COOL and Policy Issues affecting the U.S. Cattle Industry

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Country of Origin Labeling

- **Part of 2002 Farm Bill**
- **Beef, Pork and Lamb**
  - **Muscle meat**
  - **Ground meat**
- **Other items not of concern to us**
- **Excludes traceability of animal to farm of origin**

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Country of Origin Labeling

- **"United States country of origin" label can be used only if product is from an animal that was**
  - **Exclusively born,**
  - **Raised, and**
  - **Slaughtered in the U.S.**

Country of Origin Labeling

- **Possible implementation mechanisms**
  - **Third party verification**
    - **Significant paperwork**
  - **Self-verification at each step**
    - **Similar to income tax**
  - **Presumption of U.S. origin rule**
    - **Most imported animals already identified**
    - **Little additional paperwork**

Country of Origin Labeling

- **Benefits of COOL**
  - **Increases transparency between buyer and seller**
  - **Buyer can make an informed decision**
  - **U.S. beef may command higher price**
  - **Would have identified non-U.S. beef after Canadian BSE incident**

Mad Cow Disease - BSE

- **Trade issues**
  - **U.S. shut off border after Canadian incident last year**
  - **When BSE cow was found in US in December world reaction immediate – followed US reaction to Canada**
  - **Initial costs to US cattle industry may run into the billions**
  - **What is appropriate reaction?**

Mad Cow Disease - BSE

- **Animal feed**
  - **August 1997 - ban feeding ruminants feed made from ruminant byproducts**
  - **Did not eliminate using ruminant byproducts in other animal feed**
  - **Potential for cross contamination**
    - **Chicken litter**
    - **Cleanout processes**

Mad Cow Disease - BSE

- **Downers**
  - **Banned from human food system**
  - **How will they be tested and where?**
  - **Should all downers be tested?**
  - **Should there be a distinction between lame and sick animals?**
  - **Should they have been banned before this?**

Mad Cow Disease - BSE

- **Testing**
  - **Should testing be kept at current levels?**
  - **Should all cattle be tested as in Europe?**
  - **Some consumer groups are calling for testing of all animals over 20 months of age**
  - **Will meat from each animal be kept separately until test results are in?**
  - **How much testing at each facility?**

Mad Cow Disease - BSE

- **Animal identification**
  - **Look at earlier resistance to animal ID and see what policy lessons might be learned**
  - **Allow for complete traceability of animal from birth to slaughter**
  - **Should it be combined with COOL to extend traceability to retail cooler?**
  - **Who bears the costs?**

Mad Cow Disease - BSE

- **Decision making process**
  - **Backtracking by USDA on previous policy**
  - **Were the critics really all that hysterical?**
  - **Is sound science the only basis of decision making?**
  - **When do we use “abundance of caution?”**
  - **How do we factor in risk?**

Packer Ownership

- **Packer concentration**
  - **Fewer options for those who sell**
  - **Price discovery becoming more difficult**
  - **Ban on packer ownership**
    - **Need new legislation?**
    - **Or enforce what is already on the books?**
  - **Impact of vertical integration in cattle industry**

Beef Checkoff

- **Conflicting rulings as to constitutionality of legislation**
- **Will go before Supreme Court**
- **Have the programs helped all producers or increased the power of larger operators and packers?**
- **Is there an acceptable alternative?**
  - **Refund provision?**

Foot and Mouth Disease is a potential Bioterrorism agent

- Unlike some agents such as anthrax, foot and mouth disease is easy to obtain, spreads quickly and is difficult to control.
- The introduction of foot and mouth disease would have a significant psychological impact on the U.S. population which has not seen the disease since 1929.
- The **economic impact** of the disease on the livestock industry would be significant.
- The non-terrorist outbreak of foot and mouth disease in Great Britain provides a starting point to see possible consequences of a terrorist using this disease against the United States.

Great Britain and Foot and Mouth Disease

- Most recent epidemic began February 20, 2001
- 43 farms were infected in the three weeks before it was detected
- 2030 outbreaks before the epidemic was contained
- Over 8 million animals killed
- Lengthened the dearth of meat exports
- Interfered with livestock movement and markets in Great Britain
- Additional impact on tourism and rural economy
- It was a year after the last outbreak that Great Britain was declared FMD-free

Hypothetical target: Kansas, Oklahoma, and Texas

25.4 million head of cattle are raised in the three states of Kansas, Oklahoma and Texas

Hypothetical target: Kansas, Oklahoma, and Texas

- As a case study, we will look at what might happen if a terrorist targeted feed lots and feeder operations in the three state area.

