

ISSUES AND OPPORTUNITIES

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DIVISIONS AND NEW USDA RULE TOP ISSUES

- **U.S. has painful spat over beef checkoff controls**
- **Fringe producer groups make mischief in Australia and the U.S.**
- **USDA proposes a rule that would set the U.S. livestock industry back 20 years**
- **Justifies rule through claims of a few disaffected producers. Vast majority of producers oppose it**
- **Shrinking U.S. cattle herd – challenge for packers and further reduces beef consumption**
- **Australian exporters to U.S. deal with weak US dollar and the cost of more *E. coli* testing**

SUPPLY SHORTAGE MEANS OPPORTUNITIES

- **Tight global beef supplies coincide with improved demand as countries recover from recession**
- **Means higher beef and by-product prices**
- **Cattle numbers aren't likely to grow**
- **U.S. faces further decline in beef supplies in 2011**
- **EU will import even more beef**
- **Asian markets continue to support Australian and U.S. beef imports. China looms as larger buyer**

CHECKOFF SPAT REVEALS OLD WOUNDS

- **NCBA governance plan invokes concerns over separation of its policy and promotion work**
- **Pits NCBA and federation of state beef councils against CBB, which oversees collection of checkoff dollars. NCBA is checkoff's largest contractor and federation is affiliated to it**
- **CBB exec. committee reveals audit irregularities and calls for complete NCBA-federation separation**
- **Full CBB overrules own committee**
- **Rift reveals wounds from 1996 NCA-Meat Board merger**
- **Even harder now to double checkoff to \$2 per head**

FRINGE GROUPS PUSH DISTORTED AGENDAS

- **ABA and R-CALF use misinformation and scare tactics to push populist agendas**
- **ABA forces Australian government to abandon science in BSE-country imports**
- **R-CALF disparages U.S. BSE safeguards**
- **Strongly supports USDA's proposed rule on livestock/poultry marketing practices**
- **Both groups lose credibility though as cattle markets keep improving**

USDA RULE SEEKS TO REMEDY “UNFAIR” BUYING

- **Would define “unfair” practices, undue buying preferences by packers. Would make it easier for producers to sue packers**
- **Would force packers to post sample contracts, justify differential pricing**
- **Would prohibit a person from buying for more than one packer**
- **Would ban packer-to-packer livestock sales**
- **Would prohibit contracting of livestock more than 14 days out**

RULE THREATENS MARKETING LINKS

- **Rule threatens marketing agreements –60% of grain-fed cattle sold in this way**
- **MAs helped arrest 20-year decline in beef demand, made beef more consistent**
- **MAs reward producers for value. USPB members got \$21.5M in premiums in 2009**
- **Packers might abandon MAs, go back to buying cattle on average prices**
- **Would penalize producers and consumers**

RULE'S AUTHORS SHOW BLATANT BIAS

- **Rule's main author is GIPSA head Dudley Butler. Spent years suing poultry firms. Member of R-CALF and OCM, longtime packer opponents**
- **Rule makes end round around case law, is contrary to express intent of Congress (which ordered the rule in 2008 Farm Bill)**
- **All mainstream producer groups oppose rule, now in comment period. Will USDA rewrite it?**
- **Another proposed federal (EPA) rule on dust would cripple farming operations**

U.S. CATTLE HERD KEEPS SHRINKING

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
96.035	94.521	93.701	92.0

- Numbers down 2.3M in 2 years, 4.0M in 3 years (4.2%)
- Producers show no signs of expanding their herds
- Feedlot sector has 30-40% over-capacity. Competition for young cattle will jeopardize profits
- Packers manage margins well – will operate even less on Saturdays

RECORD PACKER PROFITS

- **Tyson Beef: \$214M in operating income in fiscal 2009, \$421M in first 9 months of fiscal 2010 – a 4.9% margin**
- **JBS: \$399M EBITDA in 2009, up 39% from 2008. EBITDA of \$195M in FY 10 QTR2, 5.9% margin**
- **National: Record \$143M in net income in 2009, record \$170M in first nine months of 2010**
- **Cargill: Similar per head margins to National**
- **Teys Bros. has A\$30M profit in latest year, pays A\$20M dividend to shareholders**

