

**BIOGRAPHICAL INFORMATION OF LEO R. MCDONNELL, JR.
AND
DESCRIPTION OF THE RANCHERS-CATTLEMEN ACTION LEGAL FUND**

Leo R. McDonnell, Jr., is a rancher in Columbus, Montana where, along with his wife "Sam", he owns and operates Midland Bull Test. Midland is the largest family-owned performance bull test genetic center in the United States and among the 3 or 4 largest distributors of breeding bulls in the United States.

Leo attended college at Texas Tech University and the University of Wyoming and returned to Montana in 1975. Leo and Sam have four children. In addition to breeding and selling bulls, they also feed cattle and assist in breeding management programs for several commercial cow-calf operations.

Leo McDonnell is also the President of the Ranchers-Cattlemen Action Legal Fund ("R-CALF"). Formed in 1998, R-CALF is a non-profit, 501(c)(6) organization whose mission statement is focused on the market interests, and restoring and ensuring the profitability, of U.S. cattle producers by addressing harm to the U.S. live cattle industry caused by imports and unfair trade practices, restoring conditions of fair trade and fair prices to the U.S. market for live cattle, and working to ensure cattle producer concerns are effectively addressed in trade issues. Today, R-CALF's membership numbers approximately 9,000 cattle producers.

R-CALF was the petitioner in antidumping and countervailing duty investigations of live cattle from Canada and Mexico that were filed in October 1998. The petitions were supported by some 25,000 individual ranchers and cattlemen and cattlemen, and 124 farmers, cattlemen's and agricultural trade associations from across the country, including state cattlemen's and stockgrowers' associations from Colorado, Idaho, Missouri, Montana, Nebraska, Nevada, New Jersey, North Dakota, Oregon, South Dakota, Texas, Virginia and Washington, several state and county Farm Bureaus, and the Intertribal Agriculture Council, the Livestock Marketing Association and National Farmers Union.

R-CALF is actively involved in monitoring and providing input on other trade negotiations and agreements, including the World Trade Organization, the Free Trade Area of the Americas, and U.S.-Canada bilateral agricultural negotiations.

**TESTIMONY OF LEO R. McDONNELL, JR.
CATTLE RANCHER AND PRESIDENT,
RANCHERS-CATTLEMEN ACTION LEGAL FUND**

**BEFORE THE
U.S. TRADE DEFICIT REVIEW COMMISSION
KANSAS CITY, MISSOURI**

APRIL 26, 2000

My name is Leo R. McDonnell, Jr. I am a cattle rancher in Columbus, Montana, where, along with my wife, I own and operate Midland Bull Test. Besides working as a full-time rancher, I am President of the Ranchers-Cattlemen Action Legal Fund ("R-CALF"). I appreciate this opportunity to testify before the U.S. Trade Deficit Review Commission on U.S. agricultural trade issues, and the various factors that affect the trade balance in agriculture generally, and the cattle sector in particular.

I would like to address three principle points: (1) what the current trade balance for agriculture in generally and cattle and beef in particular does and does not tell us about the state of agriculture in the United States; (2) apart from trade barriers abroad, what are some of the reasons why we are experiencing a trade deficit in cattle and beef; and (3) examples of the significant trade barriers that cattle producers face overseas.

1. What do the trade figures tell us about agriculture in the United States?

When it comes to thinking about the trade deficit, it is not uncommon to think of U.S. trade in agriculture as one of the great success stories. After all, looking solely at the trade balance, the United States has enjoyed tens of billions of dollars in trade surpluses in agriculture for many years. As this Commission's notice discussing the objectives for this hearing observed, in 1999, we had a surplus in agricultural trade of \$11.5 billion.

However, it would be a mistake to conclude from the numbers alone that all is well with America's agricultural trade. As your notice also observed, the 1999 surplus was less than half of the surpluses of 1995 and 1996. One can examine agriculture on a sector-by-sector basis and see that there are sectors where existing surpluses should be much larger, such as wheat. In other sectors, such as cattle and beef, we are incurring a volume deficit as well as a significant deficit in value (beef and cattle) when in fact we should be experiencing significant surpluses. Thus, it would be erroneous to conclude that America's farmers and ranchers are prospering based on the existence of a trade surplus. Prices for numerous agriculture commodities from cattle to wheat have been depressed for several years. The billions of dollars in emergency appropriations by Congress to the agriculture sector during the last few years are as clear a sign as there can be that the ranchers and farmers in this country are not prospering.

The cattle and beef sector is an excellent example of how trade statistics examined in isolation can be very misleading, especially if examined only in terms of value. As shown in Table 1 below, if you were to look only at the total value of exports and imports of cattle, beef and beef byproducts such as hides and tallow, you would see that the United States has a net surplus. From a rancher's perspective, however, those numbers do not tell the real story. For example, in terms of trade in live cattle, which is the trade element that most significantly affects the price for cattle and that is highlighted in bold, the United States has incurred a significant and growing deficit since 1981. Our peak year for exports of cattle in terms of value was 1988, when we exported some \$201 million worth of live cattle. That same year, we imported nearly \$600 million in live cattle, mostly from Canada and Mexico. In 1998, our exports of live cattle totaled \$162.8 million, while our imports totaled \$1.144 billion.

Table 1
 Cattle and Beef Products,
 Exports versus Imports
 (Million Dollars)

	Exports						Imports					
	Beef & Veal	Variety Meats	Tallow	Hides	Live Cattle	Total	Beef & Veal	Variety Meats	Tallow	Hides	Live Cattle	Total
1981	300.0	250.8	700.2	661.5	65.5	1978.0	1407.6	5.4	1.5	29.8	191.1	1635.4
1982	373.2	247.2	615.3	732.7	50.1	2018.5	1363.8	21.6	0.7	18.1	297.7	1701.9
1983	391.8	218.0	556.0	765.0	44.0	1974.8	1362.9	23.7	1.1	20.8	312.6	1721.1
1984	469.6	230.3	661.5	1112.7	56.5	2530.6	1228.4	22.7	3.0	24.7	285.8	1564.6
1985	467.2	248.6	582.3	1035.6	122.3	2456.0	1276.5	26.4	2.9	29.7	306.5	1642.0
1986	634.3	289.7	388.0	1245.4	110.9	2668.3	1288.5	25.8	2.0	24.5	441.3	1782.1
1987	771.2	305.5	373.7	1370.9	105.2	2926.5	1562.2	32.4	0.5	23.1	421.4	2039.6
1988	1109.0	375.1	505.5	1554.0	201.8	3745.4	1679.3	32.4	0.3	33.8	598.3	2344.1
1989	1418.2	301.6	426.6	1452.5	108.4	3707.3	1639.8	82.8	1.0	44.2	661.9	2429.7
1990	1580.2	297.5	354.2	1458.8	88.5	3779.2	1861.0	75.7	2.5	39.0	978.3	2956.5
1991	1757.8	387.1	340.2	1158.2	187.1	3830.4	1961.3	77.5	4.9	72.4	951.6	3067.7
1992	2042.9	469.1	405.7	1144.7	193.5	4255.9	1878.7	79.4	6.3	78.2	1244.7	3287.3
1993	1995.3	468.0	392.6	1080.1	124.0	4060.0	1935.0	86.2	7.5	81.2	1341.3	3451.2
1994	2304.0	455.0	448.3	1265.5	185.1	4651.7	1798.5	81.7	7.9	90.6	1151.7	3140.5
1995	2657.7	603.6	626.0	1425.9	72.0	5385.1	1444.0	85.3	8.4	97.0	1413.4	3048.0
1996	2429.2	616.2	463.2	1244.2	113.4	4866.2	1341.2	108.6	7.6	95.6	1121.3	2607.4
1997	2497.1	468.2	413.9	1245.8	176.7	4801.7	1609.4	141.7	14.3	97.0	1121.3	2983.7
1998	2326.1	477.7	517.5	959.6	162.8	4443.7	1841.9	124.8	10.0	86.1	1144.2	3207.0
1999*	2665.9	537.6	371.0	914.1	173.9	4662.5	2135.8	143.1	9.6	81.1	994.7	3364.3

Sources: USDA and Cattle-Fax

*1999 preliminary

From: www.beef.org.

From 1981 though 1991, the United States also incurred a deficit in trade in beef and veal. Although the United States has had a net surplus in beef and veal since 1992, the benefit from those surpluses to the producers of cattle are substantially diluted as the price spread between cattle and beef has grown. The producer's share of the beef retail dollar has fallen from some 70 percent in the 1970s to below 50 percent in 1996, while the nominal farm-to-retail price spread has widened from 40 cents per pound to over \$1.40 per pound, according to the Economic Research Service of the Department of Agriculture. Who gets most of the

benefits of the increase in exports of beef and veal? The packers and processors, who also benefit much more greatly from exports of hides and tallow than do ranchers. In other words, whether a net trade surplus is a positive indicator of economic performance depends on who in the production and distribution channel you are talking about.

It is also important to realize that the United States exports higher-value cuts of beef such as steaks, while importing lower-quality beef such as hamburger, which also increases the value of exports relative to the value of imports. That does not mean, however, that we are exporting more by volume than we are importing. To the contrary, as seen in Table 2, we have incurred significant trade deficits in both live cattle and beef and veal going back as far as 1987. To put the numbers in perspective, our imports of beef and veal in 1998 represent the equivalent of one half million head of cattle.

Table 2
U.S. Imports and Exports of Live Cattle and Beef and Veal

	Live Cattle			Beef & Veal		
	Imports	Exports	Net Imports	Imports	Exports	Net Imports
	<i>Head</i>			<i>Thousands of Pounds, Carcass Weight</i>		
1987	1,200,481	130,698	1,069,783	2,293,360	611,090	1,682,270
1988	1,332,206	321,449	1,010,757	2,380,580	679,791	1,700,789
1989	1,459,415	169,140	1,290,275	2,175,351	1,061,939	1,113,412
1990	2,135,000	119,914	2,015,086	2,354,567	1,006,042	1,348,525
1991	1,939,054	310,962	1,628,092	2,406,496	1,188,370	1,218,126
1992	2,255,265	321,790	1,933,475	2,439,775	1,323,637	1,116,138
1993	2,499,046	153,416	2,345,630	2,401,332	1,275,045	1,126,287
1994	2,082,504	230,791	1,851,713	2,370,727	1,610,620	760,107
1995	2,786,245	94,548	2,691,697	2,103,473	1,820,814	282,659
1996	1,965,448	174,307	1,791,141	2,072,729	1,819,194	253,535
1997	2,046,352	282,344	1,764,008	2,344,225	2,058,530	285,695
1998	2,034,009	285,209	1,748,800	2,643,105	2,160,811	482,293

Source: Kansas State Livestock & Meat Marketing Web Site, <http://www.agecon.ksu.edu/livestock/LivestockDatabases/TradeDatabases/montrade.xls>.

Domestic prices for cattle are affected not only by how much we export, but also by how much we import. Increased volumes of imported beef – whether higher quality steaks or lower quality hamburger – put downward pressure on domestic prices for cattle, which offsets the benefits of increased exports. From a cattle rancher's perspective, therefore, it is vitally important to examine our balance of trade not only in terms of value but also in terms of volume because prices for live cattle are greatly affected by the supply of live cattle and beef and veal. As numerous industry participants such as the National Cattlemen's Beef Association and the American Farm Bureau, and government agencies such as the U.S. International Trade Commission have observed, even small changes in supply can have significant effects on prices.

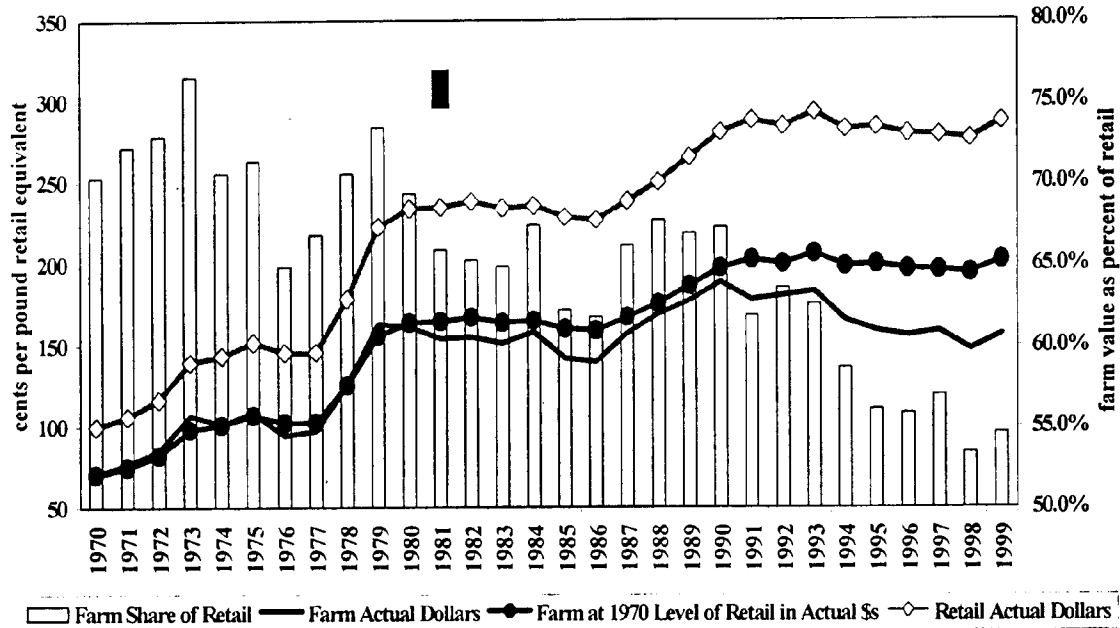
The volume of cattle, beef and veal that we import is important because throughout much of the 1990s, prices for live cattle in the United States have been significantly depressed. Cattle producers were told over and over that the problem was one of oversupply, and that we had to reduce the supply of cattle in order for prices to increase. The domestic cattle inventory has been in liquidation for the last five years. The surplus of beef and cattle imports, however, have offset the industry's efforts to restore prices to higher levels through inventory liquidation.