- The movement of cattle, trucks and people in that area is significant, greatly aiding the potential spread of the disease beyond the original infected sites before it is detected.

First impact: U.S. Export markets

- **Like the United States, many other nations only allow imports of meat and meat products from countries that are FMD-Free.**
- **The loss of export markets could exceed** *$5 Billion*.

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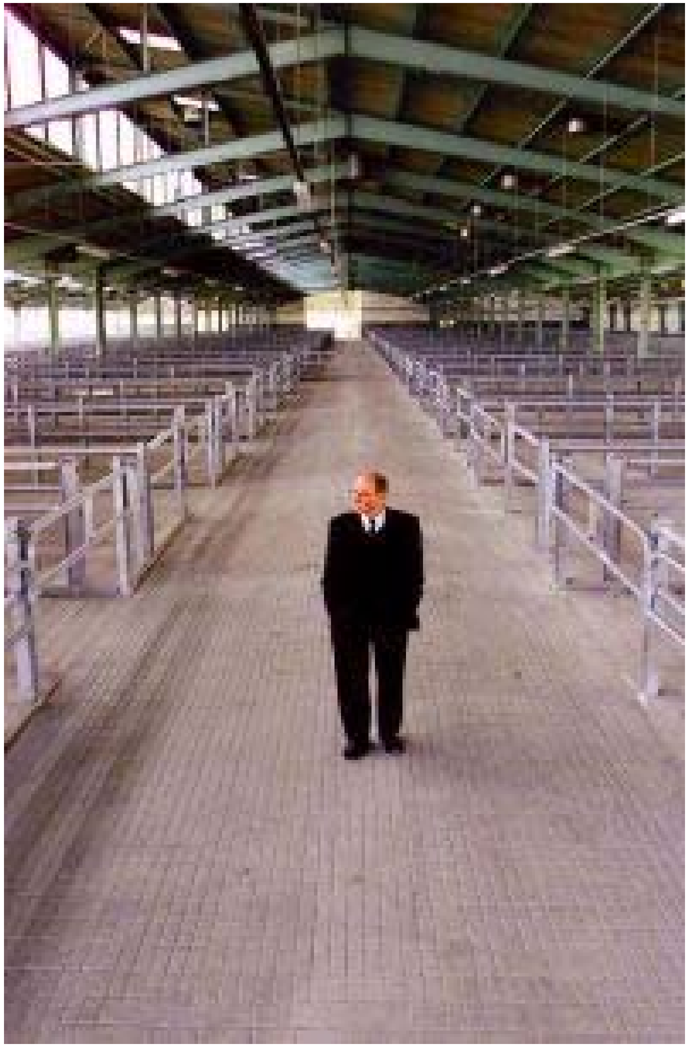
Control Mechanisms for FMD

- **Two choices: vaccination and slaughter**
- **Vaccination is effective but has potential impact on exports.**
- **Great Britain chose to slaughter infected and potentially infected animals.**
- **If the U.S. chose to slaughter animals the losses might run to ¼ of the cattle inventories in the three state area.**
- **Not included is the slaughter of hogs, sheep and other potential targets of the disease.**

Impact on Producers

- **Cattle inventory could be reduced by 6.35 million head**
- **Many producers would be left with empty barns for several weeks/months**



Impact of Slaughter on Livestock Sector

- **At an indemnity of $600 per head, the cost would be $3.81 billion.**
- **Adding the $5 billion loss of exports, total first year direct losses to livestock produces would total $8.81 billion**

Impact of Slaughter on Livestock Sector

- **Potential price drop as the result of reduced domestic demand**
- **Loss in marketing options and extra costs for non-affected producers**
- **Interfere with transportation and slaughter timing of non-infected cattle and possible pork and sheep as well.**

Impact of Slaughter on Livestock Sector

- **The estimated economic impact on Kansas alone would be a reduction in output from the meatpacking industry of $3.8 billion**
- **Total employment loss would be in the thousands in Kansas alone**

Impact of Slaughter on Corn Market

- **6.35 million cattle slaughtered.**
- **Assume 40 bushels of corn per head to finish**
- **A slaughter of that size would reduce demand by 250 million bushels.**
- **It would increase stocks-to-use ratio by 2.5%**
- **Resulting in a 7¢ decrease in season average corn price.**
- **Loss of $670 million in value of corn production**

