HEARING TO REVIEW THE STATE OF THE LIVESTOCK INDUSTRY

HEARING

BEFORE THE

SUBCOMMITTEE ON
LIVESTOCK, RURAL DEVELOPMENT, AND CREDIT

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

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HEARING TO REVIEW THE STATE OF THE LIVESTOCK INDUSTRY

WEDNESDAY, APRIL 30, 2014

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LIVESTOCK, RURAL DEVELOPMENT, AND CREDIT,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10 a.m., in Room 1300, Longworth House Office Building, Hon. Eric A. "Rick" Crawford [Chairman of the Subcommittee] presiding.

Members present: Representatives Crawford, King, Neugebauer, Conaway, Yoho, Costa, Scott, Lujan Grisham, and Gallego.

Staff present: Caleb Crosswhite, Debbie Smith, John Goldberg, Josh Mathis, Nicole Scott, Patricia Straughn, Pete Thomson, Tamara Hinton, John Konya, Liz Friedlander, Mary Knigge, and Riley Pagett.

OPENING STATEMENT OF HON. ERIC A. "RICK" CRAWFORD, A REPRESENTATIVE IN CONGRESS FROM ARKANSAS

The CHAIRMAN. This hearing of the Subcommittee on Livestock, Rural Development, and Credit to review the state of the livestock industry, will come to order. I would like to thank the Ranking Member of the Livestock, Rural Development, and Credit Subcommittee, Mr. Costa, for working with me to put together this hearing to examine the state of the livestock sector.

Now that the farm bill is behind us, it is an important and worthwhile task to take an inventory of the many and varied challenges currently faced by the livestock community. This will provide a framework for assessing priorities, going forward. For this purpose, we have an excellent set of witnesses, from the esteemed Chief Economist of the U.S. Department of Agriculture serving as our first panel, to an array of experts representing the elements of animal agriculture testifying on our second panel.

A hearing with as broad a topic as this one means there will be a considerable amount of ground to cover. I am looking forward to our witnesses' testimony and their responses to the questions from Members of the Subcommittee on topics both old and new. While I anticipate we will hear about ongoing issues such as the GIPSA rule and the mandatory Country-of-Origin Labeling, I am also expecting to learn more about emerging concerns, such as PEDv and the Administration's development of new dietary guidelines.

As we begin, I want to take a moment to echo the prepared remarks of Chairman Lucas at the beginning of our recent full Committee hearing where we hosted the Secretary of Agriculture. He said the farm bill was quite an achievement, and it contains a good deal of fine public policy that will be welcomed by our constituents, but there were disappointments as well in terms of delivering much-needed regulatory relief to the agriculture community.

The Ranking Member and I both remain especially concerned with the ongoing burdens associated with the mandatory Country-of-Origin Labeling law. This ill-conceived law has created economic disruption in the livestock industry and set the stage for a potential $2 billion in trade retaliation as a result of the WTO dispute with two of our most important trading partners, Canada and Mexico.

I expect we will be hearing from a number of our witnesses about this topic today and in the near future, especially as the case in the U.S. Court of Appeals proceeds next month and when the WTO compliance panel issues its ruling as early as the following month.

Again, I want to thank Ranking Member Costa for his assistance in putting this hearing together, and we welcome our witnesses.

[The prepared statement of Mr. Crawford follows:]

PREPARED STATEMENT OF HON. ERIC A. "RICK" CRAWFORD, A REPRESENTATIVE IN CONGRESS FROM ARKANSAS

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The CHAIRMAN. I would like to recognize Mr. Costa for his opening statement.

OPENING STATEMENT OF HON. JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Mr. COSTA. Thank you very much, Mr. Chairman, for holding this timely hearing. Our Subcommittee obviously has an important responsibility as it relates to providing oversight for livestock, rural development, and credit for agriculture throughout the country. Obviously the issues facing America's livestock industry, the feedstock that provides the cleanest, safest food anywhere in the world for America's consumers, is a critical element of America's agricultural productivity. We are here to address a number of those issues facing the livestock industry.

America's ranchers and meat processors are facing challenges with their ability to continue to provide this incredible product that they produce. Of particular concern, of course, is loosening, as you indicated, Mr. Chairman, the burdens and regulatory policies and proposals which are, notwithstanding well intended, a hindrance to America's ranchers and processors to comply with.

In California, as many of you know, we have one of the most aggravated drought conditions that our state has faced, and our processors and our producers are staggering under the impacts of this drought, and while they are always happening and will be a number of competing demands to our state's water system, clearly, like in the course of the subject we are going to be hearing this morning, regulatory actions have been taken that make a bad situation worse, in my opinion.

During the 2009 drought, we had 30 to 40 percent unemployment in many of the areas that I represent in the San Joaquin Valley, but our businesses that help support our agriculture economy were devastated then, and they are being impacted today. However, this drought is not just about California's economy and the families that work in the fields, it is about a crisis that will touch every Californian, and it will touch the American consumer at their dinner table because of increased cost to the consumer.

We can't change the weather, of course, and I wish we could take some of this rain here today and move it to California, but we can change course and make a more friendly regulatory environment. As you noted, there are a number of areas that I would like to touch upon beyond MCOOL and beyond GIPSA. Our RFS standards have increased the cost of feedstock in every area. It has had an impact, notwithstanding good intentions, for Renewable Fuel Standard. It has increased the cost of feed not only to the beef industry, to the poultry industry, and to the pork industry. And while ethanol is not the only factor in increasing feedstock costs, it should be noted.

Before the RFS standards, Renewable Fuel Standard, were implemented, 12½ percent of the corn in America was used to produce ethanol. Today over 40 percent of the corn produced in America is used to produce ethanol. In my opinion, this is price distorting as it relates to the impacts and the cost of that.

The Grain Inspection, Packers and Stockyards Administration, otherwise known as GIPSA—that is a mouthful—is an issue that you and I share a lot in common. We have been fighting the proposed GIPSA rule since it was originally in the 2008 Farm Bill, and I find it, frankly, very frustrating that notwithstanding Congress' will, we continue to have the agency attempting to proceed with a rulemaking that clearly the Congress has indicated a different opinion on. Congressman Conaway and I and others have been working on this, as you have, Mr. Chairman Crawford. The rulemaking process resulted in proposals that would have fundamentally and negatively changed the way livestock and poultry is marketed in this country by taking a very valuable tool, and that is value-added marketing. When you talk about value-added, it is what producers in America do to make products more productive, products more easily to prepare for the family dinner table. Its value-added makes them more nutritious, and to take away from that ability to provide value-added is inappropriate.

Congressman Conaway and I have offered amendments that mirror the language of action taken by the Congress in appropriations bill, and it was signed by the President, I would indicate, four times. So this GIPSA-fix language was intended to put this issue to rest and allow the livestock and poultry industry to market their animals however they want, when they want to, and where they want to without GIPSA dictating the transactions. We need to ensure that the livestock and poultry producers can take advantage of value-added marketing opportunities in order to satisfy customers and remain profitable.

Finally, the MCOOL, mandatory government-run Country-of-Origin Labeling, has failed, period, in my opinion. Consumers are not factoring it into their meat purchasing decisions, and producers are not getting any return for their premium as a result of it. What we have seen is increased cost to ranchers and processors in order to comply with these regulations, and it is impacting the industry. This program has added nothing, in my view, but cost to the industry, and to be totally honest, we don't know what the actual costs of the industry are because a formal economic impact study has never been done.

Furthermore—and this is where I am very concerned because I spent a great deal of my time focusing on increasing trade opportunities between the United States and Asia, the United States and Europe, and this is threatening our trade relationship between two of our biggest markets in North America, and that is Canada and Mexico. Currently our exports of beef, pork, and chicken are immensely huge to those two markets.

I think many of us assume that the World Trade Organization will rule against the United States, and we will face harsh retaliation efforts. No one wants to see retaliation efforts taken by Canada or Mexico. We have the data, the studies, and the WTO experience to show that it is time that we fix MCOOL, this mandatory labeling.

This hearing could not come at a better opportunity, Mr. Chairman, to show how we can fix the devastating impacts that mandatory labeling will have on the markets and our businesses to ranchers and processors throughout the country. We want to see this problem solved, and we need to work together to make that happen.

I drafted legislation that I will be introducing, would be interested in having all the Members of the Subcommittee as cosponsors of the bill. And, again, in closing, I want to thank you for the countless efforts that you are making, the stories that our livestock industry, our poultry producers, and dairymen across the nation and in California are dealing with to struggle to make a profit at the bottom line.

Again, this hearing could not have taken place at a better time, and I look forward to hearing the witnesses' testimony, and I yield back the balance of my time.

I thank the Ranking Member and echo his sentiments, and I just want to say the chair will request that other Members submit their statements for the record so the witnesses may begin their testimony to ensure that there is ample time for questions. Without objection, so ordered.

Right now I would like to introduce our first panel. We are honored to have Dr. Joseph Glauber, Chief Economist at the United States Department of Agriculture here in Washington, D.C., join us today, and with that, Dr. Glauber, you are recognized. Begin when you are ready.

STATEMENT OF JOSEPH GLAUBER, PH.D., CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Dr. GLAUBER. Chairman Crawford, Ranking Member Costa, and Members of the Subcommittee, thank you for the opportunity to testify today on the state of the livestock and poultry sectors. While the state of the broad U.S. agricultural economy has been strong these past several years, the livestock sector has not shared in the boom experienced by many crop producers.

On April 15th, the U.S. Bureau of Labor Statistics reported that the Consumer Price Index for beef and veal prices in March was 7.4 percent higher than year-ago levels. The CPI for pork was also up 5.3 above year-ago levels, while chicken prices were up almost four percent.

While hog and cattle prices have been at or near record levels so far in 2014, these prices reflect tight supply due in part to tight margins the last several years, but also to drought—due to drought in the Southern Plains, in California, and the outbreak of PEDv among swine herds, which will continue to influence the ability of producers to benefit from and respond to these higher prices.

Record prices for grains and oilseeds have kept feed costs high and operating margins tight for most animal producers for much of the past 5 years. Tight margins in turn have constrained expansion, which has led to record high prices for cattle and hogs and near-record prices for broilers. With falling grain and oilseed prices following record global crops of grain and oilseeds, the livestock sector would normally be poised to take advantage of strong livestock prices and moderating feed costs in 2014; however, the ability of the beef and pork sectors to expand production will be limited by non-feed cost factors.

We expect that red meat production will remain constrained in the near term and is forecast in 2014 to be the lowest since 2010 and 1.8 percent below the 2008 record level. Prospects for the beef sector in the near term are limited by the decline in the cattle inventory, the biological lags inherent in the production system, and persistent dryness in the Southern Plains now in its 4th consecutive year of drought.

Likewise, in the hog sector, positive producer returns and lower feed costs have set the stage for strong expansion; however, the spread of Porcine Epidemic Diarrhea virus, PEDv, through the U.S. herd is expected to sharply limit the supply of hogs compared to earlier expectations.