Another important fact that is not reflected in aggregate annualized trade data is that there are periodic surges in imports of cattle that have significant impacts on cattle prices, particularly in the regions into which the imports enter. For example, an analysis prepared in January 1999 by the Colorado Agricultural Statistics Service showed wide swings in monthly imports of slaughter cattle into the state and corresponding swings in prices for fed steers and heifers. Aggregated trade statistics thus understate the actual significance of the trade deficit

in cattle because they miss the complete impact of the surge on domestic producers. Since cattle are a perishable commodity, producers cannot afford to hold out of the market while waiting for prices to recover. Thus, not only do domestic producers lose market share to the imports, but also the prices they receive in other sales are depressed by the surge in the imports. One possible solution to this problem is legislation that has been introduced by Senator Max Baucus, S. 1724, which calls upon the Secretary of Commerce to monitor agricultural imports on a quarterly basis for import surges.

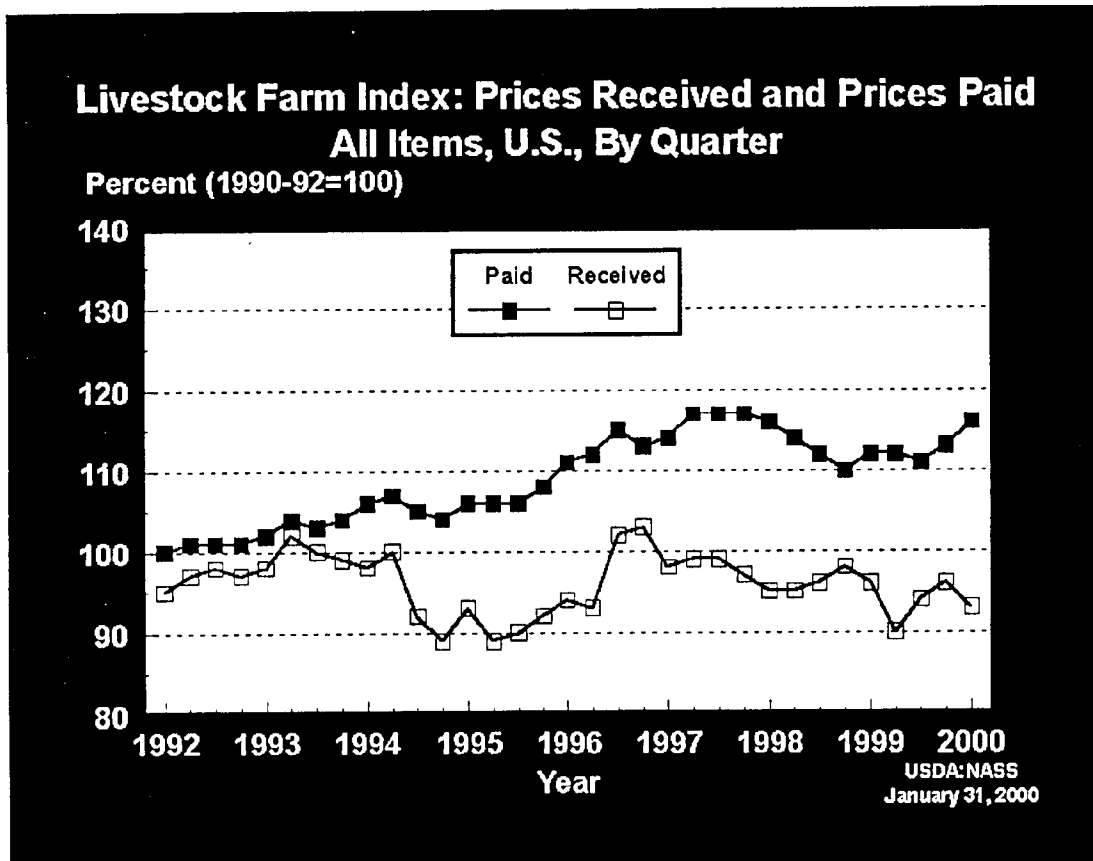
As I mentioned, ranchers receive a much smaller share of the retail dollar for beef today than they did 30 years ago. As seen below, if a rancher in 1997 received the same percentage of the retail dollar for beef as was received in 1970, he would be receiving nearly \$25-30 more per hundredweight, or about \$150-180 more for a 600-pound calf. This phenomenon accounts for a substantial portion of the depressed prices received in the last decade and for a major part of the price/cost squeeze experienced, as much as \$10 billion per year.

Choice Beef Values and Spreads - Farm Price vs. Retail Price
 In Actual Dollars



Sources: USDA Economic Research Service. Data for 1970-1993 from Red Meat Yearbook at <http://usda.mannlib.cornell.edu/data-sets/livestock/94006/bfspread.wk1>. Data for 1994-1999 downloaded from <http://www.econ.ag.gov/briefing/meatbrif/prspd.wk1>. Data converted to constant dollars

Financially, the cattle sector has incurred more than five consecutive years of substantial losses, according to USDA statistics. Although the recent price increases are certainly welcome, cattle prices are still well below where they were in 1990, when they peaked at \$78 per hundredweight. The same cannot be said for what it costs to raise cattle, as the figure below indicates.



Source: USDA/National Agricultural Statistics Service, www.usda.gov/nass/aggraphs/lvskfarm.htm

In sum, when it comes to cattle, it is important to look not only at the value of trade but also the volume, as well as who is benefiting. It is also important to examine the implications of the trade data for the industry.

2. Apart from foreign trade barriers, what is contributing to the deficit in cattle?

As outlined above, the trade data show a relatively small surplus in the aggregate value of trade in cattle, beef and beef byproducts, but a significant deficit in the volume. Further, we have been importing significant volumes of cattle and beef even though the

industry has allegedly suffered from excess supply. In many industrial sectors, a trade deficit suggests certain macroeconomic factors at work, such as insufficient domestic capacity to meet demand. That is not the case when it comes to cattle, however.

Instead, one very important reason for the current trade figures is the fact that American consumers are not allowed to know the origin of the beef they purchase. Indeed, consumers often assume erroneously that a USDA grade stamp on a cut of beef means that the beef comes from cattle born and fed in the United States. Lack of country of origin labeling thus encourages the packing and retail sectors to use variable cost supplies of beef and cattle, while significantly impairing the ability of cattle producers to realize the full economic value of the product they produce as well as their comparative advantage.

As the Commission may be aware, the packing industry is highly concentrated, with four packers accounting for some 80 percent of the slaughter of fed cattle. The availability of variable cost sources of imported beef and cattle contributes to the already substantial market power enjoyed by the packers vis-à-vis cattle producers. The lack of country of origin labeling, which contributes to the deficit in cattle and beef, thus compounds what is already a highly uneven economic relationship between packers and ranchers.

Country of origin labeling legislation now pending in Congress, which is opposed by packers, processors, importers and retailers, would not only give consumers the same kind of information they have with respect to almost every other product they purchase but, from the Commission's perspective, would also address an important cause of the trade imbalance we are currently experiencing in cattle and beef.

3. Barriers to U.S. exports

Of course, foreign barriers to U.S. exports also contribute importantly to the trade deficit. If trade in agriculture were as open as trade in industrial goods, the United States would have a massive trade surplus many times the current levels, whether in terms of value or volume. However, American farmers and ranchers essentially confront a de facto zero quota in many foreign markets because of high tariffs and artificial constraints such as dubious sanitary and phytosanitary restrictions, and other practices that do not exist in trade in industrial goods. At the same time, the United States has greatly liberalized its own markets to imports of agriculture from our trading partners. As a result, although this country's farmers and ranchers are the most efficient and competitive in the world, they are being driven from their land and their homes by depressed prices. Let me give you some specifics.

High tariffs

Efforts to open the some of the largest potential markets for beef have been only partially successful. In Asia, major markets including Japan and Korea continue to have very high applied tariff rates, exceeding 40 percent. The recently announced agreement with China will reduce tariffs on beef imports from more than 40 percent, which is certainly positive. However, the agreement calls for the tariffs to be reduced to 17 percent, which is still quite high. As seen in the table below, high tariffs are a problem in a number of important markets.

Country	Bound Tariff Rate Live Cattle*	Bound Tariff Rate Fresh, Chilled, Frozen Beef**
Brazil	0%	55%
China***	18%	32.5 – 40%
Colombia	70%	108%
EU	10.2% + 931 ECU/T	12.8% +
Guatemala	15%	63%
Hungary	40%	71.70%
Indonesia	40%	50%
Japan	38,250 – 63,750 yen / head depending on weight	50%
Korea	40%	40%
Mexico		45%
Sinagpore	10%	NA
Thailand	30%	50%
Venezuela	40%	25%
U.S.	1¢ / kg	4.4¢ /kg up to 26.4% depending on cut.

* HTS 0102.90

** HTS 0201./0202.

*** Note China is not yet a member of the WTO

Source: USDA/FAS, FAS Online Country Information, WTO Tariff Schedules, available
 online at www.fas.usda.gov/scripts/wtopdf/wtopdf_frm.idc.

SPS and Technical Barriers to Trade

Listed below are examples of the artificial restraints that impede U.S. ranchers' access
 to foreign markets.

Australia: Overly strict Australian food safety requirements have made it extremely
 difficult to export U.S. beef to Australia.

Brazil: Brazil bans the importation of beef products containing growth-promoting
 hormones.

- Canada: Canada prohibits the entry of live cattle from certain regions of the United States although these regions are designated as low risk for certain diseases. The Northwest Pilot Project has helped in this regard, but cattle from regions not covered by this project should be permitted entry into Canada with minimal testing and certification requirements.
- Chile: Chile prohibits the importation of U.S. beef in consumer cuts without being graded to Chilean standards, standards which are incompatible with the U.S. grading system. As Chilean meat grades originate from carcass grades at the time of slaughter, this requirement effectively blocks U.S. produced beef from the Chilean market (meat that will undergo further processing is not affected).
- China: China does not recognize the equivalency of the U.S. beef inspection system and instead requires reviews of individual packing plants.
- Egypt: Egypt requires that meat imported for direct consumption contain no more than 7 percent fat, a level virtually impossible to reach for premium beef, which results in lost sales for U.S. exporters.
- The meat labeling guidelines of the Egyptian Ministry of Health and the Ministry of Industry are in conflict, which discourages U.S. exports to Egypt.
- European Union: Despite the finding of the WTO that the European Union's ban on the importation of hormone-treated beef is in contravention of the SPS Agreement, the European Union's policy remains in place.
- Hungary: Hungarian import regulations limit and delay imports of breeding animals and livestock semen.
- Italy: Italian imports of bull semen are restricted due to qualitative import standards for bull semen, which favor domestic animals, as well as high testing and registration fees.
- Korea: Korea has used questionable food safety claims to justify not fulfilling its U.S. beef import commitments.
- Mexico: Mexico has relied upon questionable health inspections to slow shipments of beef into Mexico.
- Norway: Norway bans the importation of hormone-treated beef.
- Philippines: The Philippines is considering adopting new regulations that would impose testing requirements for every load of meat entering the country.

- Russia: Russia, which has a plant-by-plant approval process, has not approved any U.S. boxed beef plants for export.
- Saudi Arabia: The Saudi shelf-life for chilled meats is questionably short.
- Switzerland: Swiss certifications for pet food imports containing beef are problematic for U.S. exporters.
- Turkey: Turkey imposed a "temporary" ban on imports of live cattle and beef in 1996 in response to an outbreak of foot and mouth disease (FMD), which Turkish authorities attributed to imported cattle. The United States has been free of FMD for over seventy years. Turkey's import prohibition remains in place. Partly as a consequence of this policy, Turkish consumers pay some of the highest prices for beef in the world.

Export Subsidies

Export subsidies distort the international market for beef. The table below identifies the export subsidies currently bestowed by various trading partners.