Impact of Slaughter on Consumer Sector

- **Reduced beef/redmeat availability in the market**
- **Secondary impact on McDonald's, Wendys' and other restaurants**
- **Even though FMD is not contagious by humans, many consumers might refuse to purchase and eat "diseased meat" or even meat they thought might be diseased**

Summary

- **One attack set on one portion of food supply in one part of country**
- **Immediate direct impact: approaching $10 billion ($3.8+0.7+5.0; equivalent to losing one-fourth the value of all net farm income)**
- **Total direct and indirect impacts easily could be tens of billions of dollars (approach or exceed the equivalent of the total value of net farm income)**

Historically—there have been Two Major Components of Farm\Commodity Policy

- Policy of Plenty: Ongoing public support to expand agricultural productive capacity through research, extension and other means

- Policy to Manage Plenty: Mechanisms to manage productive capacity and to compensate farmers for consumers' accrued benefits of productivity gains

What is the Problem?

- Technology expands output faster than population and exports expand demand
- Market failure: lower prices do not solve the problem
- No self-correction on the demand side
  - People will pay almost anything when food is short
  - Low prices do not induce people to eat more
- No self-correction on the supply side
  - Farmers tend to produce on all their acreage
  - Few alternate uses for most cropland

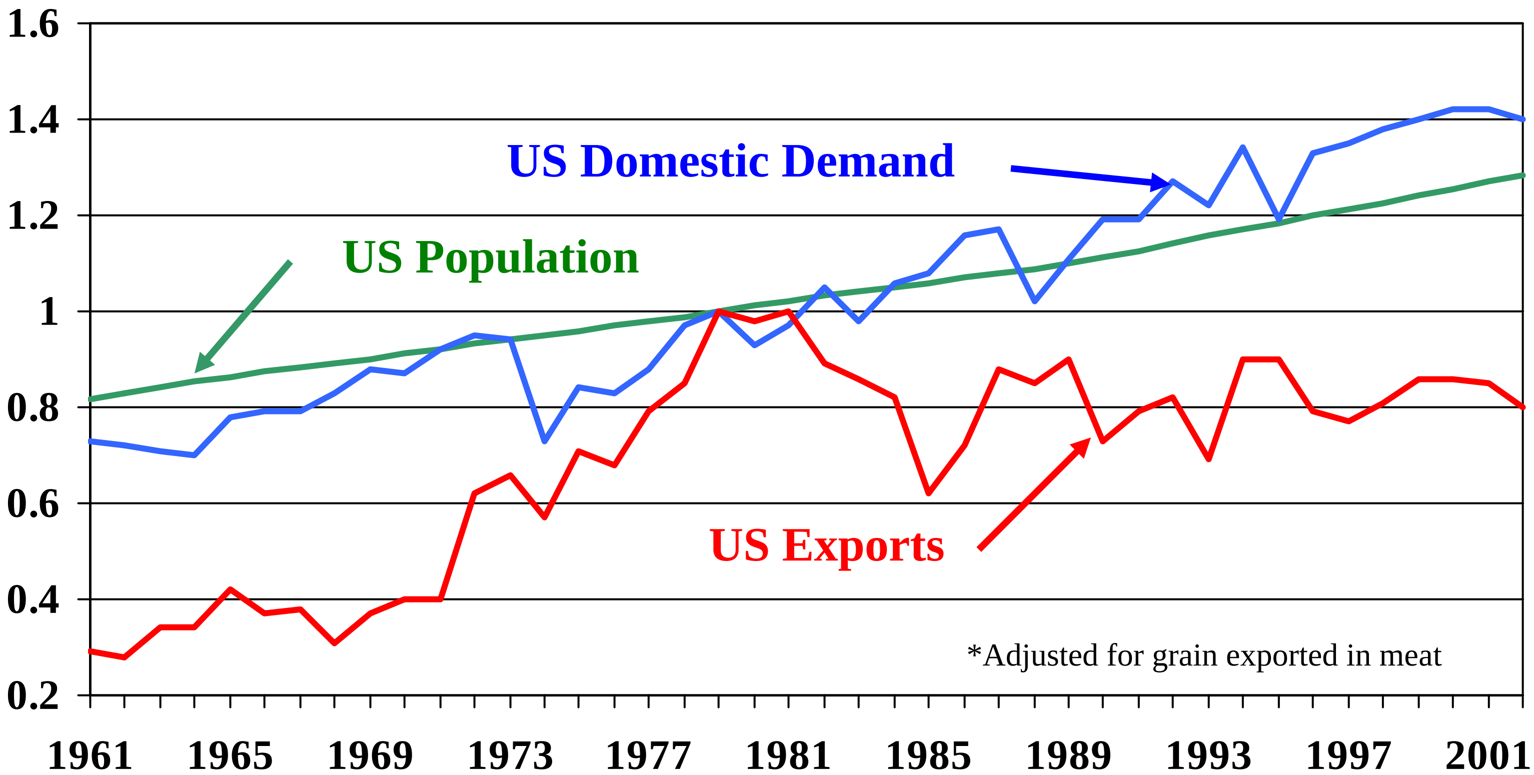
Traditional Policy Levers

- Government Stock Management
  - Loan rate/support price to set a floor price.
  - Limit price increases by Gov't & FOR released stocks
- Restrict supply
  - Short-term set-aside
  - Long-term Conservation Reserve Programs
- Expand demand
  - Domestic
  - Foreign
- Government payments
  - Coupled to production
  - Decoupled

Points to Ponder

- Since 1985 farm policy has been driven by:
  - Exports, exports, exports (Those are OUR exports! And we'll do ANYTHING to get them back and to make them grow.)
  - Agribusinesses' lobbying ability (We MUST lower prices and maximize output. "If we build it, they will come.")
- Exports have not delivered after two decades of promises

Exports Did Not Deliver



Index of US Population, US Demand* for 8 Crops and US Exports* of 8 Crops 1979=100

- Exports down to flat for last two decades
- Domestic demand increases steadily
- Since 1979, exports have NOT been the driving force in US crop markets

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  - Agribusinesses' lobbying ability (We MUST lower prices and maximize output. "If we build it, they will come.")
- Exports have not delivered after two decades of promises
- Agribusiness got everything they wanted (except elimination of the CRP)