In comparison to the beef and pork sectors, the poultry industry is able to respond more quickly to market signals. Broiler production is forecast to be at record levels in 2014, up 1.8 percent over the previous record set last year. Egg production will likely see record levels as well in 2014.

In my written testimony I discuss general trends in the livestock and poultry sector before turning to a more extensive review of the current situation and outlook for red meat, poultry, and egg sectors, including recent movements in retail prices, but in the time left this morning, let me address one of the less contentious issues of the 2014 Farm Bill, the livestock disaster provisions.

On April 14th, USDA published its final rule for implementing the supplemental disaster programs from the new farm bill. On April 15th, the Department began to sign up producers for those four permanent disaster programs, three of which cover livestock losses. Since that date over 13,000 producers have already visited FSA offices and started applications for disaster programs.

Over $8.5 million in payments have already been approved with about $4.5 million in payments already being transferred to producers' banks. The programs are ultimately expected to provide more than $2 billion in payments to producers for eligible losses that have occurred since the expiration of the livestock disaster assistance programs in 2011 for years 2012 and 2013, and continue to provide support—and will continue to provide support to livestock producers in times of disaster over the life of this farm bill.

In conclusion, following years of high feed costs and tight margins, the outlook for livestock and poultry appears to be improving, but significant challenges in the beef and pork sector remain. Record high output prices and reduced prices for grain and oilseeds are tempered by lingering drought and the spread of PEDv. Production of red meat and turkey production is forecast lower for 2014. Although broiler production is forecast to increase, the gain will be insufficient to offset the decline in other meats.

Livestock and poultry prices will be higher in 2014, reflecting tight overall meat supplies and improving demand. Eventually production of red meat, poultry, and eggs is expected to increase when producers are able to take advantage of more favorable margins to expand herds and flocks, and each increased production will then moderate retail prices for red meats, and poultry and eggs. How soon steer and hog prices respond will depend on whether we see improvement in pasture and forage conditions in the Southern Plains in the West and the extent to which PEDv can be controlled through biosecurity practices.

Despite global production records for most grains and oilseeds in 2013, global grain and oilseed stocks remain tight and—going into the 2014–2015 crop year. As such, feed costs and livestock margins will remain vulnerable to potential supply shocks throughout the year.

Mr. Chairman, that concludes my statement. I am certainly happy to take—answer any questions.

[The prepared statement of Dr. Glauber follows:]

PREPARED STATEMENT OF JOSEPH GLAUBER, PH.D., CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Chairman Crawford, Ranking Member Costa, and Members of the Subcommittee, thank you for the opportunity to testify today on the state of the livestock and poultry sectors. While the state of the broad U.S. agricultural economy has been strong these past several years, the livestock sector has not shared in the boom experienced by many crop producers. On April 15, the U.S. Bureau of Labor Statistics (BLS) reported that the Consumer Price Index (CPI) for beef and veal prices in March was 7.4 percent higher than year ago levels. The CPI for pork was also up 5.3 percent above year ago levels while chicken prices were up 3.6 percent. While hog and cattle prices have been at or near record levels so far in 2014, these prices reflect tight supply due in part to tight margins the last several years, but also drought in the Southern Plains and California and the outbreak of PEDv among swine herds, which will continue to influence the ability of producers to benefit from and respond to these high prices.

Record prices for grains and oilseeds have kept feed costs high and operating margins tight for most animal producers for much of the past 5 years. Tight margins, in turn, have constrained expansion which has led to record high prices for cattle and hogs and near-record prices for broilers. With falling grain and oilseed prices following record global crops of grains and soybeans, the livestock sector would normally be poised to take advantage of strong livestock prices and moderating feed costs in 2014. However, the ability of the beef and pork sectors to expand production will be limited by non-feed cost factors. We expect that red meat production will remain constrained in the near term and is forecast in 2014 to be the lowest since 2010 and 1.8 percent below the 2008 record (*Figure 1*). Prospects for the beef sector, in the near term, are limited by the decline in cattle inventory, the biological lags inherent in the production system and persistent dryness in the Southern Plains, now in its fourth consecutive year of drought. Likewise, in the hog sector, positive producer returns and lower feed costs have set the stage for strong expansion. However, the spread of Porcine Epidemic Diarrhea virus (PEDv) through the U.S. herd is expected to sharply limit the supply of hogs compared to earlier expectations. In comparison to the beef and pork sectors, the poultry industry is able to respond more quickly to market signals. Broiler production is forecast to be at record levels in 2014, up 1.8 percent over the previous record set last year. Egg production will likely see record levels as well in 2014.

In my testimony today I will first discuss general trends in the livestock and poultry sector before turning to a more extensive review of the current situation and outlook for the red meat, poultry and egg sectors including recent movements in retail prices. Last, I will discuss government safety net programs available for livestock producers, including recently implemented disaster programs from the Agricultural Act of 2014.

Trends in the Livestock and Poultry Sectors

While there are unique characteristics of the markets for red meats, poultry and eggs, there are many common trends that have shaped those markets in recent years.

1. *For the past several years, feed costs have been high relative to cash receipts for livestock, poultry and egg producers.* Since 2007, grain and oilseed prices spiked to record (nominal) highs in 2007/08, 2010/11 and again in 2012/13, raising feed costs and reducing operating margins. Feed costs as a percent of total cash receipts average over 33 percent over 2007–13, compared to less than 25 percent over 2000–06 (*Figure 2*).

2. *High feed costs and poor pasture conditions reduced profitability for livestock and poultry producers.* Feed ratios for hogs, cattle, broiler and layer operations declined sharply in 2007 and remained at low levels up through mid-2013 (*Figure 3*). For cattle, low feed ratios have been exacerbated by poor pasture conditions as a result of lingering drought in the Southern Plains over the past 3 years. Poor margins over that period limited expansion for hogs and broilers and contributed to further contraction in the cattle sector. While feed costs have moderated, other factors have hampered expansion plans in the beef and pork sector.

3. *Since 2007, lower meat production and increased net exports have resulted in higher consumer prices and lower per capita consumption in the United States.* Annual average consumption of red meats and poultry has declined from a peak of almost 222 pounds per capita in 2004 to less than 204 pounds in 2013 (*Figure 4*). The slowdown in the broader economy which began in late 2007 also had a negative impact on per-capita consumption and likely curtailed the ability to fully pass along higher feed costs to consumers. With production forecast to increase over 2014–23, per capita consumption of red meats and poultry is forecast to increase but only reach 215 pounds by 2023. Most of the gain in per capita meat consumption is expected to come from growth in per capita poultry consumption, continuing the rapid rise in poultry consumption that began in the mid-1970s. Per-capita beef consumption is expected to continue to decline in the near term through 2016 before showing modest growth with the expected rebound in beef production once herds have recovered. Per capita pork consumption is expected to rise slightly as production recovers over the next 4 years before flattening as production growth is projected to slow.

4. *Consumption patterns for red meats poultry and eggs have changed significantly over the past 40 years.* Consumption of food prepared away from home plays an increasingly large role in the American diet. In 1970, 25.9 percent of all food spending was on food away from home; by 2012, that share rose to its highest level of 43.1 percent. A number of factors contributed to the trend of increased dining out since the 1970s, including a larger share of women employed outside the home, more two-earner households, higher incomes, more affordable and convenient fast food outlets, increased advertising and promotion by large food-service chains, and the smaller size of U.S. households.

Consumer surveys suggest that almost 40 percent of beef and 42 percent of chicken is consumed as food prepared away from home. Ground beef eaten at restaurants, including the fast food sector, accounted for 60 percent of the beef eaten away from home.

5. *Exports account for an increasing share of total demand for red meats, poultry and eggs.* Twenty-five years ago, exports of red meats, poultry and eggs were negligible, accounting for less than five percent of total production. Over the past 5 years, exports have averaged almost ten percent of beef and veal production, 20 percent of pork and chicken production, and about ⅛ of turkey production (*Table 1*). Exports have brought additional value to U.S. producers and consumers, particularly exports of cuts of meat that are less popular with U.S. consumers such as chicken leg quarters and beef offal.

Trade in live animals is also important, particularly for cattle and hogs. The United States imports both feeder and slaughter cattle from Canada and Mexico and imports hogs, primarily feeder pigs, mainly from Canada. Canadian feeder pigs have represented upwards of 5–6 percent of finishing hogs in the U.S., but have recently seen their share shrink considerably.

Table 1.—Share of Red Meat, Poultry and Egg Production That Is Exported

	1970–79	1980–89	1990–99	2000–09	2010–14
	(percent)				
Beef and veal	0.4	1.9	6.8	6.6	9.7
Pork	1.4	1.3	4.2	12.4	21.5
Chicken	2.2	4.3	12.7	16.4	19.4
Turkey	2.3	1.4	6.2	9.2	12.5
Eggs *	0.8	2.1	2.9	2.6	3.9

Source: PSD database and ERS, includes farm production.
* Includes shell eggs and egg products.

6. *Contracting is a major feature of livestock and poultry production.* Contracting is a major feature of U.S. agriculture (MacDonald and Korb 2011) but can vary considerably by livestock type. In 2008, agricultural contracts covered almost 90 percent of poultry and egg production, over ⅔ of hog production and almost 30 percent of cattle production (*Table 2*).

Contracts are evolving to cover new and often unforeseen developments or changes in market conditions. Standard poultry production contracts are designed so that the integrator provides feed and chicks and technical advice, while the farm operator provides the on-farm equipment, structures, labor, and utilities. Hog production contracts largely follow suit. Today more production contracts are specifying animal welfare and health standards, while some provide for joint financing of utility expenses. Production contracts are also evolving to handle more complex organizational structures, including third party (nongrower) ownership of housing. Cattle feedlots typically charged clients a fee for providing custom feeding and marketing services for the client's cattle, but some feedlots now offer contracts that share equity ownership (of the cattle) between the feedlot and the client.

Table 2.—Share of Commodity Production Under Contract, by Commodity

Commodity	1991–93	1996–97	2001–02	2005	2008
	Share of production under contract (percent)				
Livestock [1]	32.8	44.9	48.2	50.1	52.8
Cattle	N/A	17.2	21.0	17.6	29.4
Hogs	N/A	34.2	62.5	76.2	68.1
Poultry and eggs	88.7	83.8	92.3	94.2	89.9

[1] Includes dairy and all other livestock.
N/A = data not available for commodity detail.
Source: MacDonald and Korb 2011.

The Outlook for Cattle and Beef

USDA's January *Cattle* report estimated that the number of cattle and calves on January 1, 2014 fell about two percent to 87.7 million head, the lowest cattle and calf inventory since 1951 (*Figure 5*). The cow herd was estimated at 38.3 million head, about one percent smaller than a year earlier. Producers indicated that they intended to retain two percent more heifers for addition to the beef herd and expected to have one percent more heifers calve during 2014. Dairy cow numbers were about equal with last year but producers indicated that while retaining slightly fewer heifers for addition to the cow herd, they expected more to calve this year than last. The 2013 calf crop was estimated at 33.9 million head, the smallest calf crop since 1949.