Country	Subsidized Export	Base Level (\$)		2000 Commitment Level	
		Total Value in \$**	Quantity	Total Value in \$**	Quantity
Austria	Bovine Meat	135,096	80.864 tons	86,464	63,882 tons
China	Bovine Meat, fresh or chilled	6,583,144	n/a	5,793,021	53,695
Colombia	Bovine Meat	5,978,523 ^(*)	9,802 tons	5,181,387 ^(*)	9,040 tons
Czech Republic	Beef	13,339,763	63,000 tons	8,536,787	49,800 tons
European Communities	Beef Meat	1,941,968,881	1,034,300	1,242,880,176	817,100 tons
Finland	Beef	12,198,343	3.2 million kgs	780,030	2.5 million kgs
Hungary	Slaughter Cattle	6,162,809	70,000 tons	3,942,901	55,000 tons
	Beef	6,043,595	36,000 tons	3,869,598	28,000 tons
New Zealand	All Agricultural Products	153,868,799		0	n/a
Norway	Bovine Meat	6,611,770	1895.2 tons	4,238,314	1497.3 tons
Poland	Animal Husbandry Products (includes live bovine)	105,230,000 ^(*)	n/a	67,400,000 ^(*)	n/a
	Meat (bovine)	59,200,000 ^(*)	51,700 tons	37,900,000 ^(*)	40,900

Romania	Bovine Meat, Pork, Lamb and Meat Products	27,830***	163,800 tons	25,493***	148,600 tons
	Live Animals	6,465***	19,900 tons	5,922***	18,000 tons
Slovak Republic	Beef	6,664,172	36,000 tons	4,264,070	28,400 tons
South Africa	Bovine Meat	9,272,220 ^(*)	15,999 tons	5,934,221 ^(*)	12,639 tons
Sweden	Bovine Meat	19,492,502	9000 tons	12,479,815	7100 tons
	Live Animals	265,282	340 tons	167,243	260 tons
Switzerland/ Liechtenstein	Live Animals	21,505,376****	14,307 tons	13,765,440****	11,303 tons
Turkey	Meat of Bovine	106,997	633 tons	91,572	579.8
United States	Bovine Meat	35,659,634	26,705 metric tons	22,822,166	17,589
*Data compiled from Uruguay Round Agreements Tariff Schedules					
**All currency conversions based on 2/20/00 exchange rates					
***No currency unit or placeholders indicated; assumed Romanian Leu and a'000,000 placeholders					
****No place holders indicated; assumed '000,000					
^(*) Amounts stated in U.S. dollars in Uruguay Round Agreements Tariff Schedules; no conversions have been made for 2000 dollars					

Other barriers and restraints

R-CALF is also concerned that state trading enterprises distort the international market for beef. For example, the former president of the National Cattlemen's Beef Association, John Lacey, stated in 1996 that the policies of the Canadian Wheat Board regarding feed barley give Canadian cattle feeders up to a \$60 per head advantage.

The United States has a significant comparative advantage in agriculture, and agriculture should be contributing to a decline in our national trade deficit. However, our country's farmers and ranchers cannot fully leverage that comparative advantage with the various barriers in place that have been discussed. The lack of progress in multilateral agriculture negotiations suggests that many of our trading partners may never fully liberalize their markets.

The lack of progress in opening foreign markets and the continuing increases in agricultural imports puts additional downward pressure on the prices that American farmers and ranchers receive for their products. The consequences of this are that we are putting at risk some of the most fertile and competitive farm and grazing land in the world, as well as the livelihoods of the two million farmers (including about one million ranchers and cow-calf operators) that produce most of the food that we eat, and the culture and communities of rural America in which they live. Enclosed separately are materials that R-CALF has prepared which detail the enormous difficulties that the cattle industry has faced during the last several years.

Conclusion

Prices for cattle are highly sensitive to small shifts in supply, whether in the form of cattle or beef. The cattle industry suffers from a significant deficit in the volume of trade which, not surprisingly, has been accompanied by depressed prices for several years. A variety of factors, both foreign and domestic, contributes to that deficit, including lack of country of origin labeling as well as foreign trade barriers. Lack of country of origin labeling compounds the concentration of economic power exercised by the packers and processors, which further compounds the problems associated with depressed prices for cattle.

In summary, U.S. farmers and ranchers are doing poorly at a time when they should be thriving. The overall trade surplus that is reflected in the trade statistics for agriculture masks numerous problems, including the simple fact that the surplus should be much, much larger than it is, and problems caused by periodic import surges. Moreover, if the current declining trend in the trade balance in agriculture continues, then we will likely face an overall deficit in agriculture within as little as three years. The problems we face both here at home and in

foreign markets, including the apparent unwillingness of our trading partners to dismantle those barriers in the foreseeable future, imperil the futures of our farmers and ranchers. I urge you to highlight that simple fact in your report to the Congress.

Thank you for hearing me today.



The Cattle Industry in America:

Portrait of an Industry in Crisis



*A Report prepared for
Ranchers-Cattlemen Action Legal Fund
by
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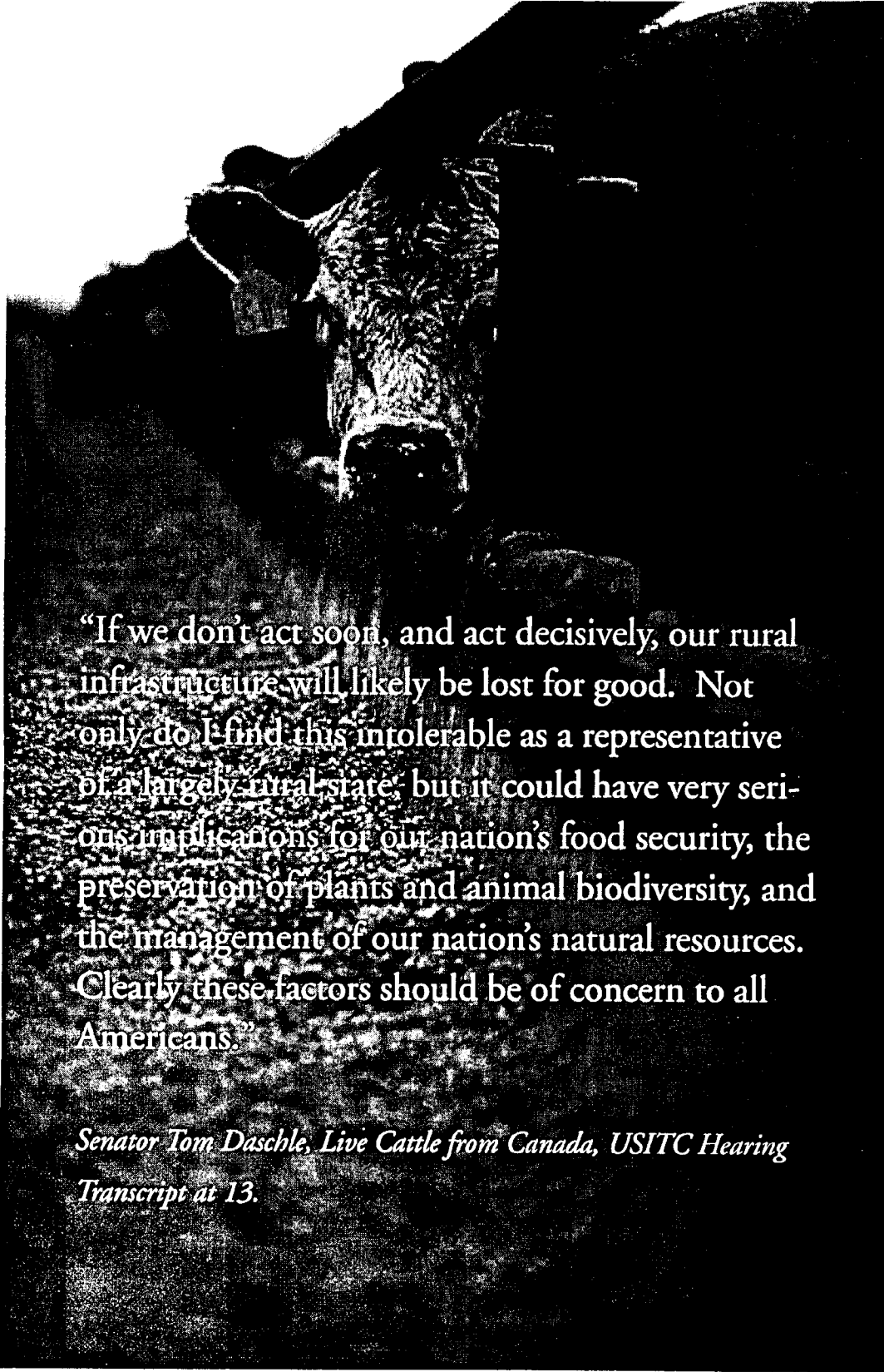
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“If we don’t act soon, and act decisively, our rural infrastructure will likely be lost for good. Not only do I find this intolerable as a representative of a largely rural state, but it could have very serious implications for our nation’s food security, the preservation of plants and animal biodiversity, and the management of our nation’s natural resources. Clearly these factors should be of concern to all Americans.”

Senator Tom Daschle, Live Cattle from Canada, USITC Hearing Transcript at 13.

The Cattle Industry in America: Portrait of an Industry in Crisis

Executive Summary

The domestic cattle industry is the single largest agricultural sector in the United States with more than one million ranches or farms involved in raising cattle. Revenues for cattle producers is more than \$30 billion and is approximately 17 percent of total agricultural receipts. The health of our cattle ranchers and farmers is critical to nearly every state in the Union and to the thousands of rural communities that depend on viable agricultural farms and ranches.

The US cattle industry is in crisis. The men, women and children who raise our cattle have suffered severe economic hardship since 1993-94:

- prices received are depressed and have not kept pace with costs and as a share of the retail dollar spent on beef have declined sharply over the last 20 years;
- the financial losses incurred are measured in the tens of billions of dollars; there has been an impairment of cash flow, an inability to raise capital or even continue to borrow;
- the US has lost tens of thousands of cattle operations, often with the effect of the ranching families losing their homes as well;
- cattle herd size has been reduced and the calf-crop is the lowest since the early 1950s;
- ranches have reduced the number of hired help;
- many cattlemen and women have suffered the loss of health care coverage in total or in part;
- there has been an inability to maintain the ranch infrastructure whether it be the land, the facilities, the equipment to maintain efficiency or the genetics of the animals;
- the resulting stress on the ranching families has been enormous — longer hours, work off of the ranch, less time with family, increased health problems including physical and mental, up to and including suicide;
- the thousands of rural communities dependent on a healthy cattle industry are being destroyed.

It has been a grim time. Our cattlemen and women have essentially been forced to pay for the opportunity to supply our food. Let's be clear — many of the ranchers working to supply our food can't afford to buy food themselves.

Cattle producers desperately need to be able to obtain a fair price for their product now.

Cattle production forms the largest segment of American agriculture. Beef cattle are raised in all 50 states A healthy cattle industry is important to nearly every state's agricultural base.

R. Kirchoff, Executive Director, National Association of State Departments of Agriculture (NASDA), USITC Hearing, Live Cattle from Canada, Tr. at 83.

**States Where Cattle and Calves are among the Top Agricultural Commodities
On the Basis of Cash Receipts, 1998**

Cattle and Calves among Leading Commodities

Ranks # 1	Ranks # 2	Ranks #3	Ranks #4	Ranks #5
TEXAS	ALABAMA	WASHINGTON	LOUISIANA	MISSISSIPPI
NEBRASKA	WEST VIRGINIA	WISCONSIN	NEW YORK	GEORGIA
KANSAS	IDAHO	VIRGINIA	NEW HAMPSHIRE	MICHIGAN
COLORADO	VERMONT	ALASKA	CALIFORNIA	ARKANSAS
OKLAHOMA	OREGON	PENNSYLVANIA	IOWA	MINNESOTA
SOUTH DAKOTA	MISSOURI	KENTUCKY	ILLINOIS	MARYLAND
NEW MEXICO	NORTH DAKOTA			
TENNESSEE				<u>Ranks #6</u>
ARIZONA				CONNECTICUT
MONTANA				FLORIDA
UTAH				INDIANA
WYOMING				SOUTH CAROLINA
NEVADA				

*Source: USDA ERS Cash Receipts ranking data available at
<http://www.econ.ag.gov/briefing/farmincome/receipts/rankings/misc/rk50stat.wk1>*

I. Overview of the Industry

“The cattle industry is one of the largest components of American agriculture. Cattle producers range from small farmers seeking to diversify their operations by raising beef cattle to large ranches with hundreds of thousands of head. Numerous communities throughout the country are dependent, either directly or indirectly, upon income generated through cattle production. It is difficult to overstate the importance of the cattle industry to our country’s rural economy, and to the nation’s economy as a whole.”