  - No bottoms or tops on prices (Increases the value of superior information.)
  - Elimination of annual acreage reduction programs (Volume is everything.)
- Farmers relinquished the farm policy agenda to agribusiness and those that believe agriculture will self-correct with unfettered free markets

Recent Policy Choices

- 1996 & 2002 Farm Bills failed to recognize that:
  - Timely self-correction does not take place in agriculture
    - Aggregate demand of major crops responds very little to price
    - Aggregate supply of major crops responds very little to price
  - Crop exports are NOT going to provide the ever-increasing rate of growth agriculture needs to be prosperous on its own
- The policy choice was to:
  - reject these realities
  - allow prices to plummet
  - write very large checks to cover losses; which, in turn, has raised all kinds of distributional issues including the possibility of payment limitations

Policy Premises

- U.S. and world output will continue to outpace demand
- Aggregate crop agriculture does not self-correct on its own in a timely manner (assuming otherwise is denying the obvious)
  - Total acreage changes too slowly to be of help
  - Consumers will never oscillate between 1 and 5 meals a day depending on prices
- Exports
  - Competitors are as committed to producing for international markets as we are
  - Import customers view food as a national security issue and abhor increased dependence

Policy Implications?

- Farmers have been sold a bill of goods on the elimination of acreage reduction programs
  - Trends in competitors' acreage and production were unaffected by U.S. elimination of set aside
  - Elimination of set-aside was good for agribusiness but not good for farmers' market income
  - EVERY other non-farm industry watches demand when deciding output levels
- Storage programs weren't as expensive as we thought (millions compared to billions)

Challenges of the Day

- U.S. budget deficit
  - Payment limitations
  - Reduce all farm payment outlays
- Free trade challenges
  - Call for end of subsidies
  - Grain and livestock issues

Free Trade Challenges

- Call for end of subsidies
  - WTO, Free Trade Area of Americas, G20, and G90
- Grain trade
  - Imports – Wilmington Bulk
  - China
    - Corn export competitor
    - Soybean self-sufficiency
  - Brazil
    - Low land costs
    - 400 million acres available for crop production

Free Trade Challenges

- Livestock trade
  - Brazil
    - Meats
      - Poultry, Pork, Beef –particularly box beef
    - With frost free areas include winter pasturage in crop rotation regimen
    - Switch exports
      - from high-bulk/low-value seeds
      - to low-bulk/high value meats

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