Both the U.S. cattle inventory and the beef cow herd are expected to continue to shrink in 2014. Although returns to cow/calf operators have improved, many producers appear to be taking a cautious view, and are rebuilding their capital after a year or more of buying expensive forage and ensuring sufficient supplies of forage and water will be available before expanding in earnest. Moreover, persistent drought in California and the Southern Plains will likely continue to put pressure on cow/calf producers in those regions. Since the start of 2011, the cattle and calves inventory has declined by almost five million head, with almost 65 percent of those losses occurring in the drought-affected States of Texas and Oklahoma.

USDA estimates that as of April 15, 2014, approximately 44 percent of the domestic cattle inventory was within an area experiencing drought (*Figure 6*). While the portion of the inventory currently in drought is down significantly from September 2012 when over 75 percent of the inventory was in areas experiencing drought, the amount of inventory in drought has increased ten percentage points since last fall and remains high relative to historical levels (*Figure 7*).

Commercial cow slaughter for first-quarter 2014 is forecast to be the lowest since 2008 and is indicative of both low cow inventories and intentions to retain or increase cow inventories as soon as pasture conditions permit. If pasture conditions fail to develop normally, the rate of cow slaughter could again increase and delay expansion. First-quarter commercial steer and heifer slaughter is forecast at the lowest level since 1965. First-quarter beef production will likely be the lowest only since 1995 because dressed weights have increased over time and have largely offset general declines in inventories and slaughter since their peaks in the mid-1970s (*Figure 8*).

Weekly average processing beef prices continue to increase as weekly federally inspected cow slaughter declines, year over year (*Figure 9*). Cow/calf producers should continue to see attractive cow prices for the near term because of low cow inventories and continued demand for ground beef products made from culled cows. Choices for cow/calf operators who are not entirely certain they want to deal with another year of drought will be made more difficult by high cow prices. Feeder cattle prices could decline slightly in the near future as demand for pasture cattle subsides with stocking of available pasture.

However, the anticipated smallest calf crop since 1949 will provide significant price support for the limited supplies of feeder cattle. At the same time, fed cattle and beef prices may have reached their peak for the season. For 2014, beef production is forecast at 24.6 billion pounds, 4.5 percent below 2013. Steer and heifer slaughter will be below 2013 as feedlot numbers dwindle. Strong prices and lower feed prices have supported heavier slaughter weights as a short-run means to increase beef output and carcass weights are forecast to increase to almost 795 pounds.

Beef and cattle trade. Year to date U.S. cattle imports for 2014 totaled 364,804 head through February, about even with a year earlier. Imports from Canada were up seven percent, while imports from Mexico have fallen six percent. Imports of slaughter cattle from Canada were unchanged from 2013, but feeder cattle imports have increased 19 percent this year. Demand from U.S. buyers has been strong as feeder cattle prices in Canada have lagged strong growth in U.S. prices. Agricultural Marketing Service weekly data through March 22, 2014 show cattle imports are 17 percent above year earlier levels. Cattle imports are forecast at 1.97 million head for 2014. This is a one percent decline in cattle imports from 2013 as inventories have fallen in both Canada and Mexico.

U.S. beef exports were up four percent through February 2014 compared to a year earlier. Strong demand from Japan, Mexico, and Hong Kong more than offset declining shipments to Canada, South Korea, and Taiwan. Higher prices for U.S. beef may have limited demand from some markets, including Canada which has also experienced a depreciating exchange rate with the U.S. dollar. Higher prices have not discouraged strong sales in product to Japan and Hong Kong as the United States continued to take market share from Australia. Exports to Mexico have also been strong in 2014. After declining in 2012 due to a drought-induced rise in Mexican beef production, U.S. exports to Mexico rose 15 percent in 2013 and were up 32 percent through February. Demand is likely to remain strong as beef production is expected to fall this year in Mexico due to diminished cattle inventories. The forecast for 2014 U.S. beef exports is 2.515 billion pounds, implying a nearly three percent decline from 2013 as lower production will limit trade volumes. Tight supplies of processing meat and continued strong demand for hamburger will likely support increased imports of beef during 2014. Imports are forecast at 2.3 billion pounds, about three percent above 2013. However, growth in imports, especially in the first half of the year will be constrained by tight supplies in those countries traditionally supplying the United States and strong demand in a number of markets world-wide.

Hogs and Pork

While pork producers have also faced high feed prices over the last several marketing years and hog prices have risen significantly in recent weeks, tight supplies are less a result of cautious expansion seen among cattle feeders and, more concretely, the impact of Porcine Epidemic Diarrhea (PEDv). Much of the recent volatility in hog prices can be attributed to changing market expectations about the impact of the virus. From the earliest reported incidents in 2013, the virus has spread to 30 U.S. states, four Canadian provinces and several areas in Mexico (*Figure 10*).

The March 1 inventory of market hogs of just over 57 million head was 3.7 percent lower than a year ago, the latest in a string of year-over-year quarterly inventory contractions which began March–May 2013, and the lowest March 1 inventory level since 2007. That lower inventory number is largely a reflection of a smaller pig crop in the previous two quarters. The September–November pig crop was fractionally lower than a year earlier while the December–February pig crop came in at 27.3 million head, almost three percent lower than a year ago. The December–February pig crop declined *despite* a 2.8 percent increase in farrowings from year ago levels and reflected the negative impact of PEDv on litter rates. The PEDv virus has proven particularly lethal to young piglets, increasing pre-wean mortality which is captured in reported reductions in litter rates, a measure of the number of pigs weaned per farrowing. The litter size for the December–February pig crop was 9.53 pigs per litter, down 5.5 percent compared to the same period a year earlier (*Figure 11*). That represents the first year on year decline in the litter rate since the June–August quarter of 2003 and the largest percent year-on-year decline since the December–February period in 1977 (37 years ago) at a time when the litter rate was much lower.

The lower litter rate indicates that the spread of PEDv may be affecting hog numbers and future pork production. To compensate for piglet losses, the industry has indicated plans to increase farrowings and feeding animals to heavier weights. While feeder pig imports, primarily from Canada, were up in the first quarter of 2014 compared to the previous quarter, they were down year over year for the December–February period and part of a broader decline in feeder pig trade which saw feeder pig import numbers fall by over 13 percent in 2013. To date, the spread of PEDv in Canada has not been as severe as in the United States, with approximately

50 cases reported in four Canadian provinces as of mid-April. Nonetheless, hog imports are forecast lower than last year as supplies in Canada remain tight.

The reduced litter rates reflect average industry wide impacts but ability to capitalize on higher hog prices and lower feed prices will depend on the operations exposure to PEDv. Producers who have avoided significant animal losses will be able to sell feeder pigs or finished hogs into a tight market at high prices, however, those hardest hit by PEDv will be left with little to sell. Given the tighter supply of feeder pigs, finishing operations may bid away margins in order to maintain finishing facilities at capacity. The last several weeks have seen hog slaughter dip 5% compared to the same period last year and moving forward, lower pig crops and gilt retention are likely to lead to reduced hog slaughter numbers.

The slight increase in the March 1 inventory of breeding animals, combined with aggressive year over year increases in farrowing intentions for the spring and summer pig crops, suggest that producers are responding to high hog prices and mitigating some of the PEDv losses. Producers have indicated intentions to expand farrowings over the next two quarters by two percent (*Figure 12*). In addition to expanded farrowings, carcass weights are expected to average over 211 pounds dressed weight, two percent above last year. In the short run this will offset some of the loss in pork production from lower market hog numbers. As a result of the combination of lower litter rates, reduced hog imports, increased farrowings and heavier carcass weights, commercial pork production for 2014 is forecast to be 22.76 billion pounds, down 1.8 percent from last year.

Live hog prices have risen dramatically since the first of the year (*Figure 13*). U.S. hog prices, on a national base, 51–52% lean, live equivalent, are forecast to average $72 to $75 per cwt for 2014, up significantly from last year's $64.05. Prices are expected to peak in the first or second quarter as the reduced December–February pig crop comes to market and supplies are tightest.

If farrowings follow intentions, supplies in the second half of the year should expand and moderate prices, but they are still likely to average above year ago levels. The continuing impacts of PEDv remain a significant uncertainty and will influence the price path in the coming months.

Pork exports were lower in 2013 as Russia was closed due to restrictions on the use of Ractopamine and exports to Japan were lower as higher beef sales cut into pork exports, but they are expected to slip further as high U.S. pork prices and limited supplies will dissuade some foreign buyers. Pork exports are expected to fall three percent to 4.85 million pounds. Pork imports are expected to show gains as higher U.S. prices encourage imports.

In the coming decade, domestic pork production is expected to overtake domestic beef production on a weight basis but a greater proportion of the pork is destined for the export market as efficiency gains in the sector are expected to enhance competitiveness overseas. Asia and Mexico are likely to remain key markets for U.S. product while the importance of Russian markets, in pork and other meats, may decline as the country pursues a policy of greater meat self-sufficiency. With expanding pork exports, per-capita pork consumption while growing, is expected to remain third behind beef and poultry consumption in the coming decade. The on-going impact of PEDv will continue to shape market expectations in the near term and beyond and will continue to shape market expectations.

Sheep and Lamb

While world sheep numbers have remained relatively stable over the last several decades, the size of the U.S. flock has seen steady declines. The U.S. sheep and lamb inventory is expected to decline for a ninth straight year in 2014 (*Figure 14*) with a January 1, 2014 inventory of sheep and lambs of 5.21 million head, down two percent from the previous year. While Colorado, California and Wyoming showed a decline of 110,000 head, or an eight percent decline, Texas, the top sheep producing state has been building inventory after drought related losses in 2011. Texas inventory numbers were up 30,000 head in 2012 and another 40,000 head in 2013.

The breeding flock likewise declined two percent and the number of replacements lambs was almost four percent lower. The lamb crop declined over two percent in 2013 as the lambing rate fell to 1.07 lambs per ewe per year. In 2013, commercial lamb and mutton production was virtually unchanged from 2012 despite a smaller 2012 lamb crop, as poor forge conditions and high feed costs encouraged producers to advance marketings in mid-2013. Commercial lamb and mutton production in 2014 is forecast at 150 million pounds, almost four percent lower, as market lambs on January 1 were down over two percent and producers may choose to hold back lambs to rebuild flocks. Continued or worsening drought conditions could, however, negatively impact plans for ewe retention.

Lamb imports, primarily from Australia and New Zealand, represent about ½ of available supplies and tend to move in concert with domestic production. In 2014, the fall in imports may outpace the fall in domestic production. Lamb and mutton imports for 2014 are forecast at 160 million pounds, seven percent lower than 2013. Despite the lower forecast for U.S. production, supplies in Australia and New Zealand will be relatively tight. Competition for those supplies has also increased with the expansion of sales in Asia and exports to the U.S. are expected to be limited, supporting domestic lamb prices.

