Responses to Questions for the Record to Tim Schellpeper, JBS USA
United States Senate Committee on the Judiciary
Hearing on "Beefing up Competition: Examining America's Food Supply Chain"

QUESTIONS FROM SENATOR BEN 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?

Response:

There are a variety of factors that impact the U.S. beef industry, and thus, speculating on how the industry would be impacted if all capacity constraints were eliminated would be challenging. JBS, however, is always working to reduce capacity constraints, and JBS has (and continues to) invest hundreds of millions of dollars to increase our beef production capacity. Although JBS continues to face labor constraints, it is operating at pre-pandemic production levels. As a packer, reducing capacity constraints allows JBS to continue to support American families and communities by increasing the supply of beef in the marketplace, providing for more affordable beef for American consumers.

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 JBS 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?

Response:

Per capita consumption of beef appears to have been on an upward trend over the last decade. JBS continues to support American families by investing in its beef production capacity in the United States, including in Grand Island and Omaha, in order to help meet this growing demand. These investments will allow JBS to sell more products to its customers and add value to cattle producers by selling more products to international markets. At the same time it is investing in the United States, JBS welcomes the opportunity to feed the world, including potential top markets such as Japan, South Korea, and China, despite facing international trade constraints such as shipping constraints and tariffs.

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 JBS with interest in this type of partnership?

Response:

JBS has not been approached by producers with an interest in a cooperative partnership, and so JBS has not formed an opinion on any such cooperatives. JBS has, however, recently announced new or expanded plants in Missouri and Nebraska which will allow JBS to continue to support American families and communities by increasing the supply of protein in the marketplace, providing for more affordable protein for American consumers.

QUESTIONS FROM SENATOR CORY A. BOOKER

Question 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. Can you explain how this is a fair and just system?

Response:

As a packer, JBS purchases fed cattle from feedlots, and the feedlots, in turn, purchase feeder cattle from other cattle producers. JBS does not own any cattle and does not control what is paid by the feedlot to other cattle producers. Likewise, as a packer, JBS sells products wholesale to retailers and into foodservice channels who set the prices that American families are paying for beef at grocery stores and restaurants. The amount of profits that cattle producers and feedlots receive for cattle, whether and how much profit JBS realizes from its production of such cattle, and the amount of profits retailers obtain based on the ultimate prices they set for customers to pay for beef at the grocery store, are all reflections of fundamental supply and demand principles as well as market conditions at that time.

For example, lower feed costs as well as high cattle and feeder cattle prices in 2015 created an incentive for the cattle producers to expand their herds, which led to an overall larger cattle herd size in the U.S., which, in turn, increased the cattle supply and naturally led to lower cattle prices. The unprecedented "black swan" events in 2020 and 2021, however, including the global COVID pandemic, aggravated supply and demand imbalances as well as created extreme market conditions that affected JBS. Indeed, in 2020, the COVID pandemic increased customer demand for beef as retail customers' incomes were supplemented with government transfer payments and beef spending was shifted towards retail consumption. On the other hand, these "black swan" events created a unique set of circumstances (*e.g.*, labor shortages, etc.) that decreased packing capacity and created a backlog of fed cattle through 2020 and into 2021 as cattle were kept on feed for longer periods. Moreover, higher feed costs (beginning in 2020) coupled with severe droughts across the West and Great Plains pushed cattle from pasture into feed yards, leading to high levels of cattle-on-feed inventories while JBS worked to increase production back to pre-pandemic levels despite facing labor shortages, supply chain disruptions, growing inflation, and other capacity constraints.

As cattle supplies continue to tighten, JBS's production capacities returned to pre-pandemic levels, and demand for beef continues to normalize through 2022, the cattle producers' and feeding sectors' share of retail value has increased while the packers' share of retail value has decreased. Although retail prices consumers are currently paying for beef at grocery stores has remained steady (which are prices that JBS does not control), JBS sells its products at wholesale prices, which are lower than they were a year ago.

Question 2:

The National Cattleman's Beef Association (NCBA) recently joined a broad meeting of cattle organizations to discuss market concentration and the widespread concerns of cattle producers that the market is no longer fair. Shortly thereafter, your organization, JBS, left NCBA. Why?

Response:

JBS's decision to suspend its membership in NCBA in 2020 was part of JBS' routine reviews of its organizational memberships. JBS has maintained productive communications with NCBA since its decision and continues to support U.S. producers through its daily participation in cash cattle markets and through state producer associations.

Question 3:

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. How many amputations have been recorded in all of the processing plants operated by JBS in the last 3 years?

Response:

Keeping team members safe is our top priority at JBS. JBS, therefore, is continuously focused on safety by having robust safety programs, improving worker training, enhancing line layouts, and investing in technology to protect its team members. Indeed, as of P8 2022, the number of nonfatal occupational injuries and illnesses that resulted in "days away from work, job restrictions, or transfer" ("DART Rate") at JBS was 2.35, which is less than half of the overall DART Rate reported by the U.S. Bureau of Labor Statistics for Animal Slaughter and Processing (NAICS 31161) of 5.7 in 2020.

