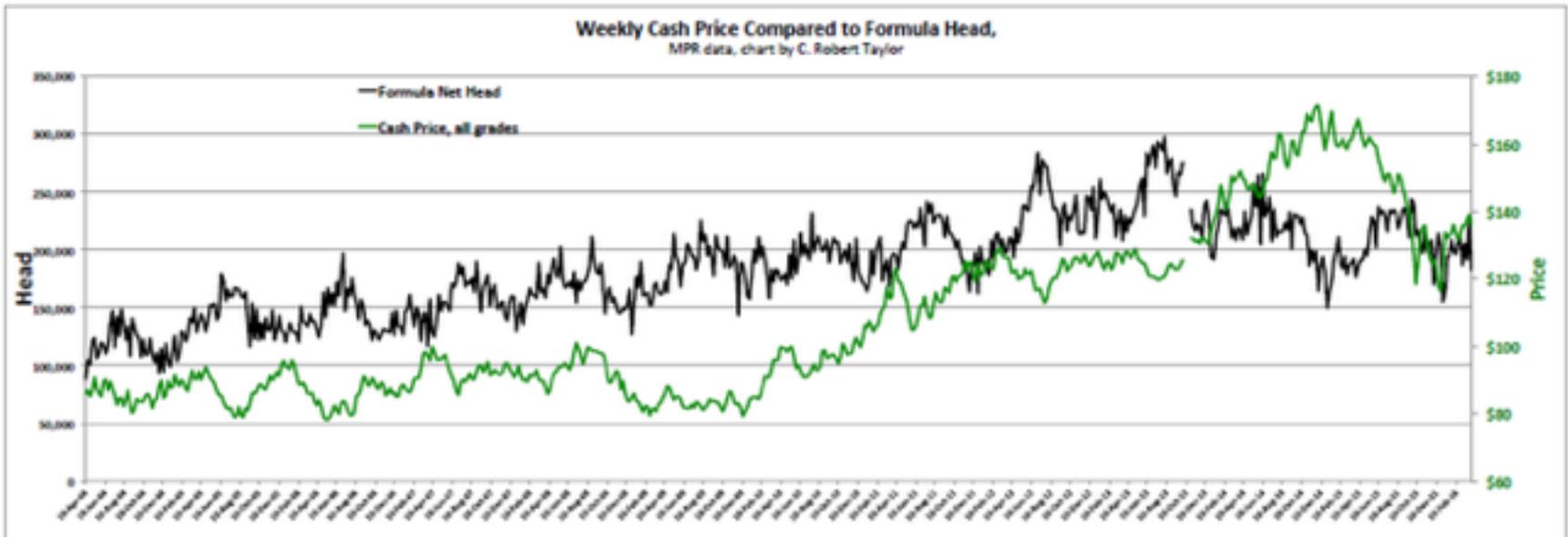
TEXAS -OKLAHOMA-NEW MEXICO												
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Jan - Aug 2016
Cash	47.2%	42.5%	36.7%	31.5%	26.4%	21.5%	17.0%	10.2%	6.1%	3.0%	2.6%	6.3%
Formula	42.2%	42.2%	48.4%	53.3%	60.4%	66.9%	72.7%	76.0%	83.0%	84.6%	85.9%	82.4%
Forward Contract	3.1%	5.0%	4.4%	5.8%	5.4%	4.9%	4.4%	5.4%	4.0%	7.4%	9.3%	7.2%
Negotiated Grid	7.5%	10.3%	10.5%	9.3%	7.8%	6.7%	5.9%	8.4%	6.9%	5.1%	2.1%	4.0%