Per-capita lamb consumption is expected to continue its long-run decline, with per-capita consumption expected to be 0.9 pounds in 2014, less than ⅓ the level in 1970. The decline is expected to continue, although at a much slower pace, in the next decade. Population growth will offset some of the decline in per-capita consumption with total disappearance likely to be relatively flat in the coming years.

The San Angelo Choice slaughter lamb price is forecast to average $157 to $165 per cwt for 2014, a sharp increase from $111.12 in 2013 and very close to 2011's record of $161. Prices began to increase in the second half of 2013 and are expected to average above year-earlier through 2014 as supplies of marketable lambs and lamb and mutton imports remain tight, other meat prices remain elevated and demand improves.

Broilers

The broiler industry has faced some of the same challenges the pork and beef industry has faced since 2006. The sector has faced high feed costs and a sluggish economy which weakened demand, but broiler meat has benefited from a quicker response time, price increases in other meats and continued strong export demand. Producers responded to higher broiler prices in 2012 by beginning to increase production in late 2012. However, high feed prices in late 2012 and early 2013 kept the expansion in check and producers appear to be taking a very measured view toward expansion. In anticipation of moderating corn and soybean meal prices for the 2013/14 marketing year and strong broiler prices supported by record prices for competing meat products, the number of broiler chicks placed in the second half of 2013 increased compared to a year earlier. However, growth has slowed since the beginning of 2014. Current projections show modest growth in bird numbers and increased bird weights encouraged by low feed costs. As a consequence broiler production is expected to be up almost two percent to 38.5 billion pounds in 2014. Expectations are for longer run return to steady growth in subsequent years.

Trade has been a major factor in the growth of the broiler industry over the last 2 decades and the United States is expected to export 7.5 billion pounds of broiler meat in 2014, up from 7.4 billion pounds in 2013. The United States is the world's second largest broiler exporter and U.S. exports have generally grown at or exceeded the rate of production growth. Exports represented just under 20 percent of broiler production in 2013, up from less than five percent prior to 1990. Mexico is the largest destination for U.S. exports accounting for 19 percent in 2013 of U.S. exports, but Russia and Canada are also significant destinations as well as Georgia, Angola and Cuba in recent months.

The U.S. broiler industry has benefited from income and population growth overseas as consumers in developing economies look for increasing quantities of meat imports. Broiler meat has also benefited from the complimentary nature of consumer demand in those countries. Little of what is exported is whole chicken. While breast meat is in high demand in the United States, for many of our export destinations, leg meat is preferred and leg quarters have become the dominant broiler product exported (*Figure 15*). The availability of a segmented market has helped boost the overall value of the bird to producers.

Despite higher production, tight supplies of beef and pork and improving economic conditions are likely to support stronger demand for broiler meat putting upward pressure on retail prices. For 2014, the National Composite Weighted Average Broiler price is forecast to average a record $1.00–$1.04 per pound, compared with just under $1.00 in 2013.

Turkeys

Turkey production for 2014 is forecast to remain flat at just under 5.7 billion pounds, about two percent lower as the number of poults placed remains below year-earlier. Since the second quarter of last year, turkey production has been consistently below year-earlier levels despite declining feed prices as weak turkey prices in the first half of 2013 have likely delayed expansion plans. Eggs set in incubators were below year-earlier through the fourth-quarter 2012 and into early 2014. With stronger whole turkey prices forecast for 2014 and moderate feed costs, producers are expected to expand in the second half of 2014. A portion of the growth in production is likely to be the result of heavier weight birds as producers take advantage of lower prices feed. Turkey stocks at the end of February were 17 percent lower than a year earlier with the largest decline in legs which fell 59 percent boosting prices for legs but with more limited upward pressure on whole bird prices. Year on year growth in inventories is expected in the second half of 2014 as production lags.

The National turkey hen price is forecast to average $1.03–$1.08 per pound, compared to an average of $1.00 in 2013.

In 2013, turkey exports were five percent lower, largely on weaker sales to most major markets. Turkey exports for 2014 are forecast to decline about six percent to 710 million pounds as demand remains soft and other poultry products are competitive as turkey prices rise.

Eggs

Egg production slipped in 2007 and 2008 as producers responded to increasing feed costs and relatively weak egg prices. However, with only modest increases in production, egg prices have steadily increased in the past several years, supporting continued expansions despite high feed prices. Total U.S. egg production in 2014 is expected to be 8.06 billion dozen, almost two percent higher than 2013

Table egg production is expected to increase about two percent to 6.97 billion dozen as producers respond to lower feed prices and higher egg prices in the first half of 2014. On January 1, 2014 the number of table egg layers was about two percent higher than year-ago. Table egg layers have been above year-earlier since October 2011. Hatching egg layers were also up over two percent compared to a year ago with strength in both broiler-type and egg-type layers indicating expansion breeding stock for both uses. Hatching egg production is expected to increase about 2.5 percent in 2014 as broiler and table egg producers look to expand bird numbers and increase production.

Annual per-capita consumption of eggs for is currently estimated at 255.1 eggs. Between 1945 and 1995, per-capita egg consumption decreased about 44 percent, from over 400 eggs per person per year to 232 eggs. Since then per capita egg consumption has risen by about ten percent. Most of the growth in consumption has been in the form of eggs processed in food products (*Figure 16*).

For 2014, New York wholesale egg prices are forecast to average $1.26 to $1.32 per dozen, up from the $1.25 average for 2013. Prices are expected to decline in the second half of the year as output expands on hatching egg decisions made in the past several months.

In 2013, egg and egg product exports increased 23 percent to 372 million dozen, shell egg equivalent. The main driver of the increase was exports to Mexico as an outbreak of highly pathogenic Avian Influenza in Jalisco in mid-2012 reduced Mexican egg production and has since limited Mexican egg availability as local production attempts to rebuild. Higher sales to Japan and Canada also supported increased egg exports. Looking forward to 2014, egg exports are forecast at 312 million dozen, down 16 percent as Mexico's production recovers and egg prices strengthen.

Retail Prices

Consumer expenditures for meats, poultry and eggs account for almost ⅕ of total at-home food expenditures. While recent changes in the Consumer Price Index (CPI) for food consumed at home have been low relative to historical levels, high product prices for animal products have resulted in larger increases in retail prices for meats, poultry and eggs prices relative to other food items. Beef and veal prices, which are already at or near record levels across the country, rose 1.9 percent in March and are up 7.4 percent over March 2012 levels. Pork prices rose 1.9 percent in March and are up 5.3 percent over year ago levels. Chicken prices in March were up 4.9 percent over March 2013 levels while egg prices were up almost ten percent from a year ago.

Table 3 shows annual inflation rates for various food categories since 2010 as well as forecasts for 2014. Aggregate food at home prices have, on average, risen by 2.1 percent annually since 2009. Over the same period, meat prices rose by four percent annually with retail prices for beef and veal increasing, on average, by 5.3 percent annually. Between 2009 and 2013, pork, poultry and egg prices rose annually by 3.6 percent, 3.2 percent and 4.2 percent, respectively. With the exception of fish and seafood (3.2 percent annual increase), dairy products (2.5 percent annual increase) and fats and oils (3.3 percent annual increase), most other food categories had annual inflation rates less than two percent.

The Economic Research Service forecasts changes in the CPI for food at home for 2014 to be in line with historical rates of inflation at 2.5 to 3.5 percent.

Table 3.—Annual Change in Consumer Price Index, Selected Categories, With Forecasts for 2014

	Weight	2010	2011	2012	2013	Avg. 2010–13	Forecast 2014
Food at home	100.0	0.3	4.8	2.5	0.9	2.1	**2.5 to 3.5**
Meats, poultry, and fish	21.4	1.9	7.4	3.6	2.1	3.7	**2.5 to 3.5**
Meats	13.8	2.8	8.8	3.4	1.2	4.0	**2.5 to 3.5**
Beef and Veal	6.6	2.9	10.2	6.4	2.0	5.3	**3.0 to 4.0**
Pork	4.2	4.7	8.5	0.3	0.9	3.6	**2.0 to 3.0**
Other meats	3.1	−0.1	6.4	1.7	−0.1	2.0	**2.0 to 3.0**
Poultry	4.1	−0.1	2.9	5.5	4.7	3.2	**3.0 to 4.0**
Fish and seafood	3.5	1.1	7.1	2.4	2.5	3.2	**2.5 to 3.5**
Eggs	1.3	1.5	9.2	3.2	3.3	4.2	**3.0 to 4.0**
Dairy products	10.5	1.1	6.8	2.1	0.1	2.5	**2.5 to 3.5**
Fats and oils	3.1	−0.3	9.3	6.1	−1.4	3.3	**1.5 to 2.5**
Fruits and vegetables	15.0	0.2	4.1	−0.6	2.5	1.5	**2.5 to 3.5**
Fresh fruits & veg	11.5	0.7	4.5	−2.0	3.3	1.6	**2.5 to 3.5**
Fresh fruits	6.1	−0.6	3.3	1.0	2.0	1.4	**3.5 to 4.5**
Fresh vegetables	5.4	2.0	5.6	−5.1	4.7	1.7	**2.0 to 3.0**
Processed fruits & veg	3.5	−1.3	2.9	3.8	0.3	1.4	**2.5 to 3.5**
Sugar and sweets	3.5	2.2	3.3	3.3	−1.7	1.7	**2.0 to 3.0**
Cereals and bakery products	14.3	−0.8	3.9	2.8	1.0	1.7	**1.5 to 2.5**
Nonalcoholic beverages	11.0	−0.9	3.2	1.1	−1.0	0.6	**2.5 to 3.5**
Other foods	19.9	−0.5	2.3	3.5	0.5	1.5	**2.0 to 3.0**

Source: BLS and ERS.

Safety Net for Livestock Producers

USDA offers several types of programs to assist livestock producers manage and recover from events that adversely affect their production. Many livestock producers are also crop producers and so the discussion here is limited to programs that are specific to livestock production. The two main types of programs that are directly targeted to livestock production are insurance products and supplemental disaster assistance.

Insurance programs. USDA's Risk Management Agency offers several products that are tailored to livestock production: livestock gross margin policies (LGM), livestock risk protection policies (LRP), and several policies to guard against adverse weather affecting on-farm forage production. LGM and LRP are livestock pilot programs and are limited by the Federal Crop Insurance Act to total annual outlays for all livestock programs of $20 million per fiscal year. The bulk of the monies available to those pilots are used in the LGM-Dairy program.

Pastureland, rangeland, and forage losses can be insured under individual or area-based forage policies or under the index-based Pasture Rangeland and Forage (PRF) policy based on a rainfall or vegetative index. The PRF-Rainfall Index (PRF–RI) is based on weather data collected and maintained by NOAA's Climate Prediction Center. The index reflects how much precipitation is received relative to the long-term average for a specified area and timeframe. The PRF-Vegetative Index (PRF–VI) is based on the U.S. Geological Survey's Earth Resources Observation and Science (EROS) normalized difference vegetation index (NDVI) data derived from satellites observing long-term changes in greenness of vegetation of the Earth since 1989.

