POLICY PRIORITIES FOR

LIVESTOCK INDUSTRY REFORM

NORTH DAKOTA FARMERS UNION
AD HOC LIVESTOCK COMMITTEE

JULY 2020

North Dakota Farmers Union

BACKGROUND

Over the last several years, North Dakota Farmers Union's (NDFU) members have become increasingly alarmed by indications of anticompetitive practices in the cattle and beef industries. The spread of coronavirus triggered wide disparities in live cattle and boxed beef prices, exacerbating NDFU's concerns regarding consolidation in our food and agricultural supply chains. In response to this crisis, the NDFU Board of Directors requested the establishment of an ad hoc livestock committee.

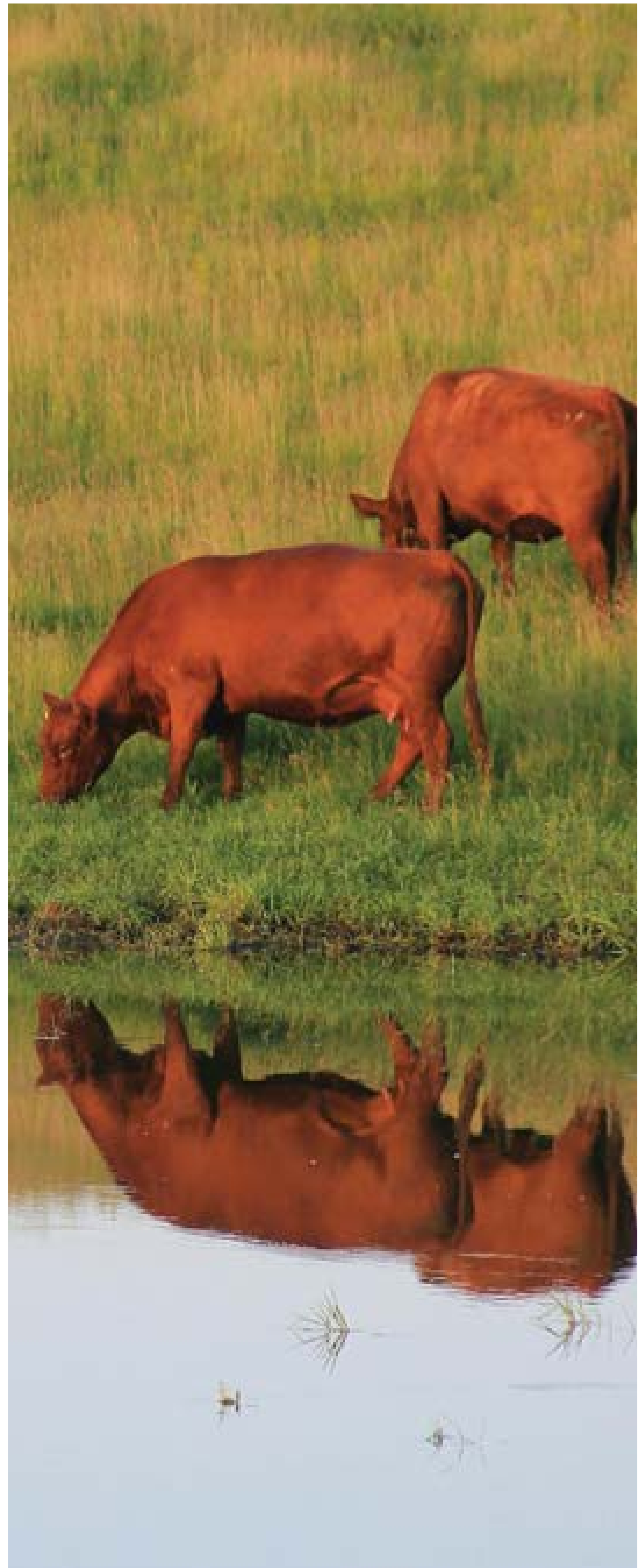
The committee was made up of eight members: one from each of NDFU's seven districts and one representing the Board of Directors. Each member of the committee is actively engaged in a family ranching operation.

