

SENATOR CORY A. BOOKER

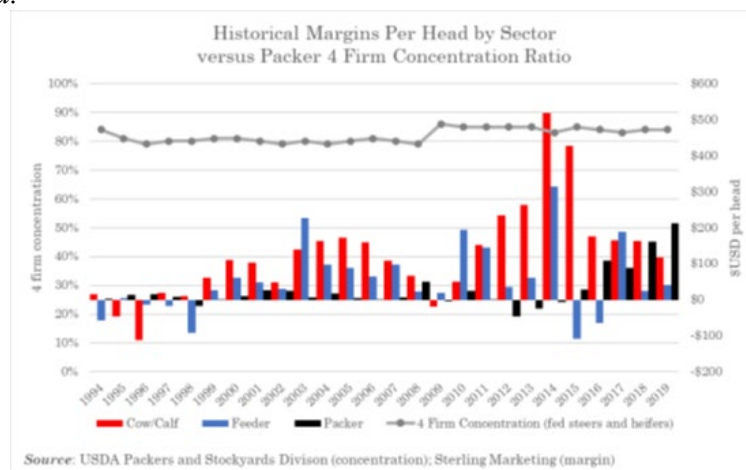
Mr. Shane Miller

1. In 2019 there was a fire at a major packing plant. In 2020 we were collectively hit by the COVID pandemic. In 2021 a cyberattack against JBS took processing facilities off-line. Each of these unanticipated “black swan” events presented a different type of shock to the system, yet in each instance the outcome was the same: consumers paid more for meat, ranchers were paid less for their cattle, and the large meatpacking companies’ profits increased. It appears that the system is rigged: all of the risk is borne by consumers and cattle ranchers, and regardless of the cause of any disruption the meatpacking companies bear none of the risk and suffer none of the harm.
 - a. Can you explain how this is a fair and just system?

The performance of cattle and beef markets, and all protein markets, in the United States are linked to the laws of supply and demand. When supply decreases relative to demand, due to an unexpected event or cyclical trends, prices increase. Conversely, prices fall when supply increases relative to demand. These fundamental economic principles apply to the consumer, producer, and processor alike. In the cases of the 2019 fire and the COVID pandemic (the two events cited that impacted Tyson), processing capacity in the beef industry was reduced for periods of time, while the availability of cattle and consumer demand was not impacted.

As shown in the USDA data chart below, there are periods in which cattle supply has been low relative to both processor need and consumer demand. In those cases, processors pay more for cattle and their profit margins are lower.

Prices resulting from market conditions during the pandemic are not representative of historical trends nor future expectations. In fact, the margins obtained by ranchers and feeders exceeded those earned by processors in nearly every year prior to the pandemic. This is true even though the concentration in the industry has remained relatively stable for the past thirty years. The chart below illustrates this history. As reflected in Tyson’s FY22 third quarter earnings statement, beef margins have already started to decrease from historically high levels as we emerge from the pandemic. Paired with a decline in the total U.S. herd size, going forward, we expect margins for producers and packers to continue to normalize in response to the forces of supply and demand.



2. Meatpacking workers in the United States are significantly more likely to suffer from serious injuries, including burns, head trauma, fractures, and amputations, than the average American worker. In fact, this fast-paced work results in, on average, two amputations of hands, fingers, feet, or limbs per week.
 - a. How many amputations have been recorded in all of the processing plants operated by Tyson in the last 3 years?

At Tyson, we are committed to providing a safe workplace for all of our team members. We aspire to zero work-related injuries, and our goal is to reduce workplace injuries and illnesses year-over-year. We are proud of the fact that this commitment is reflected in the decline, over the past six years, in workplace injuries at Tyson. During Tyson's FY22, our recordable incident rate is declining steadily compared to FY21.

Tyson maintains a safety culture grounded on the premise of empowering every team member to help eliminate workplace incidents, risks, and hazards. We created and implemented processes to help eliminate safety events by reducing their frequency and severity. We also closely review and monitor our safety performance daily.

Our safety culture is evident by looking at the depth and breadth of our safety and health organization, which is led by a Senior Vice-President of Safety, Health and Environmental, and our safety governance structure. Each Tyson processing facility has at least one Safety Manager, who reports directly to a Senior Area Safety Manager. Area Safety Managers oversee the safety programs for several facilities and report to a Director of Safety, who in turn report to a Vice-President of Safety. In addition to traditional safety professionals, Tyson's Safety organization includes numerous Exposure Reduction Coaches (ERCs), who implement the "We Care" safety system- Tyson's safety leadership system- across the organization. ERCs coach managers at each facility on the safety leadership skills needed to identify and reduce exposure and decrease incidents.

Tyson's safety governance structure includes an Executive Safety Council, that is led by Tyson's CEO and the Company's business and functional executive leadership team. Each business division also has its own Safety Council, that relies on input from the individual plant Safety Councils. Each processing facility has both a Safety Council and an hourly Safety Committee, each of which meet at least monthly. The plant Safety Council is comprised of management and is responsible for setting and executing the safety strategy for the facility, adopting, and executing safety initiatives and analyzing trends in injuries and near misses to develop comprehensive preventative strategies. The Safety Committee is comprised of mostly hourly team members. The Committee members are involved in formal and informal safety audits and act as liaisons with hourly team members at the plant. The Safety Committee, led by the Safety Manager, meets at least monthly to identify and share safety issues and to determine issues and concerns and potential solutions to elevate to the Safety Council.