In 2013, forage and forage seeding policies covered almost 3.5 million acres with crop value of $631 million; and rainfall and vegetative PRF programs covered 54 million acres with an insured crop value of nearly $1 billion. In total producers paid about $110 million in premiums for those policies in 2013, which covered approximately $200 million in losses.

In addition, mechanically harvested or grazed forage production can be covered under the noninsured crop disaster assistance program (NAP), which covers the up to 50 percent of losses. NAP payments were $225 million in 2013.

Livestock disaster assistance. On April 14, 2014, USDA published its final rule implementing the supplemental disaster programs from the new farm bill. On April 15, the department began to sign-up producers for those four permanent disaster programs. Three—the Livestock Forage Disaster Program (LFP), the Livestock Indemnity Program (LIP), and the Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP), cover certain livestock losses.

Those programs were previously authorized through September 30, 2011 under the 2008 Farm Bill (the Food, Conservation, and Energy Act of 2008, Pub. L. 110–246). With the authorization provided in the 2014 Farm Bill, those disaster assistance programs are permanent, continuing programs that are not subject to annual appropriations. They are expected to provide more than $2 billion in payments to producers for eligible losses that have occurred since the expiration of the livestock disaster assistance programs in 2011 for years 2012 and 2013 (*Table 4*). Within the first week of signup, $9.4 million in LFP payments had been requested or were awaiting certification, and more than $4 million had been disbursed. Overall payments from 2012 to 2023 are forecast to be about $6 billion (of which about 85 percent is for Livestock Forage Disaster Program payments).

LFP provides payments to eligible livestock producers that have suffered livestock grazing losses due to qualifying drought or fire. An eligible livestock producer must own, cash lease, or be a contract grower of eligible livestock during the 60 calendar days before the beginning date of the qualifying drought or fire in a county that is rated by the U.S. Drought Monitor as D2, D3, or D4. LFP payments are forecast to be approximately $5 billion from 2012–2023.

LIP provides disaster assistance to livestock owners and contract growers that have incurred livestock death losses in excess of normal mortality due to adverse weather (including hurricanes, floods, blizzards, disease, wildfires, extreme heat, and extreme cold) during the calendar year. LIP also provides assistance to livestock owners and contract growers that had losses due to livestock deaths in excess of normal mortality due to attacks by animals reintroduced into the wild by the Federal Government or protected by Federal law, including wolves and avian predators. Eligible livestock includes beef cattle, dairy cattle, bison, poultry, sheep, swine, horses, and other livestock as determined by the Secretary. LIP payments are forecast to be $700 million from 2012–2023.

ELAP provides emergency assistance to eligible producers of livestock, honeybees, and farm-raised fish that have losses due to adverse weather, or other conditions, that are not covered under LFP or LIP. ELAP payments are forecast to be about $150 million from 2012–2023. ELAP payments are capped by the 2014 Farm Bill at $20 million annually.

To expedite applications, information on the types of records necessary can be provided by local FSA county offices. Note that the final rule provides producers with greater flexibility as to their documentation. For example, for ELAP, if verifiable or reliable records are not available, FSA may now accept producers' certification of eligible losses if similar producers have comparable eligible losses, as determined by FSA. The final rule does not, however, change the requirement that participants receiving ELAP, LFP, and LIP payments must keep documentation supporting the request for payment for 3 years following the end of the year in which the application for payment was filed. That record-keeping requirement is consistent with other FSA rules and programs, as well as with previous similar disaster assistance programs. County offices can schedule appointment times for sign-up.

Table 4.—Estimated Outlays for FSA Livestock Disaster Programs

(Millions)

Program	Average FY 2008–11	Retroactive Payments FY 2012–13 estimate	Forecast FY 2012–23
ELAP	$11.3	$20.9	$154
LIP	$42.9	$98.4	$728
LFP	$443.0	$2,218	$5,061
Total	$497.2	$2,337	$5,943

Source: Regulatory Impact Assessment associated with the Farm Service Agency Final Rule. *http://www.regulations.gov/#!documentDetail;D=CCC_FRDOC_0001-0253*.

Conclusions

Following years of high feed costs and tight margins, the outlook for livestock and poultry appears to be improving but significant challenges in the beef and pork sector remain. Record high output prices and reduced prices for grains and oilseeds are tempered by lingering drought and the spread of PEDv. Production of red meat and turkey production is forecast lower for 2014. Although broiler production is forecast to increase, the gain will be insufficient to offset declined in the other meats. Livestock and poultry prices will be higher in 2014, reflecting tight overall meat supplies and improving demand. Eventually production of red meat, poultry and eggs is expected to increase when producers are able to take advantage of more favorable margins to expand herds and flocks, and increased production will then moderate retail prices for red meats, poultry and eggs. How soon steer and hog prices respond will depend on whether we see improvement in pasture and forage conditions in the Southern Plains and the west and the extent to which PEDv can be controlled through biosecurity practices. Despite global production records for most grains and oilseeds in 2013, global grain and oilseed stocks remain tight going into 2014/15 crop year. As such, feed costs and livestock margins will remain vulnerable to potential supply shocks throughout the year.

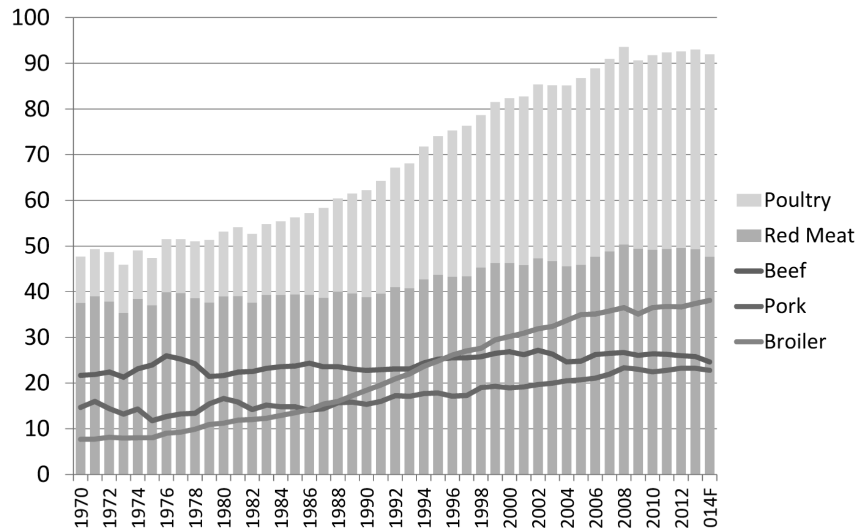
References

MacDonald, J. and P. Korb (2011). *Agricultural contracting update: Contracts in 2008.*

CHARTS

Figure 1

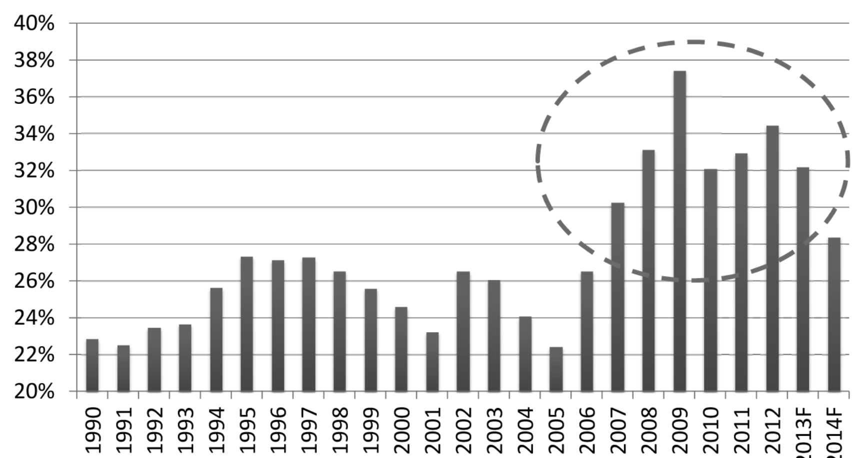
U.S. Red Meat and Poultry Production



Source: USDA–NASS.

Figure 2

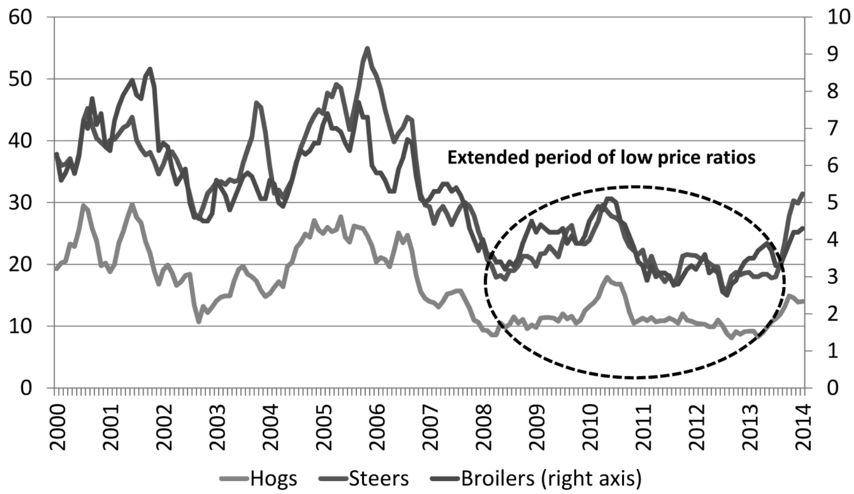
Feed Costs as Percent of Total Livestock Receipts



Source: USDA–ERS.

Figure 3

Feed Price Ratios Improve in 2013

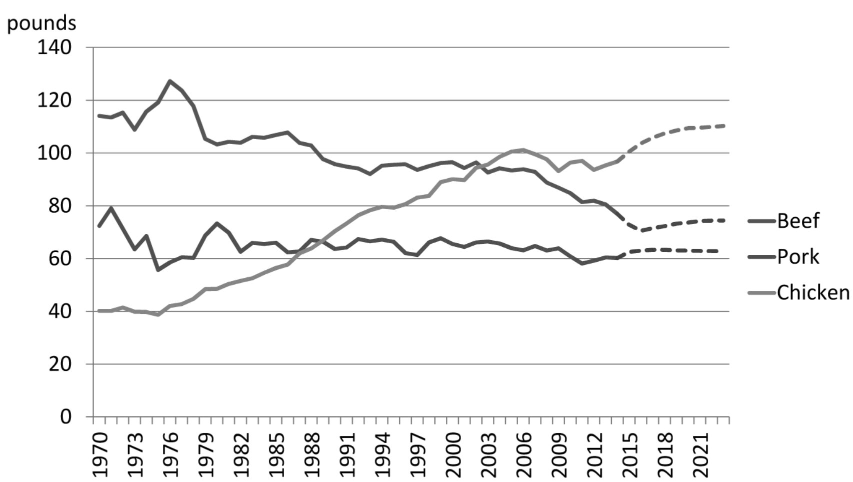


Source: USDA–NASS.