The livestock committee was charged with identifying key policies that would address the primary challenges facing North Dakota's cattle producers. Broadly, these policies are intended to:

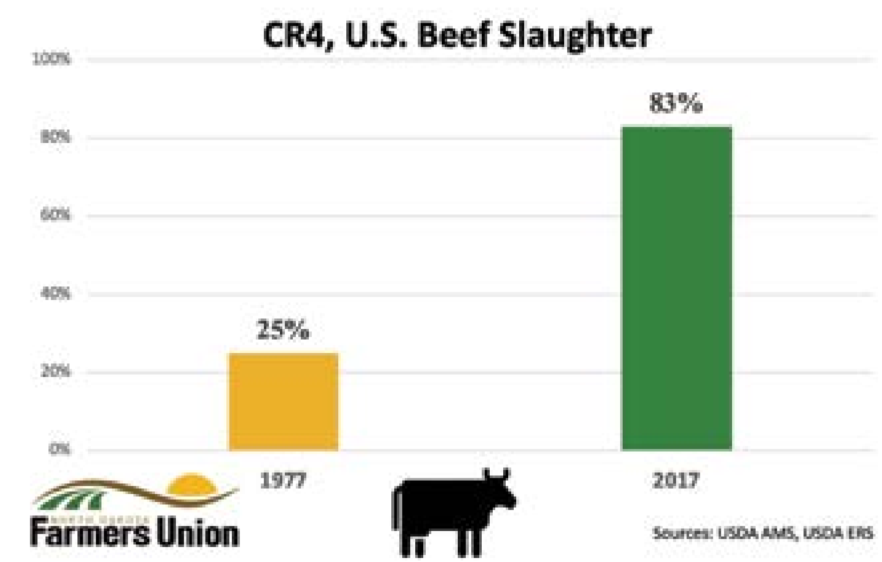
- ✓ **Increase competition and fairness in the cattle and beef industries**
- ✓ **Establish transparent, truthful labeling on beef products**
- ✓ **Increase local and regional slaughter capacity**

Over the course of six weeks, the committee met three times to develop rancher-oriented policy solutions. Ultimately, the committee identified seven proposals that should be considered priorities for any federal and state action. Each proposal was approved with unanimous consent by the committee and is aligned with the NDFU Program of Policy and Action.

The NDFU Board of Governors approved the report on July 14, 2020.



FAIR MARKETS



High levels of consolidation have led to diminished competition among beef packers, translating to lower prices for producers. When the market share of the four largest firms (CR4) in an industry exceeds 40%, competition is generally expected to decline.[1] The CR4 ratio is more than 80% in the beef packing industry today.[2]

In the last year, the spread – the difference between boxed beef and live cattle prices – has increased dramatically in two separate instances. Following a fire at a Tyson plant in Holcomb, Kans., live cattle prices dropped by 6.1% while boxed beef prices jumped by 11.4%.[3] The coronavirus pandemic provides an even more dramatic example. Between Feb. 21 and May 12, the spread jumped from $86.40 to a record $378.21.[4]

Ongoing federal investigations into meatpackers are an important step toward addressing the issue. Even more important will be strict enforcement of existing antitrust laws and legislative reform that promotes competition and fairness in the industry.