Letter of October 13, 1999 from 31 House members: Hill (R-At Large, MT); Pomeroy (D-At Large, ND); Hansen (R-1st, UT); Gephardt (D-3rd, MO); McInnis (R-3rd, CO); Chenoweth Hage (R-1st, ID); Walden (R-2nd, OR); Hastings (R-4th, WA); Thune (R-At Large, SD); Simpson (R-2nd, ID); Lampon (D-9th, TX); Udall (D-3rd, NM); Holt (D-12th, NJ); Turner (D-2nd, TX); Hall (D-4th, TX); Sandlin (D-1st-TX); Cubin (R-At Large, WY); Moran (R-1st, KS); Ros-Lehtinen (R-18th, FL); Cook (R-2nd, UT); Hooley (D-5th, OR); Watkins (R-3rd, OK); DeFazio (D-4th, OR); Roukema (R-5th, NJ); Shaw (R-22nd, FL); Canady (R-12th, FL); Barrett (R-3rd, NE); Berry (D-1st, AR); Nethercutt (R-5th, WA); Diaz-Balart (R-21st, FL); Mica (R-7th, FL)

The domestic cattle industry is the single largest agricultural sector in the United States, whether measured in terms of the numbers of producers or the revenues it generates. In 1998, there were a total of 1.15 million cattle operations throughout the United States.¹ The vast majority of producers – more than 800,000 – are cow-calf operators who maintain the herds of brood cows and heifers which produce the calves that are raised for slaughter to produce beef. In 1998, the industry generated revenues totaling \$33.7 billion that year, or about 17% of total agricultural commodity receipts.² By comparison, the next closest agricultural commodity was dairy, with total receipts of \$24.3 billion.³ Indeed, cattle and calves have been the single largest revenue-producing agricultural sector in the United States dating back as far as the 1950s.⁴

The cattle industry constitutes a major part of the economies of nearly half of the states in the nation. According to the National Association of State Departments of Agriculture:

Cattle production forms the largest segment of American agriculture. Beef cattle are raised in all 50 states A healthy cattle industry is important to nearly every state’s agricultural base.⁵

The table on the opposite page shows for which states cattle is one of the top six agricultural products in 1998. The cattle industry also constitutes the livelihood for a substantial



portion of Native Americans living on Indian reservations. Robert Miller, an Oklahoma rancher, Creek Indian and President of the Intertribal Agriculture Council, explains:

... Indian reservations are on some of the most remote areas in the country. The IAC represents 85 tribes with thousands of individual producers, encompassing 56 million acres of agriculture trust land and thousands of acres of privately-owned land, with at least 7.5 million head of cattle. In some of these areas far distant from metropolitan areas, Indians cannot operate casinos or even farm that particular land. Thus, a majority of their land is used for grazing. In these areas, cattle represent our number one source of income.⁶



II. The Cattle Cycle

This is not simply 'normal' hard times that the cattle cycle brings. Something is wrong. If you compare where we are today with where we were at the same point in the last cattle cycle, prices are a lot lower than they should be. Other problems that the industry has to contend with today were present back then as well, but that didn't stop prices from increasing when supplies of cattle declined.

Leo R. McDonnell, Jr., President, R-Calf, Statement before the U.S. International Trade Commission Hearing on Live Cattle from Canada

The ebbs and flows of the cattle industry have followed a pattern of expansion and contraction often referred to as "the cattle cycle." The cycle is characterized by the accumulation and liquidation of cattle inventories. Past cycles have generally occurred in response to changes, or anticipated changes, in profits (prices received for cattle and prices paid for feed). Cattle supplies increase as operators expand their herds in response to increasing prices so they will have more calves to sell. As the supply increases, prices eventually peak and then begin to fall. As prices decline, cow-calf operators liquidate their herds in order to reduce the supply of cattle.⁷

The cattle cycle reflects the limited ability of cattle producers to respond to changes in market conditions because of the time required to raise the cattle until they are ready for sale to the packing houses. The decision whether to retain a heifer for breeding or send it to the backgrounders and feedlots, for example, is made when the heifer is about 9 months old so that she will have her first calf at two years. The calf itself has a gestation period of 9 to 11 months, and then 15 to 24 months of growing and feeding before it will be ready for sale to a packing house. Thus, cow-calf operators expand or liquidate their herds based on the market conditions they believe will prevail in two or three years.

Several factors can influence the length and severity of the cattle cycle. Higher market prices (profits) lead to increases in cattle inventory and lower market prices (losses from oversupply) lead to decreases in cattle inventory. The more sustaining the period of profitability in cow calf operations, the longer the expansionary phase will be. The longer the period of losses that are incurred, the longer will be the liquidation phase of the cycle.

Many producers in the industry believe that the current cattle cycle has not operated in the same manner as previous cycles. Leo McDonnell, a Montana rancher and owner of Midland Bull Test in Columbus, Montana, and president of R-Calf, puts it this way:

If you compare where we are today [in 1998/99] with where we were at the same point in the last cattle cycle, prices are considerably lower than they should be. It's not normal. Other problems that the industry has to contend with today were present back then as well, but that didn't stop prices from increasing when cattle supplies declined.⁸

Numerous industry observers in 1996 and 1997 had predicted that the decline in the cattle inventory that began in 1997 would lead to price increases for cattle. For example, then-president of the American Farm Bureau Federation Dean Kleckner told the governor of Montana in July 1996,

Table 1.
Comparison of Changes in Cattle Inventory, Imports of Cattle
and Beef, and Fed Steer Prices: 1978 - 1998

	Cattle Inventory as of Jan 1	Cattle Imports	Beef and Veal Imports*	Imports as a Percent of Inventory	Nebraska Direct 1100 cwt Steer Price	Annual Percent Change in Price	1978 Fed Steer Price Adjusted for Inflation
	----- Thousand of Head -----				\$/cwt		\$/cwt
1978	116,375	1,252.57	4,799.83	5.20%	53.01		53.01
1979	110,864	731.83	5,472.53	5.60%	68.56	29.32%	59.73
1980	111,242	680.67	4,649.39	4.79%	67.64	-1.33%	68.16
1981	114,351	659.05	4,603.69	4.60%	64.42	-4.77%	74.41
1982	115,444	1,004.20	4,396.09	4.68%	65.34	1.43%	75.83
1983	115,001	920.72	4,141.57	4.40%	63.63	-2.61%	76.77
1984	113,360	753.17	3,828.99	4.04%	66.79	4.97%	78.67
1985	109,582	835.14	4,098.77	4.50%	59.75	-10.55%	78.29
1986	105,378	1,404.85	3,995.24	5.12%	59.25	-0.83%	76.02
1987	102,118	1,200.00	4,351.65	5.44%	66.28	11.87%	78.00
1988	99,622	1,331.74	4,420.10	5.77%	71.19	7.40%	81.13
1989	96,740	1,458.28	4,035.88	5.68%	73.86	3.76%	85.20
1990	95,816	2,135.00	4,417.96	6.84%	78.56	6.35%	88.23
1991	96,393	1,938.93	4,484.21	6.66%	74.21	-5.53%	88.42
1992	97,556	2,255.27	4,539.52	6.97%	75.24	1.39%	88.89
1993	99,176	2,499.05	4,503.20	7.06%	75.94	0.93%	90.22
1994	100,974	2,082.50	4,307.31	6.33%	68.56	-9.72%	91.35
1995	102,785	2,786.25	3,741.44	6.35%	66.47	-3.05%	94.67
1996	103,548	1,966.60	3,648.13	5.42%	64.76	-2.57%	96.84
1997	101,656	2,048.36	4,042.74	5.99%	66.07	2.02%	96.84
1998	99,744	2,036.75	4,439.07	6.49%	61.05	-7.60%	94.38

Source: Data from USDA ERS Red Meat Yearbook and Agricultural Statistics. Data in Bold denote year-to-year price decreases. *Beef and Veal imports converted from carcass weight equivalent to head by dividing the average production of U.S. Slaughter in pounds per head. Steer Price adjusted for PPI using IMF International Financial Statistics 1999 Yearbook at 926-927.

“My prediction is within two years . . . we’re going to see an all-time high in fed cattle prices”. . . . He predicted prices will top the previous high of about 85 cents a pound and could reach the pinnacle of \$1 a pound. . . . He said his forecast reflects the cyclical realities of supply and demand in agriculture.⁹

Indeed such price increases would have brought cattle prices closer to where underlying costs would have indicated they needed to be. See Table 1 last column. Similarly, the chairman of IBP, the nation’s largest packer, told a meeting of South Dakota ranchers in December 1996, “It’s just a short time until the cattle market is going to blow by 80 [dollars per 100 pounds] like a freight train.”¹⁰ The Chief Economist for the National Cattlemen’s Beef Association wrote in his 1996 Final Review: “With declining cattle numbers and improving feed costs, cattle prices will generally post year-to-year improvements for the next four or five years.”¹¹ P.J. Rathwell, an agricultural economist and professor at Clemson University, forecast the following:

The decrease in cattle inventory numbers will have a definite beneficial impact on cattle prices this year and for the next several years. Three factors carry the greatest weight in determining calf price: the price of fed cattle, the price of corn, and the number of animals (inventory) in the marketplace. All three of these factors now point toward better times in the beef industry.¹²

As late as January 1998, *Cattle-Fax*, a leading industry resource for cattle price and other essential market information, forecast:

- Fed-cattle prices are expected to reach the mid-\$70s in the spring of 1998. Seasonal third-quarter pressure puts price risk back to the mid- to upper-\$60s, resulting in an annual average fed-steer price in the \$70 to \$72/cwt. range.
- After posting the biggest year-to-year advance since 1979, feeder cattle and calf prices in 1998 will average about \$5/cwt. higher compared to 1997. Competition for noticeably tighter supplies will be evidence, which will support a long-term, cyclical rally extending into 2000.¹³

The industry’s expectations, however, proved incorrect. Cattle prices which had been \$66.47 per hundredweight in 1995 fell to \$64.76 in 1996 – the lowest since 1986. Prices recovered in 1997 to \$66.07 (the second-lowest since 1986), but then fell to \$61.05 in 1998. Meanwhile, the cattle inventory, which reached a cyclical peak of 103.54 million head in 1996, had fallen to 99.74 million head in 1998.

Table 1 helps put the price decline in 1998 into context. Table 1 shows cattle inventories, imports of cattle, imports of beef and veal converted to a cattle equivalent, imports expressed as a percent of inventory, prices for fed steers, and what steer prices would have been to keep up with inflation from 1978 to 1998. Dating back to 1978, year-to-year cattle prices never declined for more than two years in a row before showing some recovery until 1996. The two years of price declines in 1980-81 had followed a very large price increase in 1979 compared to 1978. The two years of relatively large price declines in 1985-86 were followed by four consecu-

tive years of price increases. Beginning in 1994, prices had declined for three consecutive years, something that had not occurred during the last cycle. Given three years of price declines and the start of the decline in the cattle inventory as operators began to liquidate their herds, the industry's forecasts for strong price recovery in 1997 were understandable. However, prices in 1997 increased only marginally in 1997 and then declined again in 1998 by the third largest percentage since 1978.

While a number of factors can affect the cattle cycle and cattle prices, it bears noting that from 1978 to 1990, the total percentage of the cattle inventory accounted for by total imports of cattle and beef averaged 5.13 percent. From 1990 through 1998 (the current cycle), imports averaged 6.46 percent.¹⁴ The data are consistent with the view that higher levels of imports in the 1990s affected price recovery in the cattle cycle.

Table 2 below shows the net trade position of the U.S. in cattle and beef. The U.S. has increased its exports of beef in the last twelve years, although we still run a significant trade deficit on a weight basis. At the same time, imports of live cattle have increased substantially and our trade deficit in cattle has increased. Since imported cattle are ultimately slaughtered and converted to beef, a significant percent of increased exports of beef simply reflect the conversion of imported cattle.

Table 2
U.S. Imports and Exports of Live Cattle and Beef and Veal

	Live Cattle			Beef & Veal		
	Imports	Exports	Net Imports	Imports	Exports	Net Imports
	<i>Head</i>			<i>Thousands of Pounds, Carcass Weigh</i>		
1987	1,200,481	130,698	1,069,783	2,293,360	611,090	1,682,270
1988	1,332,206	321,449	1,010,757	2,380,580	679,791	1,700,789
1989	1,459,415	169,140	1,290,275	2,175,351	1,061,939	1,113,412
1990	2,135,000	119,914	2,015,086	2,354,567	1,006,042	1,348,525
1991	1,939,054	310,962	1,628,092	2,406,496	1,188,370	1,218,126
1992	2,255,265	321,790	1,933,475	2,439,775	1,323,637	1,116,138
1993	2,499,046	153,416	2,345,630	2,401,332	1,275,045	1,126,287
1994	2,082,504	230,791	1,851,713	2,370,727	1,610,620	760,107
1995	2,786,245	94,548	2,691,697	2,103,473	1,820,814	282,659
1996	1,965,448	174,307	1,791,141	2,072,729	1,819,194	253,535
1997	2,046,352	282,344	1,764,008	2,344,225	2,058,530	285,695
1998	2,034,009	285,209	1,748,800	2,643,105	2,160,811	482,293

Source: K-State Livestock & Meat Marketing Web Site, <http://www.agecon.ksu.edu/livestock/LivestockDatabases/TradeDatabases/montrade.xls>.

III. Portrait of an Economic and Human Crisis

“If you compare the prices we are receiving for all commodities on the farm now, they are at a level worse than the Great Depression in the '30s.

Senator Conrad Burns (R-MT), Before the United States International Trade Commission Hearing on Live Cattle from Canada, Tr. At 22 and 23

“Many of the farmers and ranchers in our states who raise cattle are hurting and have been for a number of years. Even though our agricultural producers feed our nation and millions outside our borders, many of us know of situations where these same farmers and ranchers are unable to buy food for their own families because of the low prices they receive for their product. Such a condition is not acceptable. The crisis our cattle producers, their families and their communities are living through is very real.”