Figure 4

Per Capita Meat Consumption

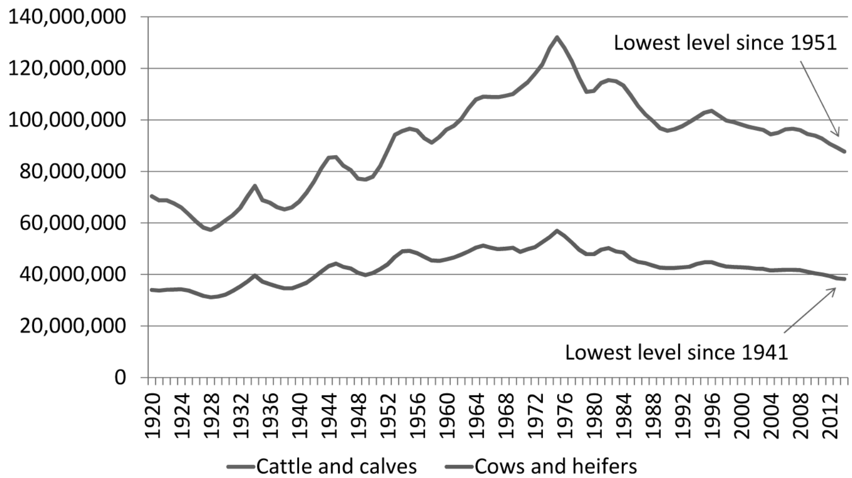
Carcass Equivalent



Source: USDA–ERS.

Figure 5

Cattle Inventory as of January 1



Source: USDA–NASS.

Figure 6

U.S. Cattle Areas Experiencing Drought

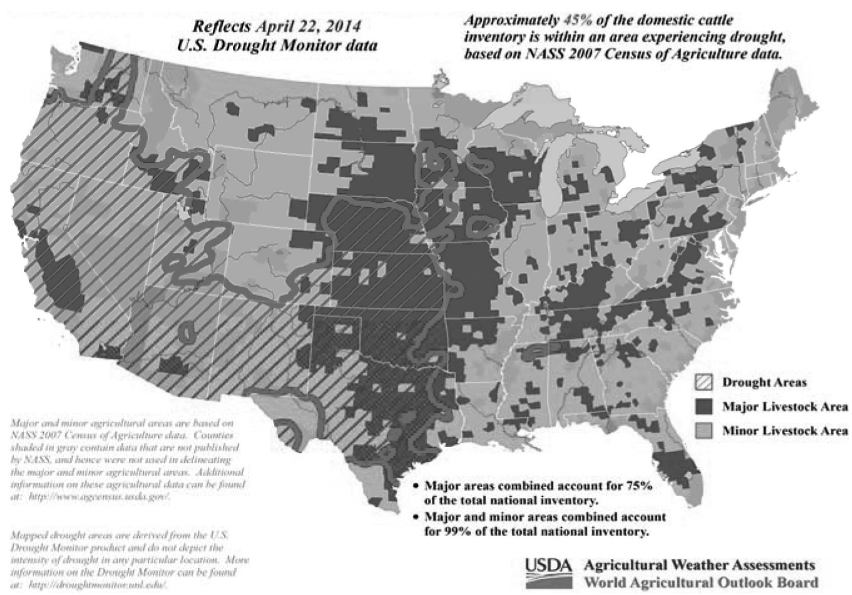


Figure 7

U.S. Cattle Areas Located in Drought

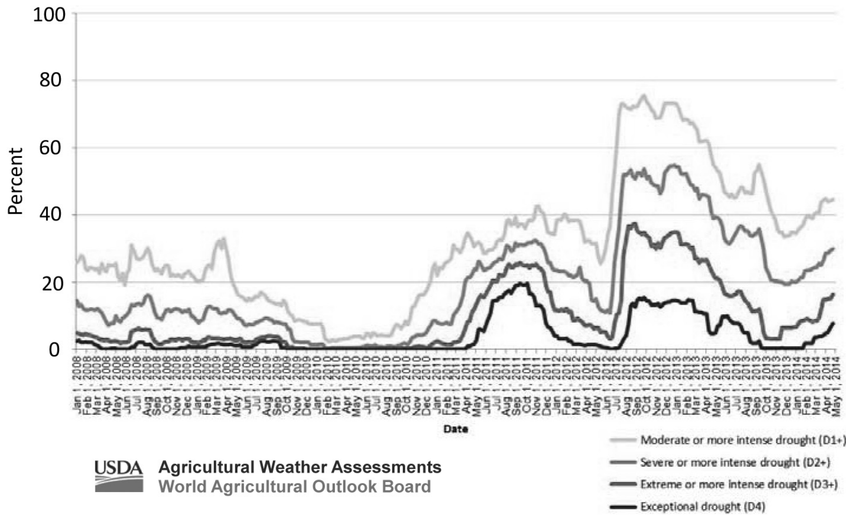
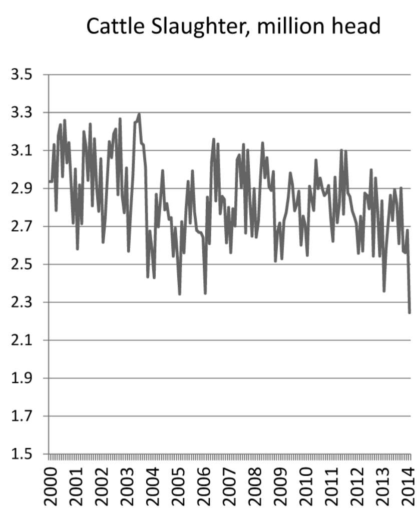
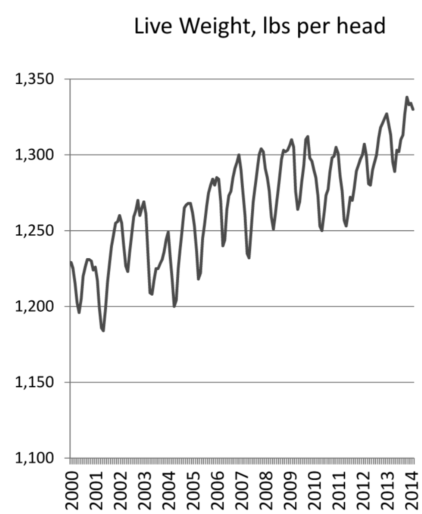


Figure 8

Cattle Slaughter



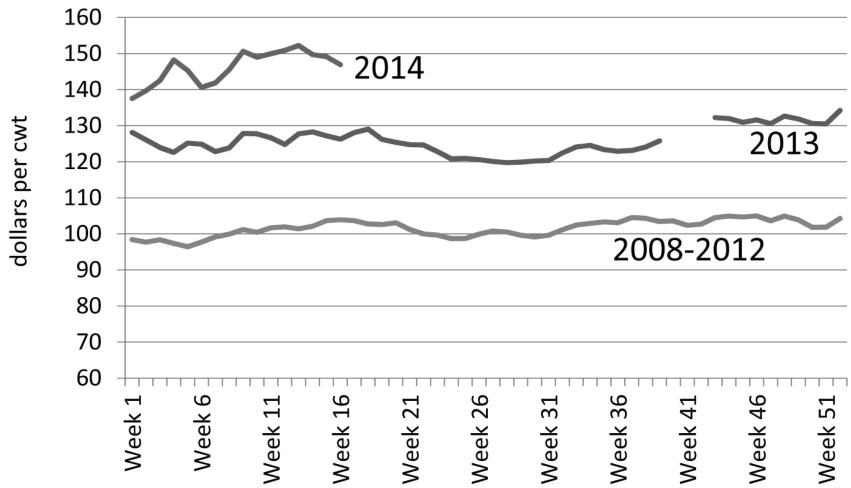


Source: USDA–NASS.

Figure 9

Weekly Steer Price

5 Area Steer Price, All Grades, Live Weight

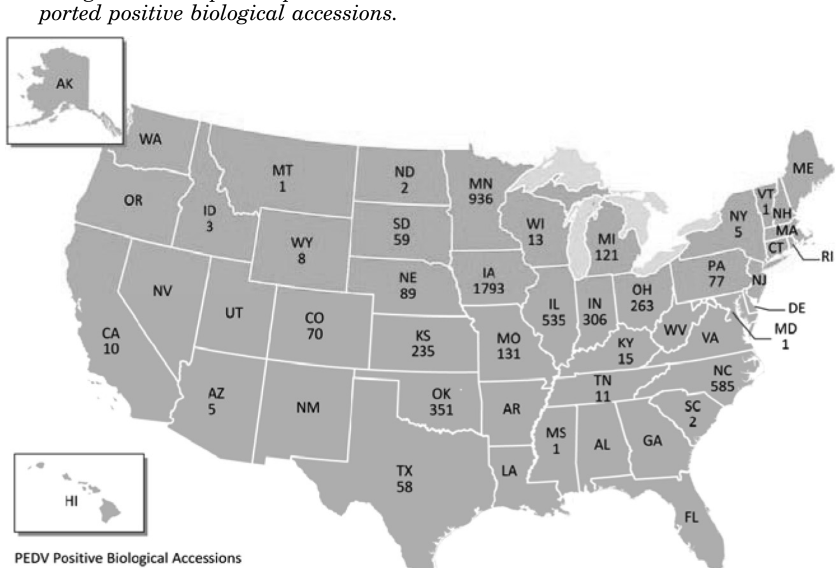


Source: USDA–AMS.

Figure 10

PEDv Positive Biological Accessions

**Virginia has reported positive environmental accessions but have not reported positive biological accessions.*

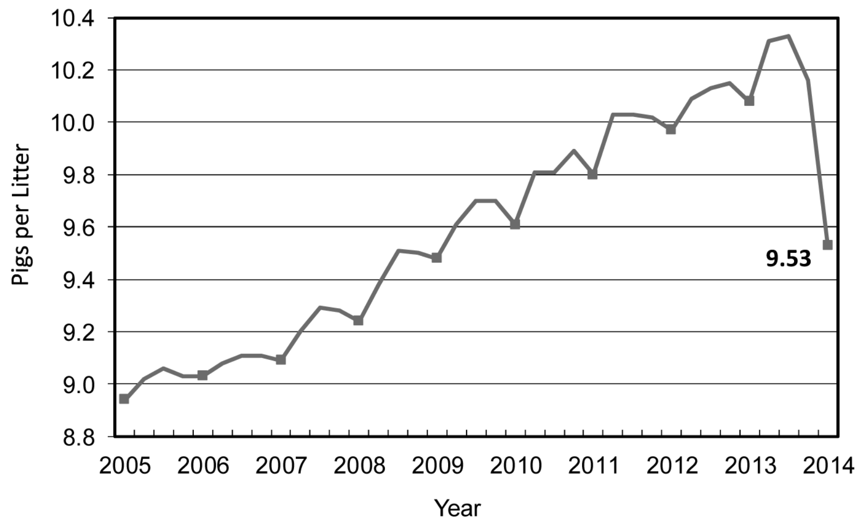


Source: AASV.