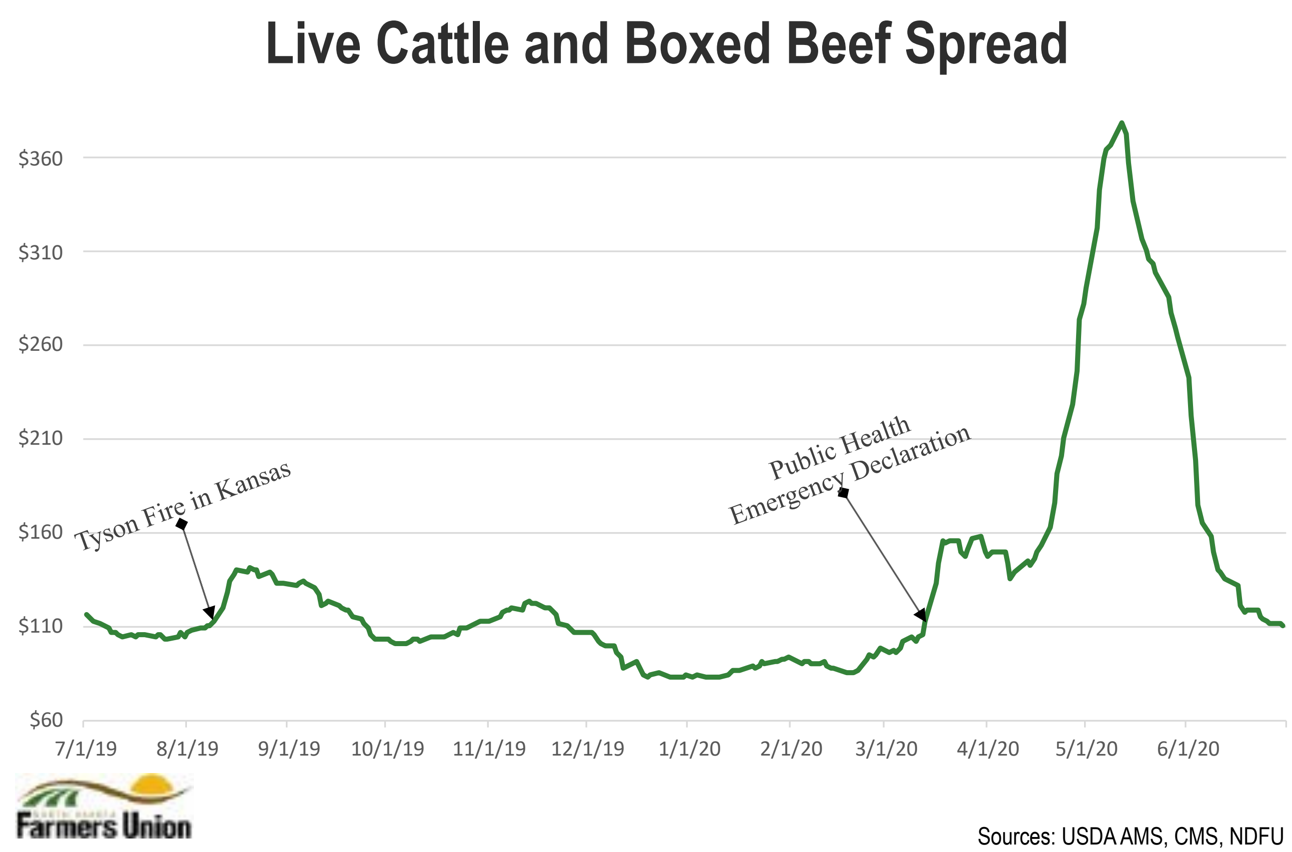
PRIORITIES FOR INCREASING COMPETITION AND FAIRNESS IN THE CATTLE AND BEEF INDUSTRIES

Require packers to purchase 50% of cattle from the cash market

The thinning of the cash market in recent years limits and prevents true price discovery. However, prices for alternative marketing arrangements, such as forward contracting, are often based on negotiated trades. The major packers purchase a large proportion of cattle, while ranchers sell comparatively few at a time. This imbalance puts ranchers at a disadvantage when negotiating price, regardless of marketing arrangements.

The livestock committee believes packers should be required to, at a minimum, purchase 50% of cattle from the cash market, as written in S. 3693. The committee urges the bill's inclusion in any legislation intended to address price reporting or competition in the beef industry.

> "The spread between live cattle and boxed beef was $378.21 on May 12."



Break up multinational companies and incentivize local and regional processor development

Consolidation in the packing industry stifles competition among packers, leading to reduced prices for cattle producers. With so much of our meat processed at so few facilities, concentration jeopardizes supply chain resilience, posing a threat to consumers and our nation's food security. Without a restructuring of the industry, these challenges will continue to persist.

The livestock committee supports a tandem approach of breaking up multinational companies and incentivizing local and regional processing. The committee believes Congress should pass new legislation that would prevent four companies from controlling more than 60% of an industry. Direct assistance to new or expanding local and regional processors will help maintain the nation's total processing capacity within a more competitive market structure.