Letter from 24 Senators to the United States International Trade Commission, October 5, 1999: Daschle (D-SD); Burns (R-MT); Baucus (D-MT); Johnson (D-SD); Harkin (D-IA); Thomas (R-WY); Wellstone (D-MN); Enzi (R-WY); Conrad (D-ND); Dorgan (D-ND); Craig (R-ID); Campbell (R-CO); Kerrey (D-NE); Lincoln (D-AR); Hollings (D-NC); Abraham (R-MI); Crapo (R-ID); Kohl (D-WI); Bond (R-MO); Smith (R-OR); Hatch (R-R-UT); Byrd (D-WV); Bennett (R-UT); Ashcroft (R-MO)

Three long-term trends have signaled the growing problems of the cattle industry. First, the prices that cattle producers must pay for supplies, fuel, etc., have been steadily increasing, while the prices they receive for their cattle have either been declining or remained flat. Evidence of this cost-price squeeze may be seen in USDA price indices for farmers' prices paid and received seen below in Figure 1. Although prices paid by livestock farmers have risen along with prices paid by crop farmers, prices received by livestock farmers have remained well below what they were in 1990-92.

Second, the producer's share of the beef retail dollar has fallen from some 70 percent in the 1970s to below 50 percent in 1996, while the nominal farm-to-retail price spread has widened from 40 cents per pound to over \$1.40 per pound.¹⁵ In a word, cattle producers over the

past three decades have received an ever-shrinking share of the retail dollar that consumers pay for beef. Figure 2 shows the changes in the farm share of the retail dollar for beef, the price the rancher has received for cattle, and the price the rancher would have received had the farm retail share remained at 1970 levels. Prices in Figure 2 are in constant 1970 dollars.

Figure 3 shows the same illustration, but in actual dollars. If a rancher in 1997 received the same percentage of the retail dollar for beef as was the case in 1970, he would be getting nearly \$25-30 more per hundredweight. This phenomenon accounts for a substantial portion of the depressed prices received in the last decade and for a major part of the price/cost squeeze experienced -- as much as \$10 billion per year. The price depression can be seen in the table on the next page which shows prices to farms for beef as reported by USDA, and prices that would have been needed to stay current with inflation. Prices are roughly one-third lower than they should be.

Figure 1

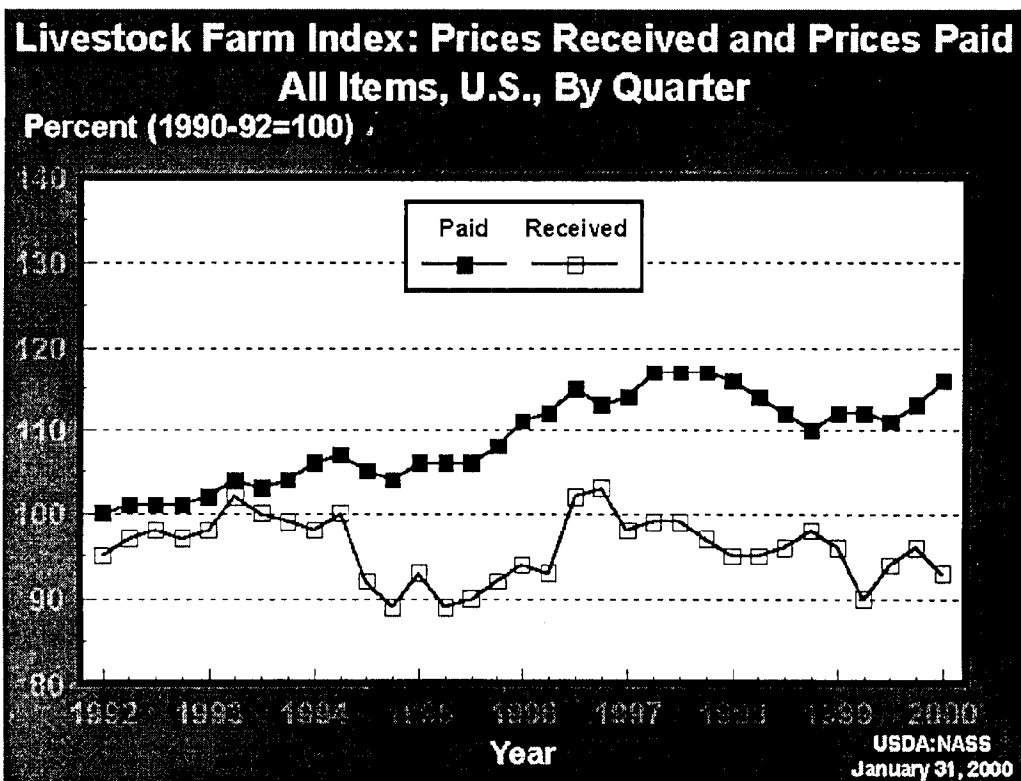


Figure 2

Choice Beef Values and Spreads - Farm Price vs. Retail Price
In Constant Dollars (1982=100)

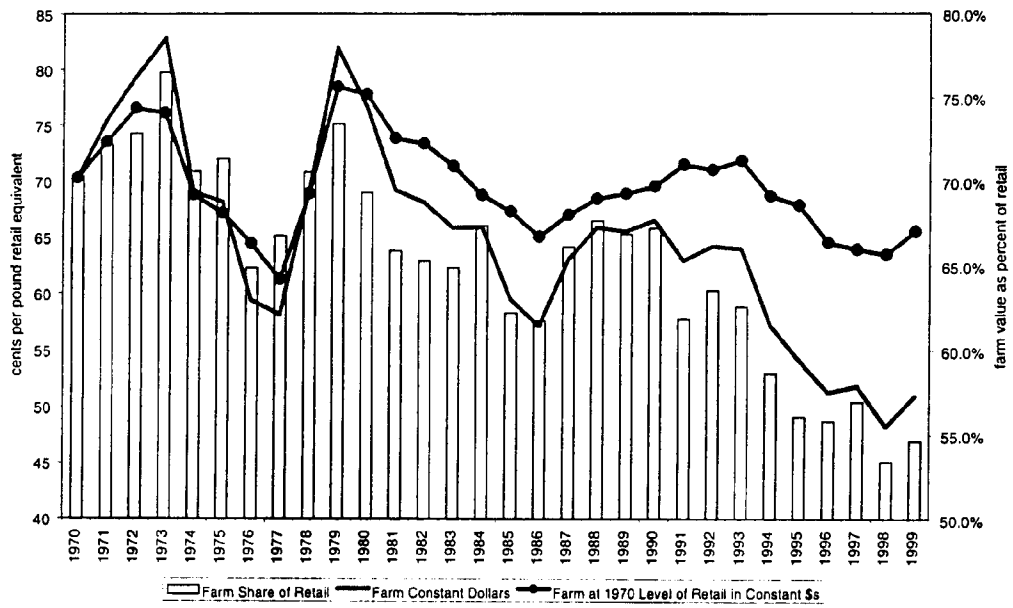
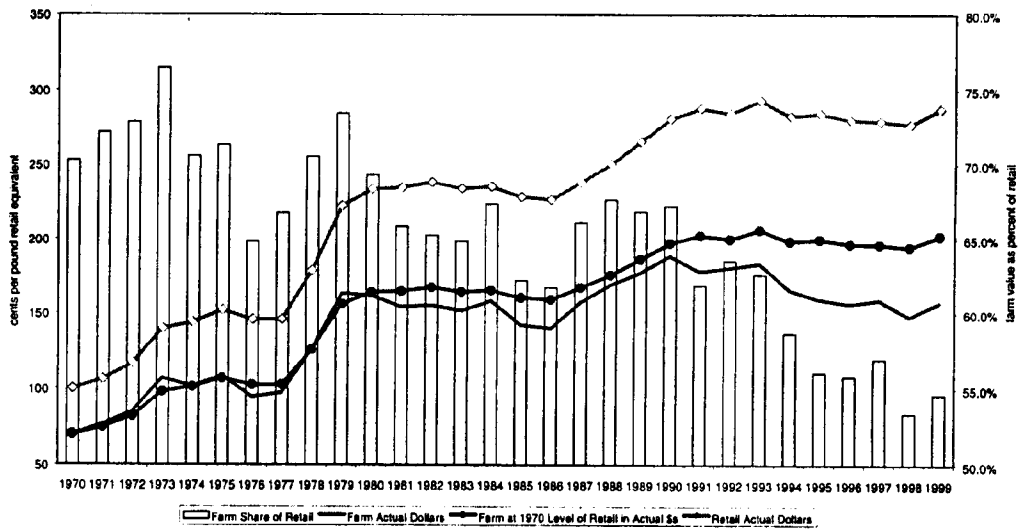


Figure 3

Choice Beef Values and Spreads - Farm Price vs. Retail Price
In Actual Dollars



Source: USDA Economic Research Service. Data for 1970-1993 from retail. <http://www.ers.usda.gov/publications/choicebeef/prspd.wk1>. Data for 1994-1999 downloaded from <http://www.usda.gov/economic/choicebeef/prspd.wk1>. Data converted to constant dollars using the RUS PPI for Bone-in Kindred Products.

Choice Beef Retail Value and Gross Farm Value

	Retail price	Gross farm value	Farm Value at 1970 Share of Retail	PPI for Food 1982=100	Adj Factor PPI for Food 1970 = 100	Gross Farm Val in 1970 Adj. For Inflation
	---- cents / pound ----					cents / lb
1970	99.9	70.3	70.2	43.79	1.0000	70.3
1971	106.2	76.7	74.6	44.49	1.0160	71.4
1972	116.6	85.0	81.9	46.94	1.0719	75.3
1973	139.7	106.9	98.1	56.48	1.2898	90.6
1974	143.8	101.5	101.0	64.37	1.4698	103.3
1975	152.2	108.6	106.9	69.83	1.5947	112.0
1976	145.7	94.4	102.3	69.63	1.5899	111.7
1977	145.9	97.3	102.5	73.24	1.6725	117.5
1978	178.8	126.1	125.6	79.92	1.8249	128.2
1979	222.4	163.4	156.3	87.25	1.9924	140.0
1980	233.6	161.9	164.1	92.40	2.1100	148.2
1981	234.7	154.5	164.9	97.87	2.2348	157.0
1982	238.4	155.5	167.4	100.00	2.2835	160.4
1983	234.1	151.8	164.4	101.00	2.3064	162.0
1984	235.5	158.6	165.4	105.40	2.4069	169.1
1985	228.6	142.2	160.6	104.60	2.3886	167.8
1986	226.8	140.0	159.3	107.30	2.4502	172.1
1987	238.4	157.6	167.5	109.50	2.5005	175.7
1988	250.3	169.4	175.9	112.60	2.5713	180.6
1989	265.7	177.6	186.6	118.70	2.7106	190.4
1990	281.0	188.9	197.4	124.40	2.8407	199.6
1991	288.3	178.4	202.5	124.10	2.8339	199.1
1992	284.6	180.9	199.9	123.30	2.8156	197.8
1993	293.4	183.7	206.1	125.70	2.8704	201.6
1994	282.9	165.9	198.7	126.80	2.8955	203.4
1995	284.4	159.5	199.8	129.00	2.9458	206.9
1996	280.2	156.4	196.8	133.60	3.0508	214.3
1997	279.5	159.2	196.3	134.50	3.0714	215.8
1998	277.1	148.0	194.7	134.30	3.0668	215.4
1999	287.8	157.2	202.2	135.14	3.0860	216.8

Source: USDA Economic Research Service. Data for 1970-1993 from Red Meat Yearbook at <http://usda.mannlib.cornell.edu/data-sets/livestock/94006/bfsprad.wk1>. Data for 1994 -- 1999 downloaded from <http://www.econ.ag.gov/briefing/meatbrill/prspd.wk1>. PPI from Bureau of Labor Statistics for "Food and Kindred Products."

Third, the industry itself is in a state of long-term contraction, as fewer new producers enter the industry to replace aging producers. The number of cow-calf operations, for example, has declined from more than 2.2 million in 1967 to 1.8 million in 1976 to about 800,000 in 1998.¹⁶ According to Mary von Forrell, a rancher in Wyoming:

The industry has an aging population.... [T]he American Hereford Association reported that for a member with registered cattle in production, the average age has increased to the age of 56. This is a major concern.... [T]hey are getting old, nobody is coming back to the ranches. And when we lose people born and raised on the ranch, there goes American production of agriculture.¹⁷

Robert Bruner, a leader in the cattle industry in east Texas, asserts, "When you lose an industry like this, you don't just rebuilt it. The cattle industry takes generations to understand, much less build."¹⁸

Ranches over a century old can no longer sustain a family. Steven Anderson is the seventh generation of his family in Kansas. The original homestead from the 1850s was lost by a relative in the last few years. Anderson describes his own situation as follows:

At the present time, I'm throwing in my labor for free. I don't carry health insurance; I can't afford it. ... I basically live like a third class citizen in a country that's ostensibly the most prosperous nation in the world.¹⁹

George Cremer has struggled to keep his operation, homesteaded in 1909, in the family. His Montana neighbors have been less successful:

Most of the ranches here started in the 1880's. Most of the young people growing up in the area are leaving. ... [T]hese ranches are at the size now where one person can't make them work, yet the income won't support more.... The property will most likely end up being sold.²⁰

Congressman Michael Simpson of Idaho reports, "Many of the producers in my district are not even making enough to cover the cost of production and are in jeopardy of losing their generation owned family operations."²¹ Roy Stewart in Newport, Nebraska is in partnership with his son. Together, they are trying to buy out an operation that has been in the family since 1898, but they lost \$123 a head in 1997: "Buying the land will be expensive. I don't know how we will manage."²² Doug Tippet in Joseph, Oregon bought his father's cow-calf operation, but he does not see the next generation staying in agriculture:

Is anyone going to be able to talk the kids into staying in ranching? I don't think so. A lot of the young are leaving. [W]e work ... 18 hours a day, seven days a week and ... right now we're not making a profit.²³

Even in the best of times, profitability in the cattle sector is generally characterized by relatively low profit margins, generally no more than 3 - 4 percent. Moreover, in many cases, reported "profits" are what the operator has left before payment of salaries to family members who have worked in the operation, and coverage of the operation's fixed costs.