STRONG A\$, MORE U.S. BEEF HURT AUST. EXPORTS

- **Australian exports 2009-2010 fell 7% to 898,960 mt**
- **Causes: lower production, high A\$, more U.S. competition and sluggish export demand, says MLA**
- **A\$ 2009-2010 was 18% higher than previous year, averaging 88.2 US cents**
- **Meant 90CL beef returns in U.S. were 6% high in US c/lb terms but 11% lower when converted to A\$**
- **U.S. exports in calendar 2009 = 897,376 mt, down 9% from 2008**
- **But U.S. exports up 25% first 7 months of 2010. Will be up at least 13% this year on last, says USDA**

***E. COLI* TESTS ALSO HURT EXPORTS TO U.S.**

- **Australian exports to U.S. in 2009-2010 fell 25% to 210,514 mt, the smallest shipments since 1996-97**
- **Causes: tight manufacturing beef supplies, high A\$, more attractive prices elsewhere, large U.S. cow beef supplies and sluggish U.S. demand, says MLA**
- **ALSO: U.S. testing for *E. coli* 0157:H7 at port of entry. Creates added cost and risk for exporters**
- **New U.S. Customs data requirements are another impediment**

***E. COLI* REMAINS TOP FOOD SAFETY ISSUE**

- **Testing imports reflects ongoing focus from media, consumer groups and politicians on *E. coli*-related illnesses (70,000 per year) and recalls**
- **Several proposed “food safety” bills are pending**
- **USDA now virtually mandates test-and-hold requirement. Will prevent 70% of recalls**
- **USDA might declare any beef item “adulterated” if found with *E. coli* 0157:H7**
- **USDA might require testing for six other strains**

DEMAND OPPORTUNITIES

POSITIVE GDP GROWTH

GDP Forecasts	2009	2010	2011
USA	- 2.6	+ 3.0	+2.8
Canada	- 2.2	+ 3.5	+2.9
Mexico	- 7.1	+ 4.6	+3.5
Brazil	- 1.0	+ 7.8	+4.5
Japan	- 5.5	+ 3.2	+1.6
South Korea	- 1.6	+ 5.9	+4.0
China	+ 8.1	+ 9.9	+8.3
Australia	+ 0.5	+ 3.1	+3.3

Economist, August 21, 2010

GLOBAL HERD SHRINKS

	2008	2009	2010
• INDIA	281.700	281.400	281.100
• BRAZIL	175.437	179.540	185.325
• CHINA	105.948	105.722	104.916
• EU-27	89.043	88.837	88.400
• ARGENTINA	55.662	54.260	49.858
• AUSTRALIA	28.040	27.321	27.007
• MEXICO	22.850	22.666	22.092
• GLOBAL	999.184M	987.979	967.589 – 2.1%
• Production	58.105M mt	57.017	56.625 – 0.7%

Source: USDA-FAS, April 2010

LESS BEEF IN U.S.

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Production (billion lbs)	26.068	25.747	25.237
Exports	1.935	2.193	2.070
Imports	2.626	2.603	2.785
Beef disappearance	61.1	59.1	58.1
Red meat/poultry (lbs per capita)	210.6	206.6	207.7

- Beef disappearance in 2011 will be lowest in at least 60 years
- Will boost domestic and imported muscle meat prices
- U.S. cow slaughter will decline sharply – will add strength to imported 90CL prices
- Chicken will increasingly fill protein hole in U.S.

GLOBAL BEEF SHORTAGE LOOMS

- **EU-27 became net importer in 2003 and will import even more beef. So will Russia**
- **South Korea wants more beef. Australian exports there 2009-2010 were up 10%. U.S. exports were down in 2009 but up 100% in first half of 2010**
- **South East Asia region: Australian exports up 20% in 2009-2010. But severe cutback to Indonesia looms. Japanese demand is weak – 2009-2010 Australian exports down 19% in value**
- **China will likely import more and more beef**