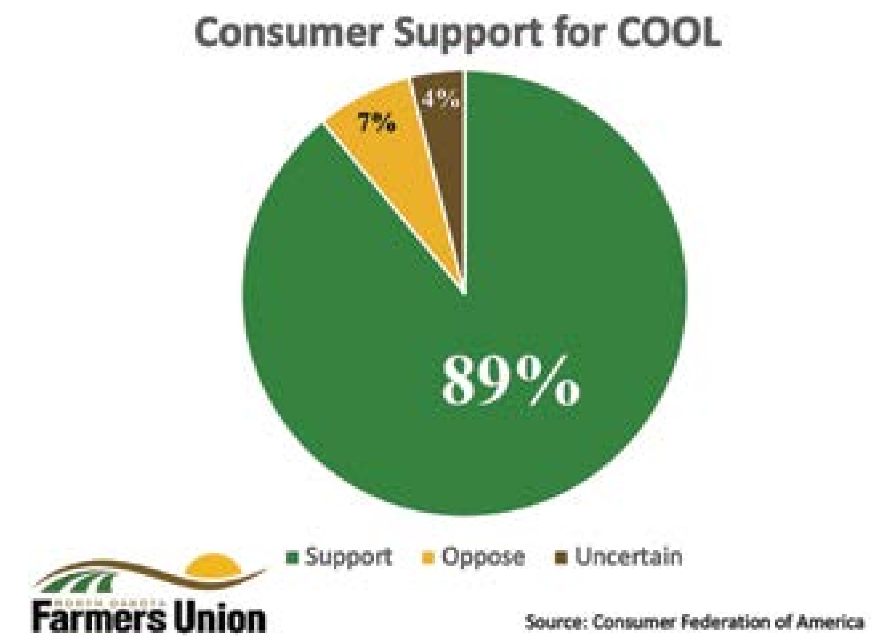
Prevent harmful vertical integration in the cattle and beef industries

While packers do not currently own a significant number of cattle, the potential for vertical integration is a major concern for independent family ranches. Packers in the pork and poultry industries increasingly control production, which leads to a new set of anticompetitive concerns. Economic barriers – not regulatory ones – have prevented the same from occurring in the beef and cattle industries.

The livestock committee reaffirms existing NDFU policy that states, "We support … Dissolution of the monopoly and oligopoly that major meatpackers have and control they have on finished livestock inventory." The committee believes laws should be enacted to prevent packers from controlling production by direct or indirect means.

TRUTH IN LABELING

Consumers have a right to know where their food is coming from. U.S. ranchers deserve to take credit for producing the highest quality beef in the world. Unfortunately, current labeling regimes prevent consumers from accessing basic information about the origin of their beef.



In the months since the coronavirus pandemic began causing shutdowns at meat processors, the nation's backlog of slaughter-ready cattle has grown dramatically. Despite this surplus, the United States has continued to import cattle from other countries. While these imports may not be problematic in and of themselves, the fact that a consumer is unable to distinguish between imported and domestic beef is a major concern for NDFU's members.

To make matters worse, regulations governing the use of the "Product of U.S.A." label contribute to consumer confusion in the absence of COOL. Current Food Safety and Inspection Service guidelines allow "Product of U.S.A." to be applied to any product as long as it is repackaged in the United States. With this loophole, packers are given a choice between not offering origin information or actively deceiving consumers as to the source of their product.

PRIORITY FOR ESTABLISHING TRANSPARENT, TRUTHFUL LABELING

Reinstate mandatory Country-of-Origin Labeling

NDFU has long been a supporter of mandatory COOL. Consumers consistently support COOL[5] and increasingly demand more information about their food. With more consumers wanting to purchase food produced locally or on U.S. family farms, the value proposition of COOL has increased over time.

The livestock committee believes mandatory COOL is the most effective and lasting mechanism for ensuring accurate, truthful labeling. The committee believes Congress should reinstate mandatory COOL and the administration should actively negotiate COOL into existing and future trade agreements.