Figure 11

U.S. Quarterly Pigs per Litter

December–February

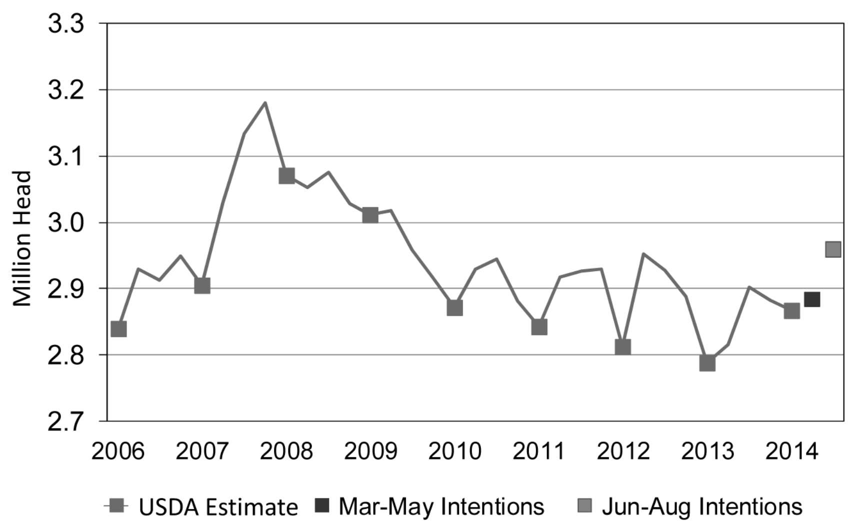


Source: USDA–NASS *Hogs and Pigs Report,* March 28, 2014.

Figure 12

U.S. Quarterly Sows Farrowed

December–February

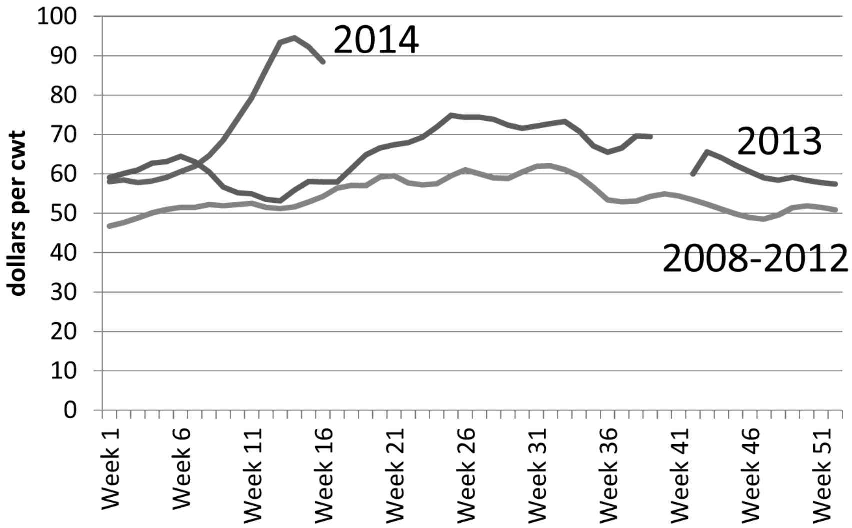


Source: USDA–NASS *Hogs and Pigs Report,* March 28, 2014.

Figure 13

Weekly Hog Price

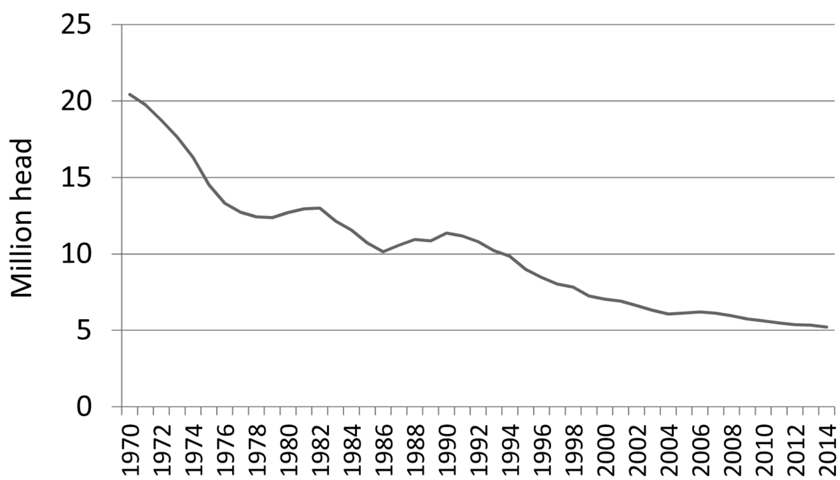
National Base Lean, Live Equivalent



Source: USDA–AMS.

Figure 14

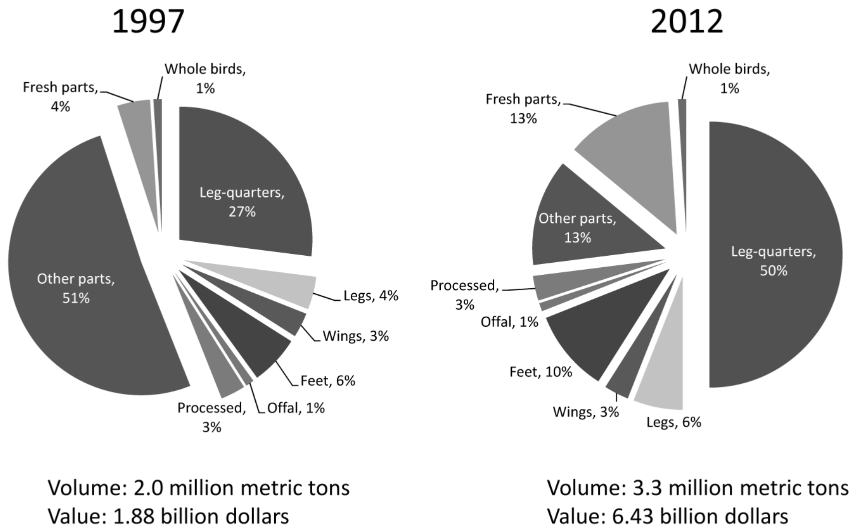
U.S. Sheep and Lamb Inventory, January 1st



Source: USDA–NASS.

Figure 15

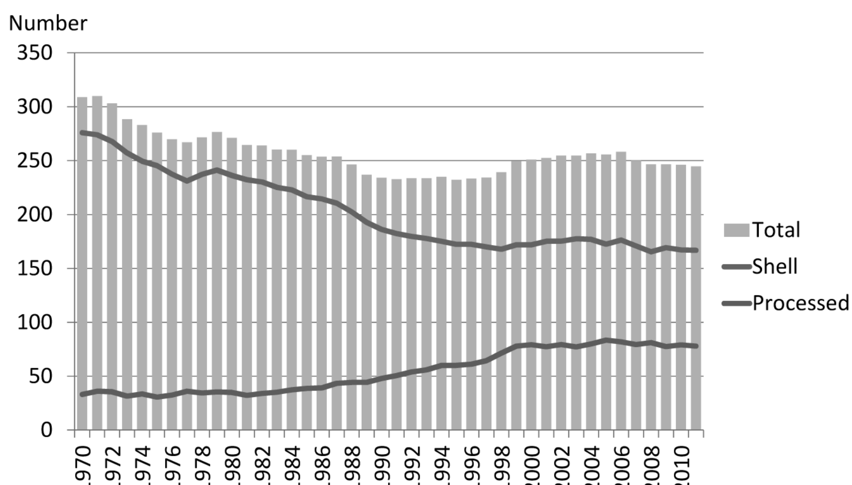
Broiler Trade by Product Type Export Volumes



Source: USDA–ERS *Assessing the Growth of U.S. Broiler and Poultry Meat Exports,* November 2013.

Figure 16

Per Capita Egg Consumption



Source: USDA–ERS.

The CHAIRMAN. Thank you, Dr. Glauber.

We will go ahead and begin our first round of questions. The chair would like to remind Members that they will be recognized for questioning in order of seniority for Members who were present at the start of the hearing. After that Members will be recognized in order of their arrival. I appreciate Members' understanding and cooperation.

Thanks again, Dr. Glauber. Let me ask you this. I will start with the subject that the Ranking Member spent a lot of time on. It is in the 2014 Farm Bill, includes section 12104 requiring USDA to conduct an economic analysis of the May 2013 Country-of-Origin Labeling rule with respect to its impact on consumers, producers, and packers in the United States. This analysis is not due for a couple of months, but I was wondering if you could offer some insights, comments regarding your progress and preliminary findings.

Dr. GLAUBER. Well, thanks very much. We are—you are right. We certainly were aware of the language. We began looking at preparing some of the materials and getting together some of the literature on this. There is actually fairly extensive literature on what the impacts of mandatory Country-of-Origin Labeling has on potential markets. Unfortunately, few of them are directed specifically at the rule, and I think that is the challenge for us is to kind of look at both the 2009 and 2013 rule. But we have been looking at the economic literature. We have been also looking at the comments filed for both rules just to see how proponents and others are bringing other information to the table.

It is clear that mandatory Country-of-Origin Labeling imposes costs on the industry. I think there is no question about that. Even our—the analyses that accompanied the rulemaking both in 2009 and 2013 talked about that. It is also clear that the mandatory COOL has adversely affected trade in live animals. If you look at Canadian—Canada slaughtered cattle is down about 25 percent from 2008. Canada feeder cattle are down about 44 percent. Canada feeder pig imports are down about 41 percent, and slaughtered hogs are down to almost ⅔.

Now, not all of that is due to COOL. Canada, their hog and cattle industries have been under the same pressures ours have been in terms of high feed costs and things. But the issue that we will be trying to sort through here is what—what are the impacts of this, how these costs are impacting things, and we want to do a good job and we want to do an objective job on it, and so we will be spending some time on that over the next few months.

The CHAIRMAN. Okay. If the WTO case goes against the United States this summer, many observers say that we are potentially looking at $2 billion in retaliatory tariffs, a large portion of which is aimed at our agriculture community. In your view, is this additional economic burden on our farmers and ranchers worth the value of MCOOL?

Dr. GLAUBER. Well, I am not going to comment on the case just because of the fact that it is in the WTO, and I don't want to prejudice anything there. The timeline, as I understand it, is we will likely get a preliminary report in June and then an official report published later in the summer. At that point there could be a potential appeal by either parties, and then after that there will be an arbitration panel, and that will decide on the damages. If awarded damages, Canada and Mexico would have the right to impose duties on U.S. products.