In the not-so-recent past, producers were prepared to deal with down turns by relying on equity and other resources generated during the up turn in the cycle. According to the theory of the cattle cycle, prices for cattle should increase as supplies decline. This in fact is what happened in the 1980s, when the cattle inventory fell from 109.6 million head in 1985 to 95.8 million head in 1990, and prices climbed from \$58 - 60 per cwt. in 1984-85 to the mid-to-upper \$70s in 1988-90. In the current cattle cycle, however, while the liquidation phase had been in progress since at least 1996, prices have not recovered appreciably. Indeed, as discussed earlier, 1998 prices fell to 1996 levels, which were among the lowest in recent years. The domes-

tic industry did not experience the rebound in prices and profits that would normally be expected with smaller inventories. Many of the rules of thumb that used to operate in the cattle industry and in farming generally no longer appear operable, as evinced by the story of one South Dakota cattle and grain farmer:

At 75, Everett Myers ... remembers the rule-of-thumb farmers lived by in 1946 when he got out of the Navy and started farming: When grain prices are down, livestock prices are up. That's not true anymore, says Myers, who still helps out at the Redfield Livestock Auction. "You can't count on live-stock or grain or anything," Myers said. "It's hard on the young people. There's no way they can make it." Gilbert Lutter, who owns the Redfield Livestock Auction, agrees that times are tough. He sees it in the cattle trade. "The low prices are hurting a lot of operators. It hurts our business to some extent. People delay their marketing." Lutter estimated that the same grade of cattle is selling now for \$15 to \$20 less a hundredweight than two years ago, even as producers' expenses continue to rise.²⁴

House Democratic Leader Richard Gephardt confirms that the same is true in states such as Missouri where cattle producers also raise other agricultural products:

Cattle-producing farms in Missouri are often small, diversified operations. In the past when prices on cattle were depressed, profits from other farm products compensated for livestock losses. However, given the current widespread farm crisis, the losses incurred by cattle operations have had no cover from other products. The result has been greatly expanded debt, a drastic curtailment of expenditures by cattle producers, and an extraordinary toll on Missouri cattle producers.²⁵

Cattle producers in Florida, which ranked twelfth in the nation in 1999 in cattle inventory, likewise were experiencing significant financial difficulties. According to Carl Loop, president of the Florida Farm Bureau:

Our producers have been losing huge amounts of equity. USDA figures on cow-calf product cash costs and returns per bredcow for 1996 and 1997 . . . show losses of \$134.99/head in 1996 and \$57.05/head in 1997 for the Southeastern United States. Factoring in fixed costs and wages for the unpaid labor of family members translates into staggering losses of \$406.34/head in 1996 and \$315.84/head in 1997. We know from contact with our members that there have been substantial losses being incurred since at least 1996 which has stretched the ability of ranchers to stay in production. Many have been forced by banks to liquidate part of their herds or to sell their land or take other steps to reduce the banks' exposure in these times of depressed prices. We have seen a significant number of producers, including reasonably large producers, get out of cattle production in total or to a significant extent in the last five years.²⁶

Department of Agriculture statistics show that the cattle industry sustained five consecutive years of financial losses from 1994 through 1998 inclusive.²⁷ The years 1996-1998 were especially grim as prices for cattle plummeted, producers lost billions of dollars in equity, and increasing numbers of individual operators were confronting economic ruin.

USDA publishes data concerning profit and loss experience of cow-calf operations. The data for 1990-1997 are summarized below. As shown, the industry earned operating profits on total cash expenses (variable and fixed) from 1990 through 1993. In 1994 and 1995, cow-calf operators covered their variable costs. In 1996 and 1997, however, costs increased and revenues fell, such that cow-calf operators could not even cover variable costs.

Profit and Loss Experience of Cow-Calf Operations								
	1990	1991	1992	1993	1994	1995	1996	1997
	(\$/bred cow)							
Total gross value of production	441.59	438.23	413.56	430.18	389.21	331.92	312.28	405.50
Total variable cash expenses	315.66	316.49	314.52	328.61	329.91	321.82	443.80	451.99
Gross value of prod'n less variable cash exp.	125.93	121.74	99.04	101.57	59.3	10.1	(131.52)	(46.49)
Total fixed cash expenses	86.14	71.40	67.93	86.29	82.16	88.83	78.44	83.93
Total cash expenses	401.8	387.89	382.45	414.9	412.07	410.65	522.24	535.92
Gross value of production less cash expenses	39.79	50.34	31.11	15.28	(22.86)	(78.73)	(209.96)	(130.42)

Source: USDA/ERS, Farm Costs and Returns Survey

In 1998, USDA's Economic Research Service revised its methodology for calculating cow-calf costs and returns. The results for 1997 and 1998, shown below, indicate that the cow-calf sector continued to lose nearly \$100 per head in 1998:

	1997	1997 rev.	1998
	\$ per bred cow		
Total gross value of production	405.50	414.27	402.98
Total variable cash expenses	451.99	436.73	398.81
Gross value of prod'n less variable cash exp.	(46.49)	(22.46)	4.17
Total fixed cash expenses	83.93	105.52	103.2
Total cash expenses	535.92	542.25	502.1
Gross value of production less cash expenses	(130.42)	(127.98)	(99.12)

Source: USDA/ERS, Farm Costs and Returns Survey

A Cattle-Fax survey of cow-calf producers also confirmed the lack of profitability in that sector:

[O]nly 24% of cow/calf operators were profitable, compared to 45% in 1997. Forty percent of the respondents reported that their cow/calf operations were unprofitable. Lack of profits in 1998 was related directly to the loss of equity in the feeding and stocker sectors, resulting in lower calf prices this past fall.²⁸

Substantial financial losses have not been confined to the cow-calf sector. In that same issue, Cattle-Fax reported:

Stocker operators did not fare much better in terms of profits in 1998. Only 32% of the winter stocker operators and 22% of the summer stocker operators reported that they were profitable. Thirty-nine percent of the winter stockers and 53% of the summer stockers were unprofitable.... For the year, summer stocker operators lost about \$60 per head on average.²⁹

As for feedlots, in April 1999, Cattle-Fax reported that feedlot operators had "endured 19 consecutive months of losses and nearly \$3 billion loss of equity since mid-1997. Cattle feeders have been profitable in only 21 out of the last 63 months [dating back to January 1994] (33%) in the cash market."³⁰ Individual losses have been staggering. One Wyoming feeder reports:

I'm 62 years old and I'm not very proud of the situation that I've gotten myself into recently. After a lifetime building up this operation, I have lost approximately \$2,000,000 in equity over the past two to three years.³¹

The situation is similar in Kansas. Mike Callicrate acknowledges a million dollar loss in a single year at his feedyard in St. Francis.³² Ivan Reimer, who feeds cattle in Meade, Kansas says, "We absolutely took a bloodbath in the market...." He adds,

The loss of equity these last two or three years has meant that we have had to draw on a line of credit or get a loan with the bank just to keep in operation. We have a line of credit we can't cover.³³

From Iowa, Farmers' Union President John Whitaker agrees: "Last year [1998] was a devastating year in the cattle feeding industry."³⁴

Such an extended period of losses is not normal in this sector. According to Clarence Newcomb, chairman of the Cattle Feeders Committee of the Colorado Cattlemen's Association:

This is an extended period of continuous losses in the feedlot segment that is unusual in the course of the history of the various cattle cycles. You could see two, three, four, five months, but normally we would return to profitability. To just go on and on and on like this, is totally contrary to historical cattle feeding practices, and it's just tearing the heart out of some really good people.³⁵

The extended downturn has outlasted the resources of a vast proportion of producers. There was not a sufficient upturn in the market from 1996 to 1998 that would have allowed producers to retire debt and restore their equity position. According to John E. Johnson, presi-

dent of the First Western Bank in Sturgis, South Dakota:

One of the things that you learn about the cow-calf business is that we deal with cycles. And as a banker you have to finance on cycles. So when you are in a down cycle, you know that you may grow some debt. When you are in an up cycle, you hope that it is good enough that you are going to be able to get back on track and maybe make some improvements in the operation. The problem is . . . that the cow-calf industry does not cycle the way that it has for the last 50 years. We've got outside stimulus that is causing us to have problems. We believe that we should have been back into a rising price [in 1998], we should have been back into a position where our people were starting to eliminate some short term debt. Instead, we continue to see increasing carryover debt from the operating side.³⁶

News accounts have reported on the substantial hardships that domestic cattle producers have faced:

Montana farmers and ranchers say they face financial disaster unless commodity prices increase or the government acts to support agriculture.... Others expressed doubt that they or many of their neighbors would be in business unless there's a dramatic increase in prices coupled with key policy changes.³⁷

One agricultural economist reported in 1997:

Indications are that some other North Dakota beef cow producers are not going to make it through the current economic crunch.... [I]f you bring up the subject, individuals confirm that there are beef cow producers in their home communities under severe financial stress.³⁸

Fully 24 Members of the United States Senate, representing 17 States, wrote to the U.S. International Trade Commission: "The crisis our cattle producers, their families and their communities are living through is very real."³⁹ Indeed, as discussed below, the repercussions to the cattle producers are felt in many ways that are not reflected on a profit and loss statement or in USDA statistics. Thirty-one Members of the House of Representatives, representing eight additional States, also wrote to the International Trade Commission, reiterating, "The economic crisis for our ranchers is real and is on-going."⁴⁰

1. *Inability to afford health insurance*

Cattle producers who are unable to afford conventional health insurance have either increased their deductibles to the equivalent of catastrophic coverage, or have dropped the policies altogether. Allen McIntyre, with the West River Health Services Foundation in Hettinger, North Dakota, reports:

Right now there are some people that don't have insurance and others that have the catastrophic plan, where they have the high deductible of \$5,000. Even with the catastrophic plan they are not coming in for preventive medicine. Women aren't coming in for mammograms, and we have a high level of breast cancer in this area. Since they do not have insurance, they are not coming in for preven-

tive care. This can lead to a mountainous medical bill. In fact, some people have been taken right off the farm, and they have lost the whole farm because of medical costs.⁴¹

Many livestock and cattle associations have programs that provide insurance to members. Jim Magagna, Executive Vice President of the Wyoming Stockgrowers Association, says that his Association's members have dropped some of the more important health insurance benefits, and particularly have dropped benefits that they were providing to any hired labor. "They have tried to keep their family benefits if at all possible. Their financial picture does not allow them to do more."⁴²

The Oklahoma Farmers Union, with over 100,000 members, is one of the larger providers of insurance to rural families. President Philip Klutts reports that his insurance sales staff also see members trying to reduce premiums by lowering or dropping coverage.⁴³ Kansas Cattlemen's Association co-founder Michael Schultz observes the same pattern: "[M]any ranchers have either lost their life insurance or had to go to catastrophic coverage only."⁴⁴

2. *Inability to afford hired labor*

Most cow-calf operators are family operations where a significant portion of the work is by family members. Hired laborers, both full-time and seasonal, will typically share the burden on any sizeable operation. With less and less income, however, many producers cannot afford even seasonal hired labor, which increases the workload on the family.