Question 4:

In 2015, over half (51.5%) of each dollar consumers spent on beef was returned to cattle producers. But the cattle producer's share has since diminished to just over 37% in 2020, the lowest annual percentage on record. Why do you believe the cattle producer's share of the consumer's beef dollar is shrinking?

Response:

2015 and 2020 exhibited two different extremes in the fed cattle and feeder cattle markets. Presently, as cattle supplies continue to tighten, JBS's production capacities returned to pre-pandemic levels, and demand for beef continues to normalize through 2022, the cattle producers' share of retail value has increased relative to 2020 and 2021 levels while JBS's share of retail value hit its lowest levels since 2009.

In 2006, high feed costs prompted a liquidation phase in the cattle industry that was further propagated by drought conditions in 2011 and 2012. In 2014, the U.S. cattle industry reached a cyclical low inventory which pushed cattle producers' share of retail value to 55.2% in 2014 and 51.5% in 2015. In 2015, improved pasture conditions, lower feed costs, as well as high cattle and feeder cattle prices created an incentive to start an expansion that led to larger cattle herd sizes, which increased supply and pushed farmers' share of retail value to a low of 42.5% in 2019.

In 2020, the global COVID pandemic aggravated supply and demand imbalances by creating a backlog of fed cattle through 2020 and into 2021 as cattle were kept on feed for longer periods. Moreover, higher feed costs (beginning in 2020) coupled with severe droughts across the West and Great Plains pushed cattle from pasture into feed yards, leading to high levels of cattle-on-feed inventories, which further pushed cattle producers' share of retail value down to 37.5% in 2020 and 36.9% in 2021.

In 2022, cattle producers' share of retail value has started to recover as cattle supplies have tightened and beef demand has normalized. Through this transition, cow prices and feeder cattle prices have started to rally in 2022 (reaching their highest level in over five years), which suggests a continued increase of cattle producers' share of retail value. On the other hand, packers' share of retail value is diminishing as JBS's customers (the retailers) are paying less money for beef products today than they were a year ago, even though retail prices for beef at the grocery stores have remained steady.

Question 5:

Since January of 2017, retail beef prices have risen higher, with the all-fresh retail beef price increasing from $5.49 per pound to a reported $7.11 per pound in the month of June. Despite the temporary increase to $138 per cwt in May of 2017, fed cattle prices have since dropped and were only $120 per cwt in June. Why do you believe beef prices and cattle prices have moved in opposite directions since 2017?

Response:

There are a variety of factors that impact the variance between retail beef prices and cattle prices, including cattle supply, freight costs, labor costs, energy costs, changes in production mix, value add, retailer merchandizing strategy, availability of substitute proteins, and ultimately consumer demand, all of which continue to fluctuate over time.

Question 6:

USDA data shows the monthly returns to cattle feeders has been a loss of over $25 per head per month for each animal fed over the past two decades. Why do you believe, despite this average monthly loss, the number of the largest feedlots in the U.S.—those with capacities of over 50K head—have increased by 71% (from 45K in 1996 to 77K in 2020) while independent cattle feedlots—those with capacities of less than 1K head—have shrunk by 75% during the same period (from 110K in 1996 to 27K in 2020)?

Response:

JBS is a packer that neither owns nor feeds any cattle, and thus, JBS is not in a position to speculate about the decisions made by feedlots.

Question 7:

The beef industry boasted all-time record beef exports in 2018 yet fed cattle prices fell 4% from 2017 to 2018. If increased exports are associated with increased cattle prices, why do you believe cattle prices did not increase when beef exports hit record levels in 2018?

Response:

Increased exports are not necessarily associated with increased cattle prices—cattle price is driven by many factors, predominantly supply and demand, but also including labor costs, feed costs, freight costs, cattle quality, etc.

Question 8:

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 77% of all fed cattle were procured through AMAs while about 23% were procured in the negotiated cash market. What percentage of JBS' AMAs actually specify the production steps that must be followed and what percentage of JBS' AMAs are simply contracts that commit cattle to a packer?

Response:

JBS negotiates with and purchases cattle from cattle feeders (both big and small) all across the country in the manner in which the feeders want to sell them—whether it is in the cash market (either live or dressed), at auction barns, via alternative marketing arrangements, CME futures contracts, video exchanges, or otherwise. JBS does not dictate the way feeders sell their cattle, and JBS competes every day to purchase quality cattle at reasonable prices and in a manner that allows JBS to sell products to retailers at competitive prices.

Question 9:

Many industry analysts attributed higher cattle prices in 2014 in part to low cattle supplies following the late 2010 – 2013 drought. In other words, they say there was low cattle supplies (as measured by the number of cattle ready for slaughter), which drove cattle prices higher. Industry analysts then speculated that the increased cattle supply in 2015 contributed to a collapse in cattle prices—suggesting there were more cattle slaughtered in 2015, which helped drive cattle prices lower. However, the USDA reports that the number of cattle slaughtered in 2015 (28.3 million) was less than in 2014 (29.7 million) which means that in 2015, there were both lower cattle supplies and lower cattle prices. Can you explain this phenomenon?

Response:

Although cattle prices are impacted predominantly by supply and demand, they are also driven by many other market conditions such as cattle quality, freight costs, labor costs, and energy costs, etc., all of which affected cattle prices in 2015.