Tyson also has a number of enterprise-wide safety standards and programs that are implemented at the facility level. Many of these are designed to eliminate amputation hazards, such as Tyson's Lockout Tagout and Machine Guarding Standards, and there is extensive training for all team

members on these standards. Tyson also has a number of enterprise initiatives each year designed to decrease amputations and other serious incidents. For example, in 2022, Tyson launched its enterprise-wide “SIF campaign” and Prevention through Design program. The SIF campaign teaches team members about the four leading contributing behaviors to serious injury events and the protective behaviors and actions that will prevent many such incidents. Through the Prevention through Design program, cross-functional teams analyze changes to existing equipment, processes, or technology to properly identify, analyze, and control hazards prior to a change.

In the event of an injury, as part of our continuous improvement efforts, Tyson conducts investigations into both serious and near miss incidents to determine the root cause and appropriate corrective actions. We prioritize solutions that eliminate hazards and engineered solutions. We also implement other measure such as administrative controls or personal protective equipment. Tyson communicates learnings and corrective actions across the enterprise.

3. Alternative Marketing Arrangements (AMAs) are promoted as a tool to ensure certain quality-related production practices are followed. The USDA reports that in 2020, about approximately 77% of all fed cattle were procured through AMAs while about 23% were procured in the negotiated cash market.
 - a. What percentage of Tyson’s AMAs actually specify the production steps that must be followed and what percentage of Tyson’s AMAs are simply contracts that commit cattle to a packer?

The specific terms and distribution of business agreements between Tyson and its suppliers are proprietary information. However, Tyson does have several programs that utilize AMAs to meet product specifications needed by customers to meet consumer demand. For example, our Open Prairie Natural Angus Beef Program has detailed steps in cattle production that must be taken to meet its requirements, along with adhering to specific quality/breed attributes. Many progressive producers and feeders are meeting such specialized demand, thereby creating greater value for their operations.

Further, the use of alternative marketing arrangements is favored by many suppliers and has resulted in substantial efficiencies that work to the benefit of producers, packers, and consumers alike. Specifically, AMA’s provide producers with a consistent, reliable market for their cattle and help them align their procurement models to meet customer and consumer expectations for more consistent high quality beef products. Consumers, in turn, have enhanced access to the types of beef they prefer which has contributed to a 56% increase in consumer per capita expenditure on beef between 2002 and 2019.

United States Senate Committee on Judiciary

Hearing on Beefing up Competition: Examining America's Food Supply Chain

July 28, 2021

Questions for the Record for Shane Miller, Tyson Fresh Meats

Senator Sasse

Question 1

- If all capacity constraints go away over the next 6 months - so labor shortages disappear, transportation bottlenecks are non-existent, and there are no demand disruptions or regulatory shocks for bumps – how would this impact the cash and contract markets for beef? Would you anticipate significant change or the markets to function relatively similar to the way they do now?

As I mentioned in my testimony, the industry experienced significant capacity disruption during the last several years at the height of the cyclical cattle market, including the factors listed in your question, resulting in an oversupply of cattle. This disruption and significant increases in consumer demand led to lower prices for fed cattle while finished beef prices rose. If the factors restricting capacity return to normal, Tyson would expect the operation of markets to return to their normal historical cycles with cattle supply and processing capacity finding alignment and relative price stability for consumers within historical norms. We really don't speculate on what the live cattle contract markets will or could do as they are reflective of the forward interest for cattle, but also are impacted by domestic and global beef demand, weather impact, grain inputs, currency, and other outside influences.

Question 2

- Is the domestic market for beef expanding or shrinking? What do the best projections show? Is the international market for beef expanding or contracting? If it is expanding, what level of expansion would induce Tyson to invest in increasing their packing capacity? What are the top three potential markets for beef exports, and what are some of the barriers blocking that trade?

Domestic beef demand is expected to stay strong largely due to improved meat quality and responsiveness to consumer preferences. At present, consumers are still purchasing despite inflationary pressures across the economy. We have found that when consumers have the money to buy beef, it is their protein of choice. However, it is possible that a recession may lead to a softening in demand.

Despite strong export markets, Tyson, due in large part to supply chain, labor availability and port challenges affecting broad swaths of the economy, is not currently maximizing production capacity in its existing facilities. Resolving these existing capacity constraints is our primary focus to increasing production capacity.

While selecting the top three potential markets for export is a complicated question subject to interpretation and debate, it is clear that U.S. beef exports are gaining traction in quickly expanding Asian and Latin American markets where consumer

preference tends to further value the quality and consistency that the US provides. Historically, access to overseas markets has been impeded by tariffs and other non-tariff barriers such as age-based restriction due to fears around bovine spongiform encephalopathy (BSE a.k.a. “Mad Cow Disease”), prohibitions on production technologies such as hormones and science-based feed enhancements, and many other regulatory hurdles with, in many cases, dubious scientific bases. Some progress has been made on these issues in some foreign markets through recent trade agreements, such as the United States-Mexico-Canada Agreement. We are optimistic that additional non-tariff barriers can be addressed through the ongoing Indo-Pacific Economic Framework talks.

Question 3

- Many of the witnesses mentioned the need for increased beef packing capacity. Some in the pork industry use the producer cooperative model, with facilities constructed in recent years in Missouri, Michigan and Iowa under this type of partnership. Do you believe there is opportunity for greater occurrence of producer cooperatives partnering with packers to expand beef processing capacity? Have producers approached Tyson with interest in this type of partnership?

Tyson is not aware of any offers by producers to partner on a cooperative model. However, Tyson stands ready and willing to consider any proposals that would provide for the more efficient delivery of quality beef to consumers.