Don Freiburger, a rancher in Alliance, Nebraska, put it this way: "Since the market went down in 1994, the only way I have been able to cover my production costs was to get rid of all the paid labor."⁴⁵ According to Carolyn Petik, who raises cattle with her husband Jerry in Meadow, South Dakota:

Ranchers in this area can't afford to hire more help, so we are doing things ourselves that we would otherwise hire an extra person to help with. I'm exhausted at night, and my neighbors are too. You can't measure statistically the degree of depression caused by overwork but it's there.⁴⁶

Maury Kaercher, President of the Michigan Cattlemen's Association, reports the inability to afford labor is actually forcing herd cut-backs among the 550 members of his association:

[Farmers] struggle to find people to work on their farm but are unable to give them fair wage because income has dropped dramatically in agriculture, particularly within the livestock sector. They cannot afford to pay somebody to come in and work even though their wives left to work in town. As a result, they need to both work harder and reduce the size of the operation by liquidating the herd.⁴⁷

Kathleen Kelley, who ranches with her husband in Meeker, Colorado, and the vice-president of R-Calf, points out the effects on children in a ranch family:

[C]hildren are being drawn into doing more work. One woman expressed to me her concern about the safety of her children, in their early teens, who have been drawn into helping out because this particular family could not afford to hire other help.⁴⁸

3. Taking off-farm jobs to supplement income

Meanwhile, even as their workloads increase, family members on a growing numbers of operations take off-farm and off-ranch jobs, either to obtain health insurance benefits that are otherwise unaffordable or to supplement the family income because the ranch income is insufficient. According to Horace McQueen, a Texas rancher and a former television agricultural news broadcaster for some 35 years, "We've got capable folks who are ranchers but who must get jobs working off the ranch to provide any protection against illness."⁴⁹

J. Peter Carey and Carolyn Carey in California describe how their niece and her husband who are the business are managing, "He has taken a job as a buyer for an auction yard. She runs the guest house, and they run the ranch. ... {T}hey are just working as hard as they can work, ... doing everything just to try to stay afloat."⁵⁰

On the other side of the country, in New Jersey, the story is all too familiar. John Hargreaves, President of the New Jersey Beef Industry Council reports that local cattle producers are "taking off farm work, working in construction jobs, driving trucks or working night jobs at factories. They take whatever they can."⁵¹

Richard Tokash, speaking on behalf of the 2,600 members of the North Dakota Stockman's Association, captures a concern shared as far south as Texas, as far west as California, and as far east as New Jersey:

It is important for this industry, and the U.S. economy as a whole, ... for agricultural producers to be able to survive on their production income. We can't have an industry living off town jobs. We can't manage the land that way.⁵²

4. Maintenance of property and equipment; investment in breeding stock

Efforts to economize and reduce costs also mean putting off purchases of new equipment such as tractors and balers. Charles Klaseen, a Colorado rancher and Chairman of the 4,500-member Rocky Mountain Farmers Unions observes:

Ranchers are not investing in new equipment and are not investing in those necessary things to maintain their operations. I can speak to that personally because I've got an old pickup.... But I lost \$139,000 last year from the operation and you just can't justify buying a \$30,000 pickup. As far as equipment, we just got a welder and we just weld and weld....⁵³

Congresswoman Helen Chenoweth sees an inability to perform once-routine maintenance in her home state of Idaho:

Some ranches are falling into disrepair and not because their owners have lost interest in them; quite the contrary, ... many ranchers can no longer afford to ... treat for weeds and purchase new equipment or fix broken equipment and make other expenditures normally required to operate a ranch.⁵⁴

Florida cattle producer Dallas Townsend explains the consequences of these kinds of cutbacks:

When confronted with decreased revenues, you look at whatever expenses you can reduce.... There are the ones that you can control such as fertilizers, feed for the cattle and health programs. Anytime you start sacrificing in these areas, you lose productivity. If you are forced to reduce your fertilizer cost in order to deal with lower prices for your product, then productivity of that pasture is going to be less. You're not going to grow as much grass.⁵⁵

Another disturbing trend is that many cattle producers are not able to reinvest in their breeding stock. Mary von Forell, who raises breeding bulls in Wyoming, reports:

In terms of the volume of business that we've done over the last few years, that volume has dropped off significantly, about 40%. I am not getting bids from my customers. It used to be that if a rancher had a bull that was four or five years old, the bull would be sold. Many of our [customers] are trying to squeak another couple of years out of their bulls now. The age of their bulls is increasing.⁵⁶

Carl Turner, an Angus breeder in Tennessee, sees the same problem:

My customers for bulls are cow-calf operators producing for the commercial or slaughter market. I know they are suffering financially because I see that they don't have the money they used to have to invest in their genetics.⁵⁷

Veterinarian Max Thornsberry, who is also President of the Missouri Cattlemen's Association, explains the importance of investing in genetics:

[W]hen you combine cross bred calves, [it improves] the ability to withstand disease...." As a result of lack of money to invest in breeding programs, he observes, "The quality of our cattle has suffered significantly."⁵⁸

Herman Schumacher, a director of R-CALF, summarizes the condition of hundreds of cow-calf operators that utilize his livestock auction services in Herried, South Dakota:

Five or six years ago, you had a producer in excellent shape, with a strong breeding program, quality feeding, and first-rate equipment. You had another producer, a good producer, paying attention to his genetics, using good feeding techniques, and buying new model used equipment regularly. You also had the marginal producer.... Now the marginal producer is gone. The good producer has cut his expenses to the core and is replacing no equipment and no longer upgrading his genetics. The excellent producer is cutting back as well, keeping the quality there for now but neither growing nor improving. I don't know of any producer I would describe in excellent shape.⁵⁹

5. *Loss of equity and increased levels of debt.*

As in many agricultural industries, cattle producers borrow against the equity in their operation, or use credit, to finance their expenses over the year, and ideally, paid down that debt with each year's sales. Over a series of cattle cycles, ranch equity is built up. The ranch subsequently might be purchased by a younger generation, or sold outside the family. Either way, the ranch owners provided for their retirement years with a lifetime of work and savings.

This pattern no longer seems to apply. Senator Mike Enzi of Wyoming commented about the situation facing many of his ranching constituents, "As an accountant and a member of the Senate Banking Committee, it's particularly disturbing for me to see the loss of equity ... that was built up over lifetimes and, in some cases, over generations."⁶⁰ Congressman John R. Thune spoke of the need to "restore profitability" to cattle producers in his home state of South Dakota.⁶¹

Based in Iowa, James Schaben, President of the Livestock Marketing Association, buys calves from as far as West Virginia, Kentucky and other parts of the South for resale to local feeders. He says the last few years have seen "the biggest flight" out of the cow-calf sector he has seen in 20 years in the industry:

I've been in discussion with ... folks who tell me they're {going} through the equity in their operations pretty quickly. A lot of folks have to take jobs off the farm, lay off hired help, eliminate health insurance or stop upgrading equipment. In some situations they've been unable to maintain their land. You see all of that in this part of the country, throughout the whole part of the greater Midwest. ...

These people have watched equity erode and erode. {T}hey've mortgaged and remortgaged and mortgaged again. And you're finding the faction that are just throwing up their hands and saying, "...I'm 52 years old. I'm not going to waste everything I have.... I'm going to get out now while I've got some equity left." It's been absolutely horrible.⁶²

For those who wait too long, the equity to support those retirement years disappears. Rancher Tom Palmer in Malad, Idaho shares a common story:

{My wife and I are}getting up to about 60 years of age. We'd like to retire, but there is no way. My son would like to live here. But he can't afford to live here and make nothing. We are working every day. It's kind of hard to justify what you are doing.⁶³

In California, Andy Peek handles sales of 400,000 cattle a year between his livestock auction and video sales business. He provides an overview of producers in the western part of the country:

Some folks are trading equity for debt. ... {W}e've watched a lot of them get so deep in debt that they use up the value of their land just trying to keep the cow

herd together until times get better. They eventually end up losing not only the cow herd but the ranch as well.⁶⁴

Kathleen Kelley has been involved in the crisis in the cattle industry, and in agriculture generally, in her role as Vice Chairman of the National Commission on Small Farms. She explains:

Cattle operations are usually family-owned businesses that incorporate the family's home. Ranchers will go to any length to stay on the ranch and in their home. A protracted period of depressed prices such as we have been experiencing since at least 1995, has pushed a large number of ranchers to the breaking point. Families have tapped out their lending ability at banks. Many have run up substantial credit card debt to keep the ranch operating.⁶⁵

The crisis is not isolated to one or a few regions of the country. A South Dakota banker reports:

From discussions with my colleagues in the {American Bankers Association}, I know that ranchers across the country are using up their equity, increasing their debt loads. It doesn't make any difference whether you are in the Southeast or the Midwest, the story is the same. Never in the history of this country has there been as much demand for Farm Service Agency guarantees....⁶⁶

One agricultural economist wrote in 1997:

Indications are that some other North Dakota beef cow producers are not going to make it through the current economic crunch.... {I}f you bring up the subject, individuals confirm that there are beef cow producers in their home communities under severe financial stress.⁶⁷

6. *Individual stress*

These and other repercussions exert enormous strains on families, marriages, and the emotions and psyches of individuals. South Dakota rancher Nolan Seim offers this devastating look into his community:

Our local vocabulary now includes words that we have very seldom dealt with: domestic abuse, suicide, murder, marriage breakups and nervous breakdowns. The people that I speak on behalf of, for the most part, live at or below the poverty line.⁶⁸

Texas Farmers Union president Wes Sims sees these same tragic consequences:

Ranchers tend to blame themselves when the ranch fails. Many of the ranchers I know have become very depressed. The younger ones are under enormous economic stress. I see what I believe [are] lots of broken homes because of the stress. And ... in the last 12 months I've had two individuals that I've known either all or most of my lifetime, that committed suicide. Neither individual would have been the type of individual you would ever have believed would have done something like that. They were always optimistic or they had good solid characters, solid families. There {were} no other outside problems {except} the stress from the inability to make a living.⁶⁹

From South Dakota, a pastor wrote the International Trade Commission about the concerns of his congregation:

One young rancher's wife called ... asking for prayers concerning financing for her parent's ranch. She began to sob as she explained how serious the situation was. Also, I spent the best part of the day with another rancher.... He shared how that recently he and his wife, working together in the field, broke down and wept because of the pressures on them.⁷⁰

Senator Larry Craig of Idaho testified bluntly before the International Trade Commission: "I must tell you that in my 54 years, I have never sensed the despair that {ranching} families hold today. They see no future."⁷¹ Congressman Earl Pomeroy of North Dakota added, "The physical and emotional exhaustion is plain to see on the face of too many of my constituents...."⁷² In Oregon, Congressman Greg Walden reports, "A combination of longer hours working the ranch, second jobs in distant locations and the financial insecurity that has resulted from tough times has added significant stress to the people in my district."⁷³

In what has traditionally been a family business, one of the sources of stress is for parents who feel they have not provided for their children. Don Stiles, who ranches with his father and a brother in Texas, relates:

I got out of the service in 1971 and came back home. I remember talking to my father. He said, "Remember one thing, son. People will always eat." I had a conversation with him within the last two years and he apologized for getting me back in the business. He said, "I guess I made a mistake." I'm not ready to quit yet, but I'm close.⁷⁴

Richard Nielson, Vice President of the Utah Cattleman's Association, worries about how his son will fare:

My son is planning on taking over the ranch when I retire, if he doesn't starve to death first. He's working two other jobs because ... [he] can't live on what we can pay him. It's a scary thing for a young man. I hope I don't get arrested for child abuse for giving him the ranch.⁷⁵

7. *Adverse effects on communities*

The economic hardship endured by the cattle producers have devastating impacts on the communities in which they live. Dennis Olsen, a community organizer working in eastern Montana, explains:

One thing that's happening in connection with the ranching industry problems is its effects on Main Street. Small towns are feeling it directly. Ranchers are not buying what they used to buy and small businesses are clearly feeling that pain.⁷⁶

According to Senate Democratic Leader Tom Daschle from South Dakota, the effect of depressed prices for cattle and other agricultural products has been "shops closed, entire neigh-

borhoods . . . boarded up, and schools cannot stay open.”⁷⁷ Fellow South Dakota Senator Tim Johnson added, “Membership in rural church and civic organizations fall. It unravels the whole fabric of rural America.”⁷⁸ Senator Conrad Burns of Montana sees the same crisis and asks, “What happens to our tax bases in counties that rely on agriculture? Our public services, our roads, our schools?”⁷⁹ Senator Max Baucus of Montana, Senator Kent Conrad of North Dakota and Senator Craig Thomas of Wyoming also testified before the ITC regarding the adverse effects of lower cattle prices throughout rural communities.⁸⁰

Businesses serving the cattle industry throughout the country are affected. Don Smith reports that his feed store in Laneville, Texas is only open two days a week.⁸¹ Ward Williams, with the Ogala Sioux Livestock and Landowners Association, describes a western wear store in Jackson County, South Dakota, that cannot meet the minimum \$10,000 order requirement for Levis, because local patrons “just don’t have the money to buy clothes.”⁸² Don Craig sees businesses closing around Mena, Arkansas, a concentrated area of cattle production.⁸³ Mary Dora Carlson, the Beef Chairman for Women Involved in Farm Economics in Colorado, says:

It is so hard on the small towns and the locality because equipment sales, the machinery sales, where you buy your tractors or combines or hay balers or whatever, they just aren’t selling like they should be. And so they are suffering, the small towns.⁸⁴

J. Berry Harrison, who represents District 10 in the Oklahoma Senate describes “[t]he denuding of the rural communities” in his district:

Where we are losing businesses, we are almost losing entire communities, entire towns.

...

I have access to the sales tax receipts county by county. This year sales taxes have been down in at least half the cities. It varies according to the different communities. . . . There is no doubt that the counties in my senate district with the highest concentration of cattle production have the worst performance compared with other counties in my area.

...

