

Testimony of
Mr. Bob Mack

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Thank you Senator and committee members for the opportunity to address competition in the livestock industry and how it affects myself and my friends and neighbors.

I operate my family's farms and have spent most of my life raising crops and livestock. Our farrow to finish hog operation, cow herd and feedlot allowed us to add value to our pasture, grain and hay and to more fully utilize our equipment and labor.

When faced with the loss of the largest hog packing plant in the state of South Dakota, Smithfield was convinced to purchase the plant after the state contributed millions of dollars in incentives. Not long after this purchase Smithfield bought the only other pork processor in the state and shut them down. This eliminated the only competition we had locally and took at least \$5 off the value of every hog we sold. The rapid consolidation and subsequent collapse of the hog market nation wide forced 9 out of 10 hog producers in my area out of business and led us to focus more on our cow herd and feedlot operation.

At one time by working with several other feedlots we could receive bids on a regular basis from 3 or 4 packers and could get occasional bids from a couple of other packers depending on the type of cattle we had for sale and if they were in the market. Today we can get regular bids from 2 packers with occasional bids from a couple more. It also means shipping cattle as far as 700 miles to get them slaughtered. Many smaller farmer feeders are lucky if they have one packer they can get a bid from. One bid from one packer isn't competition! If we get to the point we have only one bidder we will probably be out of business. In these cases the only options are to try to get some kind of a marketing agreement, get into an alliance, or to go through a salebarn. There can be significant risks and problems with each of these options. To deliver under a marketing agreement usually means delivering cattle to be killed on a grid with the packer establishing the base price some time later. Selling through an alliance can mean buying kill slots, having to schedule cattle sometimes months in advance, not being able to get slots and not knowing what the base price is for the alliance's grid when the cattle are committed. The base prices for most cattle sold on grids or through alliances are usually established by the cattle that have been traded in the cash market. Many of these cash cattle are of lower quality than cattle sold through alliances or on a grid. Selling through salebarns has become more popular for many farmer feeders that are unable to get packer bids in the country. One of the problems with this method of selling cattle is that most fed cattle packers don't send their buyers into salebarns in some parts of the country.

We have sold cattle on forward contracts, hanging, live, through alliances, through salebarns and on grids. We have usually tried to avoid selling cattle that don't have a firm base price established at the time of sale. Part of the problem is that in addition to having less buyers available the rules keep changing. Buyers that used to buy hanging now want us to sell on a grid. One packer that

we had sold cattle to on a negotiated grid now refuses to buy cattle on that same grid unless we contract the cattle to them months in advance. Some of the grids and alliances we use have changed their specifications. All of the grids have more discounts than premiums built into them. The offspring of cows currently being bred will not reach market for 2 to 3 years. How is the cow-calf producer supposed to hit a target 2 to 3 years into the future when the rules and the players are changing constantly? Ultimately losses inflicted on cattlefeeders are passed on down to the ranchers that raise the calves. Those ranchers have no where to pass their losses on to.

What can be done to ensure competitive and open markets in the livestock industry?

Forbid large packers from owning and feeding their own livestock. The livestock they own and feed are used to leverage influence over feedlots and to leverage control over cattle they don't even own. I would like to commend Senators Johnson and Grassley for taking the lead in addressing this issue.

Restrict captive supplies by requiring forward contract, formula and marketing agreement cattle to have a base price established at the time they are committed to the packer. In addition require that forward contracts are offered in an open public manner to any producers that choose to take advantage of them. I believe Senator Enzi addresses this with his Senate Bill 2021.

Revise the confidentiality provisions in Mandatory Price Reporting to provide additional information and investigate the information collected by the program but never made public, for competition and anti-trust violations.

Tougher restrictions on future agribusiness mergers. The packing industry is the one of the most concentrated industries in the country. Because they purchase a perishable commodity (fed livestock) they are able to exert a higher degree of influence than concentrated industries dealing in non-perishable commodities. Give equal weight to the affect mergers will have on suppliers to the industry instead of just the effect on consumers of the industry.

When Packers and Stockyard violations occur, involve the injured party in any negotiations or plea bargains and require that injured parties are compensated for the damages caused by the violation.

Require that investigations of the industry are done by economists and investigators that do not have any potential conflict of interest in that they have worked for the same companies they are investigating.

Review what effect the rapid consolidation of the food retailing sector is having on prices paid to producers and charged to consumers. Are "slotting fees" and other methods being used to prevent smaller packers and producer owned alliances from getting access to consumers? Why aren't retail prices reflecting the prices being paid to producers? Producers have always relied on lower retail prices to help clear out surplus production. This no longer seems to be happening.

Cattlemen have an innate ability to look at an animal that appears healthy to a layman and know that that animal is off feed, sick or has some other problem. This ability is part intuition, part

experience. It's something they feel in their gut. They know if they don't correct the problem that the animal will probably die. They have this same feeling in their gut when looking at what is happening in the packing industry. Without strong enforcement of the laws already on the books and steps to assure that the livestock industry maintains open competitive markets, they know the livestock industry for independent producers will die.