Source: USDA AMS Livestock, Poultry & Grain Market News

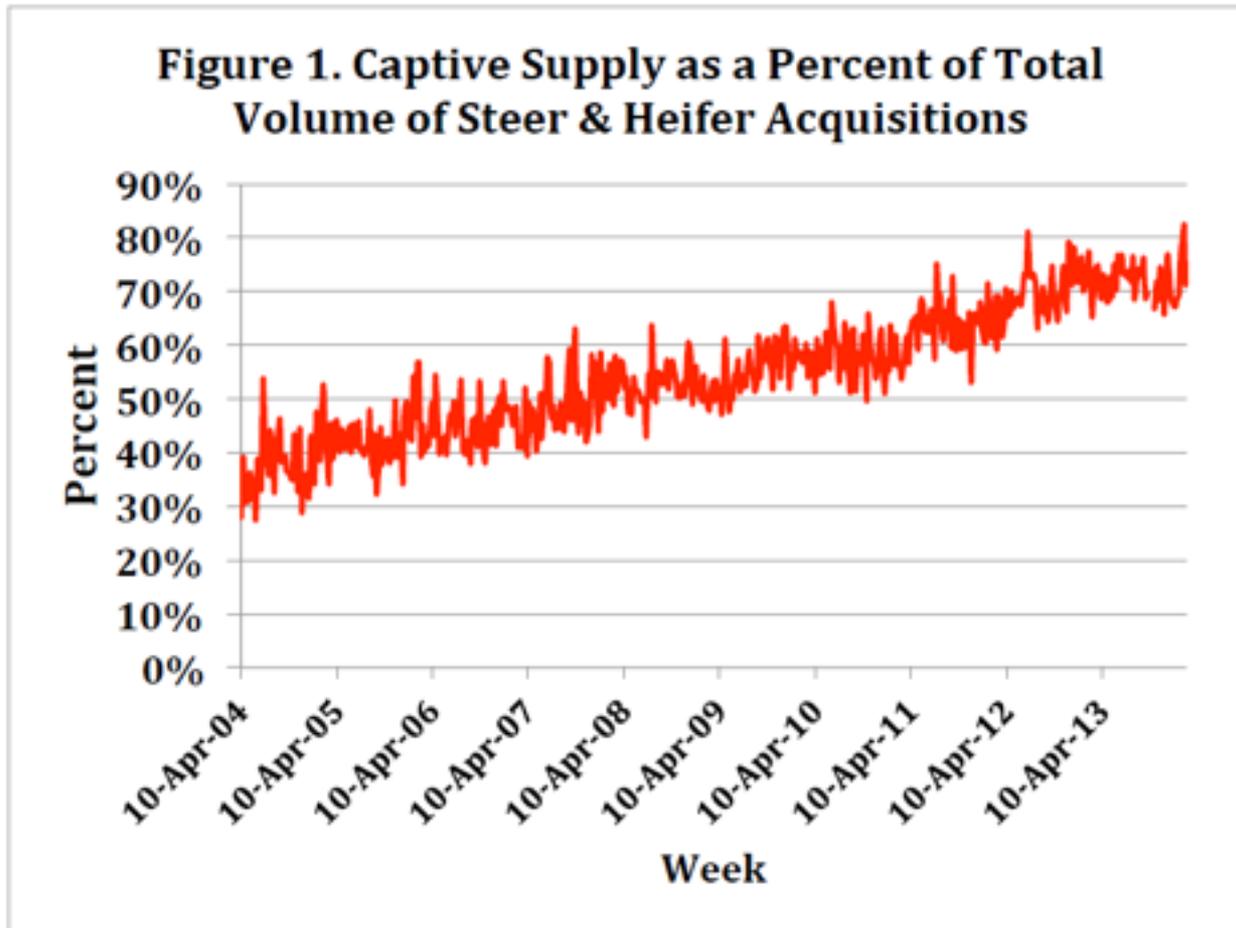
IOWA-MINNESOTA												
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Jan - Aug 2016
Cash	73.9%	68.8%	68.8%	66.7%	63.9%	65.6%	61.8%	56.4%	54.6%	57.0%	56.7%	52.1%
Formula	7.2%	8.4%	8.2%	9.0%	10.3%	11.2%	10.9%	20.5%	23.2%	20.3%	20.2%	21.2%
Forward Contract	7.1%	10.2%	13.3%	16.7%	13.2%	13.9%	17.1%	13.2%	13.8%	17.1%	16.1%	18.8%
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%