You even see it in the rural hospitals. We have communities where the hospitals are barely holding on because people going through these hospitals don’t have insurance to pay their bills.⁸⁵

Leland Swenson, President of the National Farmers Union, offers a broad perspective:

One of the biggest impacts can be readily seen as one looks at the rural landscape. . . . The barbed wire fences that used to keep the cattle in are sagging and there are fewer people. A windmill is turning but no longer pumping water. One quarter of a mile down the road is where the last dairy in the country used to be. Nearby are empty Harvestore silos. . . . Working at the feedyard are

people who used to raise their own cattle, but have gone out of business. ... Scanning the horizon further, one can see empty corrals and empty farmsteads. The particular scene is in central Kansas, but it could be in any state that has depended on livestock production.⁸⁶

8. *Ranching families at and below the poverty line*

It is a remarkable irony that the tiny proportion of the U.S. population that feeds the rest of the country is struggling to feed itself. The plight of many of America's producers is perhaps best described by Diana Oldfather, president of the Farmer's Market Cooperative Development Committee in Missouri. The Committee in 1999 looked at the conditions of farmers and ranchers in a nine county area: Phelps, Gasconade, Osage, Pulaski, Crawford, Dent, Texas, Miller and Maries. The survey covered 10,000 farmers and ranchers that run cattle in the area. The review showed that 44 percent of the families live off farm income alone. All of these families were below the poverty line. According to Oldfather:

The 10,000 farmers in all these counties produce \$240 million worth of agricultural sales, yet they are all starving because of the prices they receive....

...

Working on this project is difficult. It's devastating to even talk to and interview these people. They are literally standing at the food bank and welfare lines, they are collecting checks and subsidies from the government. And they are humiliated; they are devastated; they are losing their homes; you see it everywhere. Hunger relief agencies are popping up more and more. And the people just come in droves.⁸⁷

In South Dakota, Nolan Seim observes the same crisis:

Our local food pantry has seen a tremendous increase in need over the last several years. It would seem a bit ironic that those who produce this nation's food cannot afford to feed their own families.

...

We are the forgotten 2% of this nation's population upon whose labor and production 25% of our nation's jobs depend.⁸⁸

Sheila Bickle in Montana speaks to the commitment and drive of this same fraction of the U.S. population:

I don't think anyone owes agriculture a living at all. And I don't think the true producers want to be handed a living. In this country, you have less than 2% of the population able to feed not only our population but a large part of the world. Yet within the last two to three years, I'm seeing that we are becoming serfs of the land.⁸⁹

In sum, a vitally important sector of the American economy and a critical source of protein and nutrition for consumers both here and around the world has producers who do not earn enough from the product they sell to put food on their own dinner table.

IV. Conclusion

A critical part of American agriculture is in crisis. This crisis is destroying large parts of rural America in a period of great national affluence. At the end, U.S. cattlemen and women are not receiving an adequate price for their product. Producers receive a lot less of the retail dollar on beef than was true twenty years ago. Prices received have trailed costs by a large amount. Different groups have different explanations as to what is the cause. What should not be in dispute is that the industry is in crisis and needs urgent action to restore fair prices.



Endnotes

References in many endnotes are to documents of public record contained in the administrative record at the U.S. International Trade Commission in Investigations 701-TA-386 (Final) and 731-TA-812 (Final) on Live Cattle from Canada. The documents can be reviewed on the USITC website at <http://dockets.usitc.gov/eol/public>.

¹ USDA/NASS, Cattle Report, January 1999, at 12.

² USDA/ERS, United States and State Farm Income Data, Table 5, Cash receipts, by commodity groups and selected commodities, United States and States, 1992-98, rev. Aug. 6, 1999, *available online at www.econ.ag.gov/briefing/farmincome/finfidmu.htm*.

³ *Id.*

⁴ *Id.*

⁵ R. Kirchhoff, NASDA, USITC Hearing, Live Cattle from Canada, Tr. at 83.

⁶ Testimony of Robert Miller, President, Intertribal Agriculture Council, Live Cattle from Canada and Mexico, Invs. Nos. 701-TA-386/731-TA-812-813 (Preliminary), Staff Conference Tr. at 37.

⁷ See USITC, *Cattle and Beef: Impact of the NAFTA and Uruguay Round Agreements on U.S. Trade*, Inv. No. 332-371, USITC Pub. 3048 (July 1997) at 2-7.

⁸ ITC Hearing Transcript at 81.

⁹ "Kleckner sights record prices," *Western Livestock Reporter* (July 10, 1996) at 1, 7.

¹⁰ "IBP CEO Says Canadian cattle not imports," *Western Livestock Reporter*, Dec. 18, 1996 at 1,6.

¹¹ C. Lambert, 1996 Final Review.

¹² P.J. Rathwell, "January 1, 1997 Cattle Inventory: The Cycle is Broken," Management Marketing memo 334, available at cherokee.agecon.clemson.edu/mmm334.htm.

¹³ *Cattle-Fax*, January ____, 1998.

¹⁴ Examining the average level of import penetration is likely more valid than examining year-to-year changes in import penetration since the relative impact of an increase or decrease in imports will depend on when it occurs in the cattle cycle.

¹⁵ See Hahn, W., et al., U.S. Beef Industry: Cattle Cycles, Price Spreads and Packer Concentration (ERS Report) Technical Bulletin No. 1874 (April 1999) at 18.

¹⁶ See USITC Pub. 842, *supra*, at 16; USITC, *Live Cattle from Canada*, Inv. No. 731-TA-812 (Final), USITC Pub. 3255 (November 1999) at 10.

¹⁷ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 13.

¹⁸ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 18.

¹⁹ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 71.

²⁰ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 9.

²¹ Live Cattle from Canada, Hearing transcript at 70.

²² ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 34.

- ²³ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 68.
- ²⁴ L. Nixon, American News Writer, "Old Rules No Longer Apply", *Aberdeen American News* (Aug. 5, 1998), page 3B.
- ²⁵ Letter from Richard A. Gephardt, House Democratic Leader, to Chairman Lynn Bragg, US International Trade Commission, dated Oct. 12, 1999 at 1.
- ²⁶ Letter from Carl B. Loop, Jr., President, Florida Farm Bureau Federation, to Chairman Lynn Bragg, US International Trade Commission, dated September 29, 1999 at 2.
- ²⁷ See Petitioner's Prehearing Brief at 34, Table 2 (citing to USDA/ERS Farm Costs and Returns Survey); USITC Pub. 3255, *supra*, at VI-2, VI-3, Tables VI-1 and VI-2.
- ²⁸ Cattle-Fax, "Special Edition, January Cow-Calf Survey Results" (January 1999) at 1.
- ²⁹ Cattle-Fax, "Special Edition, January Cow-Calf Survey Results" (January 1999) at 1.
- ³⁰ Cattle-Fax Update, Issue 13, Vol. XXX1, April 2, 1999 at 1.
- ³¹ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 25.
- ³² ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 49.
- ³³ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 57.
- ³⁴ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 31.
- ³⁵ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 20.
- ³⁶ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 4.
- ³⁷ "Farmers and ranchers say financial disaster around the corner", Agri-News, June 5, 1998 at 18.
- ³⁸ Harlan Hughes, "Times, They Are Tough In North Dakota's Cow Country," The Market Advisor, Oct. 16, 1997, available at: www.ag.ndsu.nodak.edu.
- ³⁹ ITC Investigation; Letter to the Honorable Lynn M. Bragg; dated October 5, 1999; from Senate Minority Leader Thomas A. Daschle (D-SD), Senator Robert C. Byrd (D-WV), Senator Ernest F. Hollings (D-SC), Senator Max Baucus (D-MT), Senator Orrin G. Hatch (R-UT), Senator Conrad Burns (R-MT), Senator Christopher "Kit" S. Bond (R-MO), Senator Kent Conrad (D-ND), Senator Tom Harkin (D-IA), Senator Robert Bennett (R-UT), Senator Ben Nighthorse Campbell (R-CO), Senator Larry Craig (R-ID), Senator Byron L. Dorgan (D-ND), Senator J. Robert Kerrey (D-NE), Senator Herbert H. Kohl (D-WI), Senator Paul Wellstone (D-MN), Senator Spencer Abraham (R-MI), Senator John Ashcroft (R-MO), Senator Michael D. Crapo (R-ID), Senator Michael B. Enzi (R-WY), Senator Tim Johnson (D-SD), Senator Blanche L. Lincoln (D-AR), Senator Gordon Smith (R-OR), and Senator Craig Thomas (R-WY). The following additional Senators wrote separately to the ITC expressing their support for cattle producers in their states: Senator Ron Wyden (D-OR); Senator Mike DeWine (R-OH); Senator Chuck Hagel (R-NE); and Senator Robert G. Torricelli (D-NJ).
- ⁴⁰ ITC Investigation; Letter to the Honorable Lynn M. Bragg; dated October 21, 1999; from House Minority Leader Richard Gephardt (D-MO), Congressman Ralph M. Hall (D-TX), Congressman James V. Hansen (R-UT), Congresswoman Marge Roukema (R-NJ), Congressman Clay Shaw (R-FL), Congressman Nicholas V. Lampson (D-TX), Congressman Wes W. Watkins (R-OK), Congressman Peter A. DeFazio (D-OR), Congresswoman Ileana Ros-Lehtinen (R-FL), Congressman Bill Barrett (R-NE), Congressman Charles T. Canady (R-FL), Congressman Lincoln Diaz-Balart (R-FL), Congressman Doc Hastings (R-WA), Congressman Scott McInnis (R-CO), Congressman John Mica (R-FL), Congressman-at-Large Earl Pomeroy (D-ND), Congresswoman-at-Large Barbara Cubin (R-WY), Congressman George R. Nethercutt, Jr. (R-WA), Congressman Marion Berry (D-AR), Congressman Merrill Cook (R-UT),

Congressman-at-Large Rick A. Hill (D-MT), Congresswoman Darlene Hooley (D-OR), Congressman Jerry Moran (R-KS), Congressman Max A. Sandlin (D-TX), Congressman-at-Large John R. Thune (R-SD), Congressman Jim Turner (D-TX), Congressman Greg Walden (R-OR), Congresswoman Helen Chenoweth Hage (R-ID), Congressman Rush Holt (D-NJ), Congressman Mike Simpson (R-ID), and Congressman Tom Udall (D-NM).

⁴¹ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 46.

⁴² ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 24.

⁴³ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 80.

⁴⁴ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 26.

⁴⁵ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 69.

⁴⁶ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 8.

⁴⁷ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 51.

⁴⁸ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 1.

⁴⁹ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 7.

⁵⁰ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 21.

⁵¹ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 81.

⁵² ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 32.

⁵³ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 41.

⁵⁴ Live Cattle from Canada, Hearing transcript at 55.

⁵⁵ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 44.

⁵⁶ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 13.

⁵⁷ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 15.

⁵⁸ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 29.

⁵⁹ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 2.

⁶⁰ Live Cattle from Canada, Hearing transcript at 33.

⁶¹ Live Cattle from Canada, Hearing transcript at 54.

⁶² ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 78.

⁶³ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 43.

⁶⁴ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 16.

⁶⁵ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 1.

⁶⁶ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 4.

⁶⁷ Harlan Hughes, "Times, They Are Tough In North Dakota's Cow Country," The Market Advisor, Oct. 16, 1997, available at: www.ag.ndsu.nodak.edu.

⁶⁸ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 30.

⁶⁹ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 1, Ex. 16.

⁷⁰ ITC Investigation, Letter to The Honorable Lynn M. Bragg dated October 15, 1999 from Pastor

Robert J. Cranci, Coal Springs Church of God, Meadow, South Dakota.

⁷¹ Live Cattle from Canada, Hearing transcript at 35.

⁷² Live Cattle from Canada, Hearing transcript at 44.

⁷³ Live Cattle from Canada, Hearing transcript at 66-67.

⁷⁴ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 13.

⁷⁵ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 1, Ex. 42.

⁷⁶ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 1, Ex. 36.

⁷⁷ Live Cattle from Canada, Hearing transcript at 14.

⁷⁸ Live Cattle from Canada, Hearing transcript at 41.

⁷⁹ Live Cattle from Canada, Hearing transcript at 23.

⁸⁰ Live Cattle from Canada, Hearing transcript at 19 (Testimony of Senator Baucus: "[I]t is critical to note that any negative impact on the industry as a result of unfair trade practices has the potential of dealing a devastating blow to the industry. And when I sa[y] industry, I mean the agricultural producer, the local businesses ... the rural community at large...."); 30-31 (Testimony of Senator Conrad: "[W]e can anticipate losing 30 percent of the ranchers in my state in the next 18 months if there is a failure to act. That is the hard reality of what we confront. That would have devastating consequences for my state."); and 27 (Testimony of Senator Thomas: "I urge you to fully consider the harm that has been experienced by Wyoming and the nation's cattle producers. It is vital to our economy.")

⁸¹ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 1, Ex. 27.

⁸² ITC Investigation, Petitioners' Prehearing Br., App. Vol. 1, Ex. 37.

⁸³ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 15.

⁸⁴ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 1, Ex. 48.

⁸⁵ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 1, Ex. 62.

⁸⁶ ITC Investigation; Statement of Leland Swenson, President, National Farmers Union; presented to the International Trade Commission, October 6, 1999.

⁸⁷ ITC Investigation, Petitioners' Prehearing Br., App. Vol. 2, Ex. 19.

⁸⁸ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 30.

⁸⁹ ITC Investigation, Petitioners' Prehearing Br. App. Vol. 2, Ex. 59.

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