> "Current FSIS guidelines allow 'Product of U.S.A' to be applied to any product as long as it's repackaged in the U.S."

INCREASE LOCAL AND REGIONAL SLAUGHTER CAPACITY

North Dakota is home to roughly 1.83 million beef cattle and calves.[6] At the same time, only 8,800 head of cattle are commercially slaughtered in the state each year.[7] This accounts for .03% of total commercial slaughter nationwide. With limited in-state slaughter capacity, North Dakota ranchers are forced to ship many of their cattle out of the state and retailers are forced to purchase beef from out-of-state processors.

Current meat inspection regulations are redundant and unnecessarily complex. Inspection standards put small and mid-sized processors at a competitive disadvantage when compared to larger facilities. Custom exempt facilities, which make up the vast majority of North Dakota's slaughtering and processing establishments, often face barriers when transitioning to state inspection. State-inspected facilities meet standards that are equal to federal inspection but have far fewer marketing opportunities than federally inspected plants.

To expand North Dakota ranchers' access to local and regional slaughter, the state's total slaughter capacity will need to be increased and marketing opportunities expanded. Policymakers can promote this development by reducing regulatory barriers and providing financial support to new and expanding small and mid-sized facilities.

> **"North Dakota is home to 1.83 million cattle and calves but only 8,800 head are commercially slaughtered in N.D. each year"**

PRIORITIES FOR INCREASING LOCAL AND REGIONAL SLAUGHTER CAPACITY

Provide state and federal support for the establishment of cooperative slaughter facilities

Since its founding, NDFU has supported cooperative development as a key strategy for improving family farmers' and ranchers' profitability. Across our state, cooperatives drive local economies and create new opportunities for producers. Cooperatives are also a tool for restoring and protecting farmers' and ranchers' market power.

The livestock committee strongly supports the development of a cooperative slaughter facility in North Dakota. The committee believes state and federal programs should be created or leveraged to provide financial support for the establishment of cooperative slaughter plants.

Allow state-inspected meat to be sold across state borders

Federal regulations require state inspection programs to be at least equal to federal standards. However, despite meeting equivalent or higher standards than federally inspected plants, state-inspected facilities cannot ship product across state borders. North Dakota is one of seven states enrolled in the Cooperative Interstate Shipment program, but just four North Dakota facilities participate in the program.[8]

The livestock committee supports allowing state-inspected meat to be sold across state lines. This commonsense change will promote growth in the North Dakota beef industry while continuing to provide consumers with a safe and healthy product.

Provide cost-share to help custom exempt facilities achieve state inspection standards

Under current regulations, meat slaughtered under custom exempt standards is not subject to continuous inspection. As a result, custom exempt meat cannot legally enter the marketplace. While many facilities' needs are met by custom exempt standards, a growing desire for locally grown food has created new marketing opportunities for those interested in expanding.

The livestock committee supports a cost-share program to assist custom exempt facilities in achieving state inspection standards. This support will promote development of local markets to complement broader expansion of North Dakota's slaughter capacity.

ENDNOTES

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POLICY HIGHLIGHTS FOR

LIVESTOCK INDUSTRY REFORM

- ✓ REQUIRE PACKERS TO PURCHASE 50% OF CATTLE FROM THE CASH MARKET
- ✓ BREAK UP MULTINATIONAL COMPANIES AND INCENTIVIZE LOCAL AND REGIONAL PROCESSOR DEVELOPMENT
- ✓ PREVENT HARMFUL VERTICAL INTEGRATION IN THE CATTLE AND BEEF INDUSTRIES
- ✓ REINSTATE MANDATORY COUNTRY-OF-ORIGIN LABELING
- ✓ PROVIDE STATE AND FEDERAL SUPPORT FOR THE ESTABLISHMENT OF COOPERATIVE SLAUGHTER FACILITIES
- ✓ ALLOW STATE-INSPECTED MEAT TO BE SOLD ACROSS STATE BORDERS
- ✓ PROVIDE COST-SHARE TO HELP CUSTOM-EXEMPT FACILITIES ACHIEVE STATE INSPECTION STANDARDS

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