Source: USDA AMS Livestock, Poultry & Grain Market News

Cattle Prices Persistently Drop When Un-priced (formula) Cattle Volumes Increase



C. Robert Taylor Chart



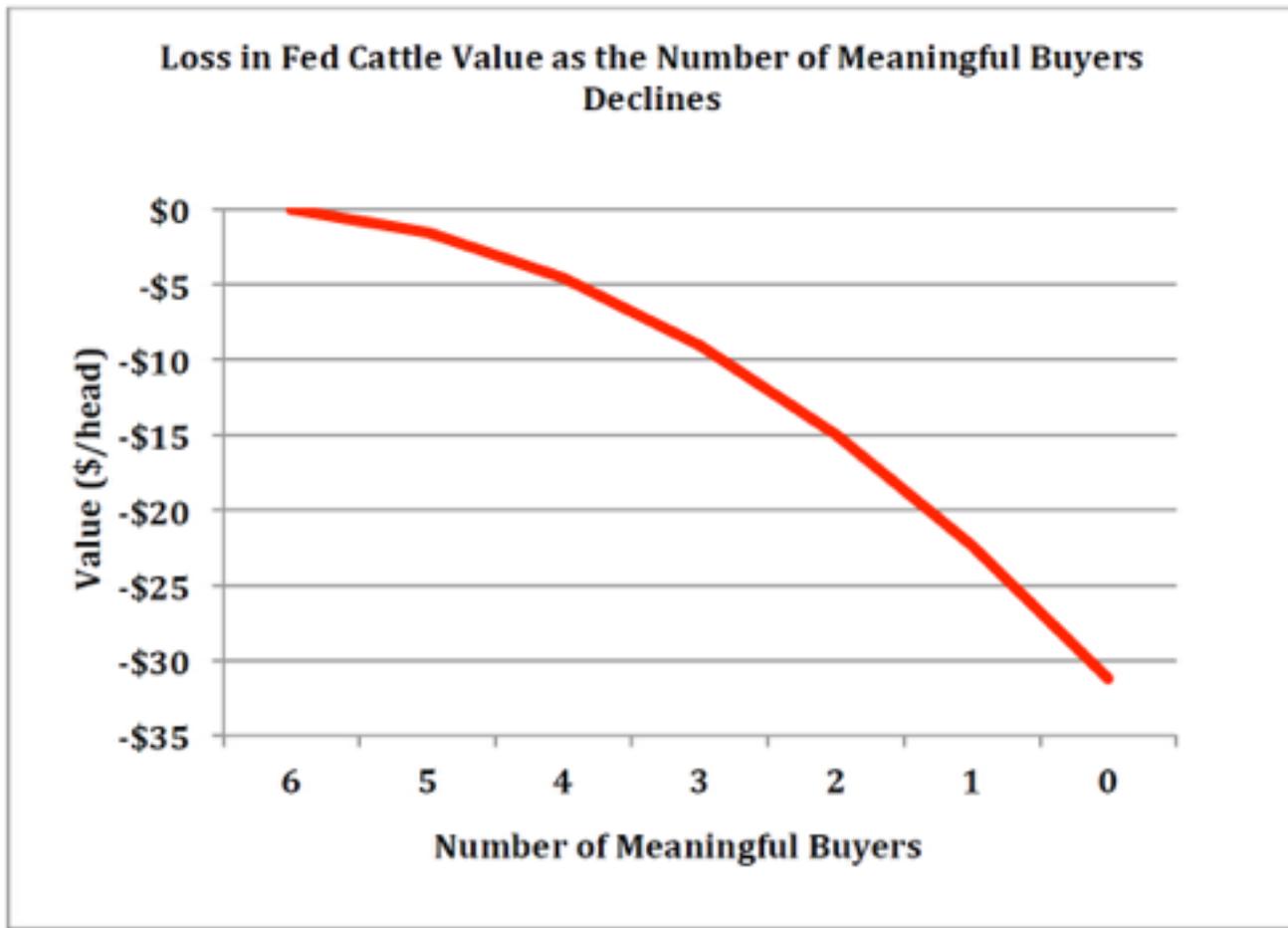
Market Access Risk

Packer concentration has empowered packers to become market gatekeepers, where the many cattle sellers have too few cattle buyers.

18 weeks in which there was only one market participant, four weeks in which there were none So we consistently can see region by region where we had a presence where the region is dominated by one buyer, clear and simple.

