

Testimony of

# Steven Hunt

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Statement of Steven D. Hunt  
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Subcommittee on Antitrust, Competition Policy and Consumer Rights

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Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you and discuss JBS's proposed acquisition of National Beef Packing Co. (National Beef) from U.S. Premium Beef (USPB). I am the CEO of USPB and Chairman of National Beef, but perhaps most importantly, I have my roots in cattle production. My family has been active in cattle production for five generations. I speak to you today on behalf of USPB owners and producers, which on March 14 voted overwhelmingly in favor of proceeding with the JBS transaction. They believe that the livelihood of not only every USPB producer owner, but all cattle producers is dependant upon the health and growth of the beef industry and this is why we support JBS's vision.

USPB is a one of kind cattle producer owned beef processing company, formed to uniquely link cattle producers with consumers through ownership in processing. As a result, we have been able to design a supply of cattle specifically bred and managed to meet consumer preferences, which results in premiums back to the producer and our processing company, National Beef.

USPB was formed in 1997. During our short existence we have evolved from a minority owner of National Beef to the majority owner. In addition to processing customer cattle purchased throughout the U.S., we have processed over 6.2 million head of our members' cattle and paid out over \$117 million in cash premiums to our producer members, and paid an additional \$87 million in cash dividends as a result of our ownership in processing. In other words, our producer owners have become beef processors through U.S. Premium Beef and have been able to realize the financial rewards from the ranch to the consumer's plate.

We have been successful by guaranteeing value based pricing-paying premiums for high quality grading cattle. Additionally, we also distribute carcass data on every single animal at no cost to producers so they can better understand what they are producing and thus focus their efforts on designing high quality cattle. Simply put, our company gives producers the economic incentive to deliver more valuable, consumer preferred beef.

Since our formation, we have been working to diversify our business through geographical expansion, acquisition of other protein businesses and pursuit of businesses in markets outside the United States. This has been essential in managing the risk our owners realize through their investment in USPB. This is a strategy that our producers pursue on the farm and that other businesses employ to successfully manage risk and to compete with very strong, diversified companies during challenging points of the industry cycles.

A prime example of the need to diversify is what has plagued the beef industry since the discovery of a single case of BSE in Washington in 2003, which resulted in the loss of lucrative export markets. While beef has experienced reduced profitability during this time, other proteins, such as pork have benefited in part from replacing beef in the export markets.

Since the loss of the export market, the U.S. beef industry has experienced a "perfect storm" of events that have created the worst processing margins in recent history. These events include a reduction in the supply of fed cattle as

a result of severe drought and the extraordinary increase in the cost of inputs, particularly feed grains such as corn. Instead of the anticipated growth of the cattle herd as predicted several years ago, we now have fewer market cattle available with the latest projections calling for further declines during the rest of this decade. This has been especially problematic for the beef processing and cattle feeding industries as the substantial investment in assets have become under utilized thus decreasing efficiency and increasing costs.

These losses and prospects of a declining herd size have left the beef industry in a position where few are willing to invest. In 2006, Hicks Muse announced it was selling its meat processing company, Swift. Smithfield Foods has also made the decision to exit beef processing. Whereas prior to 2003, our company was routinely approached by willing investors and partners, today we witness very few, if any, parties interested in investing in the U.S. beef processing industry, except one.

JBS S.A., a family owned business based in Sao Paulo, Brazil with U.S. headquarters in Greeley, CO, is willing to invest over \$3 billion dollars in the U.S. meat processing industry because they believe that by putting our companies together, we can create more value and increase efficiencies, not only necessary to sustain our industry, but return it to a growth industry.

More importantly, JBS has the same vision for industry growth and success as we do. The proof is in the pudding; since acquiring Swift last year, JBS has expanded production and purchased more cattle. They also have looked for ways to expand demand for U.S. beef, by pushing into new international markets using their unique perspective to introduce U.S. beef to new customers. Moreover, our due diligence made clear that JBS has made concerted efforts to improve the efficiency of the Swift assets they acquired from Hicks Muse. I am confident that we can help each other become even more efficient while we seek to grow the business together.

For USPB, this partnership with JBS is a natural decision that enables our producer owners to broaden our investment into a well diversified, multi-protein world leader in value added products, while at the same time maintaining our founding principles of value based pricing and dissemination of carcass data.

JBS values what we have accomplished at USPB/National Beef and wants to build upon our value added strategy to help bring more value to producers so they can expand production. After the completion of our proposed transaction with JBS, more producers will have the ability to market through our unique producer-owned company by delivering cattle at more plant locations thus reducing freight costs and improving efficiencies for producers and our processing company. Our confidence in JBS's dedication to expanding demand for U.S. beef through this strategy is exemplified by our agreement to become JBS shareholders.

For those who have doubts about this transaction, I have one question: If not JBS, then who is willing to step up and reinvest in the US beef industry with the resources and vision necessary to put the industry back on its feet?

The farmers and rancher owners of USPB have a right and obligation to pursue sound business strategies employed by our competitors, recommended by our universities and applauded by Congress. Those include value-added strategies through vertical integration from the bottom up, business product diversification to lay off risk and foreign investment to participate in the growing consumer global marketplace.

As you know, the Department of Justice is reviewing the proposed transaction. I am confident its review will be thorough and that when complete will lead the DOJ to recognize the benefits of the transaction. The beef processing industry is highly competitive, with Cargill, Tyson, JBS and a number of other processors remaining to compete fiercely for cattle and to sell beef to our sophisticated customer base. The transaction will only enhance this competition, by allowing the combined company to become more efficient and providing a strong platform for growth in the future.

I would like my full statement submitted for the record.

Thank you for this opportunity to provide testimony today. I will be happy to respond to questions.