- Bruce Cobb, CEO, Consolidated Beef Producers, 2010 -

C. Robert Taylor Chart



Dysfunctional Futures Market

- Unprecedented limit moves in single year
- Major disconnect between futures price and cash price
- Market fundamentals do not explain the larger moves
- Big orders attributed to big market moves were made manually, not electronically
- Cattle futures market has become extremely thin where today a 200 lot market order can turn the cattle futures market on its head
- CFTC investigation of 400 orders taken April 28, 2016

Captive Supply Study

- Captive Supply Impact on the U.S. Fed Cattle Price: An Application of Nonparametric Analysis, Journal of Rural Development, 2011
 - When captive supply reaches 20 percent of total cattle procurement, “[b]eyond this point, the U.S. fed cattle price decreases approximately \$0.20/cwt ~ \$0.40/cwt for each percent increase in the captive supply share.”
 - 2015 reduction: \$10.90-\$21.80 per cwt, or between \$136.25 and \$272.50 per head

Marketplace Collusion

- **Stiegert *et al.*, 2011:** Packers switch between cooperating [colluding] and competing depending on whether short-term cattle supplies are tight (competition phase) or plentiful (cooperation/collusion phase). According to this study, the packers' margins declined significantly when they had to compete and fed cattle prices were reduced 8-9 percent when they cooperated.

Price Manipulation in Cattle Markets

- Beginning in Mid-2015 and Continuing Today, Cattle Prices Fell at a Record Pace and by a Record Amount Despite the Fact that Market Fundamentals Suggest Cattle Producers Should be Enjoying the Very Best of Times.
 - How did the expected 3 plus-year upside in cattle prices (based on industry's limiting biological characteristics) get compressed into less than 18 months (July 2013 – November 2014)?

VI. Suspected Anticompetitive Conduct Occurring in U.S. Cattle and Beef Markets

Suspected Anticompetitive Conduct

- Colluding to shun the cash market for the purpose of suppressing the cash market as well as all the formula contracts linked to the cash market.
- Colluding to manipulate the cattle futures market by shorting it for the purpose of suppressing the cash market and the interconnected formula contracts.
- Allocating and dividing territories and agreeing not to purchase from competitors' feedlots.
- Using domestic captive supply cattle to decrease demand for finished cattle in the cash market.
- Using imported cattle, despite being uneconomical due to much higher transportation costs, to decrease demand for finished cattle in the cash market.
- Colluding to manipulate price and output of substitute proteins for purposes of reducing demand for beef.

Suspected Anticompetitive Conduct, Con't.

- Colluding with retailers to keep beef prices high to diminish demand for finished cattle.
- Giving premiums for lower quality cattle to reward feedlots that commit all their cattle to a particular packer.
- Giving under-the-table premiums to certain large feedlots that agree to be a packer's exclusive provider.
- Purchasing cattle outside the particular cash region that formula contracts are linked to for the purpose of keeping the cash price low in that particular region.
- Using novel procurement methods to avoid reporting cash sales, e.g., extending delivery period for cash sales, purchasing after hours, for the purpose of lowering cash prices.
- Accepting only cattle on a carcass grade-and-yield basis and then deceptively lowering grade and yield to reduce prices paid to producers.

Suspected Anticompetitive Conduct, Con't.

- Refusing to provide access to the market when cattle prices are rising to force cattle feeders to overfeed cattle, resulting in steep discounts and lower cash prices.
- Bidding not to buy.
- Imposing arbitrary specifications on cattle for the purpose of imposing deep discounts (e.g., height and/or weight limits) on cattle or restricting access to the market.
- Overbidding for light-weight cattle to render competitor-feedlots uneconomical.
- Refusing market access to feedlots when prices are increasing (by killing their own cattle) for the purpose of reducing cash cattle prices.
- Colluding to reduce the weekly window of bidding for cash cattle to one to two days during the week and for periods as short as one-half hour per day.
- Selling cattle to a competing packer to prevent the competing packer from raising the cash price by entering the cash market.

Suspected Anticompetitive Conduct, Con't.

- Providing certain market information only to preferred feedlots.
- Offering differing bids from a packer's multiple plants for the purpose of keeping the plant average low in the particular plant taking delivery of large volumes of formula cattle. (Note: formula prices are often based on the previous week's plant average.)