I think it was mentioned by Congressman Costa that we do a lot of business with both Canada and Mexico. We export about $2 billion worth of pork and $2 billion worth of beef to both those countries, so that—obviously, if some duties were imposed against those products, that would—that would hit our hog and cattle industries as well.

The CHAIRMAN. Thanks. Over the last couple of decades, we have seen an upward trend in the portion of livestock production that occurs under contract. What are the economic forces that drive that trend, and what does it mean for livestock producers?

Dr. GLAUBER. Well, of course, most livestock and poultry farms are family owned and operated, but they are becoming more closely linked to input providers, processors through formal contracts, joint ownership of animals and vertical integration. Some studies that the Economic Research Service has done suggests that—and these actually are a little dated, so the numbers are probably a bit higher—that more than ½ of all livestock production is now under some sort of formal and long-term contractual relationships. Some of these contracts commit processors and farmers to specific volumes of production to be delivered at a specific point in time with pricing formula based on product quality, volumes, and market conditions. Other arrangements will pay farmers a fee for growing livestock provided by the contractor, and we have seen that certainly in the poultry model and in—with some hog production now.

These marketing arrangements, and I think it was mentioned again by Congressman Costa, have been shown to have a lot of benefit, but we—GIPSA contracted a study back in 2007 that looked at alternative marketing arrangements that showed that those—a lot of those contracts provided billions of dollars to—and benefits in terms of—for both producers and then also consumers who were looking for production to be tied to specific consumer preferences.

The CHAIRMAN. Thank you, Dr. Glauber.

I now recognize Mr. Costa for 5 minutes, our Ranking Member.

Mr. COSTA. Thank you again, Mr. Chairman.

Dr. Glauber, as the Chief Economist for the United States Department of Agriculture, we welcome your testimony, and clearly, by some of your initial answers to the questions by the Chairman, I think you are in part helping me make the case that I was making earlier as it relates to my concerns for mandatory labeling, MCOOL, as well as for the impacts of GIPSA.

Let me ask you, with regards to MCOOL, has your office estimated a cost of implementation based either on the 2008 Farm Bill or on now the 2014 Farm Bill? I know we just implemented it a couple of months ago, but are you dealing with that?

Dr. GLAUBER. We are dealing with it. As the Chairman mentioned, we have a specific——

Mr. COSTA. Right.

Dr. GLAUBER.—provision in the farm bill to look at that. We are looking at it. I don't have answers for you right now, but we are looking at that, certainly.

Mr. COSTA. Okay. Both for 2008 as well as for——

Dr. GLAUBER. Well, I think it is hard to look at the 2013 rule without considering the 2009 rule. The 2013 rule, as you know, deals specifically with the commingling issue.

Mr. COSTA. Right.

Dr. GLAUBER. But the labeling issue itself—and there was some analysis done at the time.

Mr. COSTA. Would it be——

Dr. GLAUBER. I am sorry.

Mr. COSTA. Would it be safe to say that the rules or the propagation of the rules have not been subject to an economic impact analysis?

Dr. GLAUBER. Well, that is not entirely true. Both rules—I mean, they were significant rules, and as such, they were required to have a cost-benefit analysis associated with them.

Mr. COSTA. What does the Department believe, and I know it may be a bit out of your area, of the perceived consumer benefit as a result of mandatory——

Dr. GLAUBER. Well, impact, I think the economic analysis that was done at the time of the 2009 rule and the 2013 pointed out that there is no direct evidence of consumer benefits, quantifiable benefits.

Mr. COSTA. Well, and that—I mean, if it is not benefiting the consumer, and if it is not benefiting the industry, my question is what are we doing?

Assuming—let me move on here because that—I mean, I wouldn't go out on a limb to predict what the World Trade Organization may or may not do, but based upon previous decisions, it seems to me that it is likely that we may not have a favorable ruling under the current structure. What—at what point, if, in fact—and you talked about the timelines—how will we respond if, in fact, trade retaliation takes place?

Dr. GLAUBER. Well, a couple of things. One is the case certainly isn't settled, and certainly the USTR attorneys feel they have a good case that they put forward here.

Mr. COSTA. I have gone through amber box and the other with Brazil and other stuff where we thought we may have a good case.

Dr. GLAUBER. Yes. I understand your point. Again, with the timetable, you are really talking about, again, if you go through an appeal process and, presuming a loss on the appeal process, into arbitration, you are really talking about 2015 or so.

Mr. COSTA. How about enough—different idea, plan B. Why don't we maybe at that point cut our losses?

Dr. GLAUBER. Well, that is certainly—one always has—at any one of these junctures has the ability to make a decision whether or not to move forward.

Mr. COSTA. All right. Well, I think for those of us in the Subcommittee and those in the full Committee that think that this, in fact, may occur later this summer, it is appropriate that we revisit this and maybe apply a little common sense and look at an alternative if, in fact, we get an unfavorable ruling, it seems to me. I know that is at a—up on the higher end on the food chain level in terms of decision-making.

But let me move onto RFS standard quickly before my time runs out. Feed costs are a critical concern of every element of the livestock industry. I made the comment that I think these impacts of RFS standard has been price distorting. Would you comment, please?

Dr. GLAUBER. Well, I think there is no question that the ramp-up in ethanol production over the period 2005 to 2009 had a big impact on feed grain costs.

Mr. COSTA. When you go from 12½ percent of the production to ethanol to 40 percent, it seems to me it would have a significant impact.

Dr. GLAUBER. Well, over that period, corn use for ethanol grew annually by about 750 million bushels. Now, not all the price impacts over that period can be tied to ethanol. There were a lot of things going on in the—in world markets, but understand, too, that about ⅓ of that corn use for ethanol comes back in the form of feed, in the form of distilled or dried grains.

However, I think it did take the industry a little bit of time to work that into feed rations, and also it worked better for some species rather than others. I think what you are seeing since about 2009 is ethanol production has been flat, and, again, due mainly to the so-called blend wall, that we have—the corn use for ethanol number has been flat at around roughly 5 billion bushels going into ethanol, and, again, ⅓ of that coming back.

I think as we have seen a rebuilding of stock, certainly we are seeing those corn prices come down and feed costs, but there is no question in my mind that certainly this has been a—was a big driver from—particularly over the period 2005 to 2010.

Mr. COSTA. Thank you. My time has expired, and if there is a second round, I would like to get into the GIPSA question, but clearly we appreciate your testimony.

And thank you, Mr. Chairman.

The CHAIRMAN. I thank the Ranking Member.

I now recognize the gentleman from Texas Mr. Conaway for 5 minutes.

Mr. CONAWAY. Thank you, Mr. Chairman.

Dr. Glauber, thanks for being here.

On the GIPSA rule and the effect it might have on the livestock alternative marketing arrangements, can you talk to us about what the effect of the GIPSA proposed rule would have on those arrangements and what economic impact that would then have on consumers as well as producers?

Dr. GLAUBER. Well, frankly—sorry. The final rule that was published was a lot, lot different than the proposed rule that was published back in what, 2009 or 2010. The one in 2010 would have—there were a lot of concerns that that would have impacted AMAs, or these alternative marketing arrangements. The rule that was put out in what, I guess, 2012 or 2013, I am sorry I don't have the dates in front of me, was—stuck mainly to the provisions in the farm—the statutory provisions in 2008 Farm Bill. With one exemption, that being the tournament system, I think there were some things that would have affected the tournament system for poultry producers, but because of appropriations language, *et cetera,* GIPSA is not implementing those provisions.

Mr. CONAWAY. Well, that is—we understand, but what would be the economic impact if, in fact, the interpretation on these last round of GIPSA rules did, in fact, eliminate AMAs? What would be that——

Dr. GLAUBER. Well, yes. I think that the proposed rules at the time, a lot of the concern that were expressed would be that the costs would be quite high; that is, mainly in the loss of AMAs. If there——

Mr. CONAWAY. Cost to who?

Dr. GLAUBER. If there is potential for—the one thing that a lot of processors and others pointed out is the potential impact of litigative risk, and because of that, that it would be a lot easier just to drop the marketing arrangements and go to more standard pricing.

Mr. CONAWAY. Earlier you mentioned in your testimony there were billions of dollars involved. Would those billions of dollars be to the benefit of consumers as well as this system, would those have been lost in that regard?

Dr. GLAUBER. To the——

Mr. CONAWAY. Trying to not put words in your mouth. I was——

Dr. GLAUBER. Again, and this is just doing the reverse of the studies that say that there—if indeed these market arrangements went away. There is no question, and I think that was certainly considered when they went—when the Department went through with the final rule.

Mr. CONAWAY. Okay. The APHIS is considering beef imports from Brazil. I am getting a lot of concern and angst, anxiety expressed by an awful lot of beef producers and others. Can you—and again, they are going to go through all kinds of science and everything else, but can you talk to us about what you think the economic impact would have in an outbreak of foot-and-mouth disease, particularly if it migrated into the feral hog population in Texas, and how hard it would be to eradicate? And then what would be the overall economic impact in your view?

Dr. GLAUBER. Yes.

Mr. CONAWAY. If we got it wrong, and, in fact, it was transmitted.

Dr. GLAUBER. I know there is a lot of concern in the industry with the proposed rules to allow imports of fresh frozen beef in from Brazil and Argentina. In regards to Brazil, APHIS conducted a risk analysis of the region and concluded that beef could be safely imported. In regards to Argentina, they conducted a risk assessment and concluded FMD was not present in Patagonia.

Now, they allowed comment on these rules. They extended the comment period. I believe the comment period just closed within the last week or so, and so we have received a lot of comments from concerned parties. People will—APHIS will be certainly looking at these comments and will determine——

Mr. CONAWAY. You are the Chief Economist. Can you give us some sort of a scientific wild guess as to what the economic impact would be——

Dr. GLAUBER. Well, the economic impact——

Mr. CONAWAY.—if we had an outbreak——

Dr. GLAUBER. If you had an outbreak——

Mr. CONAWAY.—if you got it wrong?

Dr. GLAUBER.—of FMD would be pretty—pretty severe. I mean, we know——

Mr. CONAWAY. It is pretty severe if you look at the scientific proof.

Dr. GLAUBER. Oh, yes, you want me to round that?

Mr. CONAWAY. If you would, put some zeroes on that one.

Dr. GLAUBER. Well, I haven't—I don't have a ready answer for you, but I can tell you that what the UK went through.

Mr. CONAWAY. Okay.

Dr. GLAUBER. They went through a fairly large destruction of their herd, and that was pretty substantial.

However, I think it is real important to recognize that we keep stressing to other countries to base import decisions and any sort of things based on sound scientific principles, and I think that when we have an outbreak of AI, or when we have a problem like the instance of BSE——

Mr. CONAWAY. Right.

Dr. GLAUBER.—we spend a lot of time going to countries explaining why they should be using scientific methods, and I think that is what APHIS is trying to do here.

Now, I understand there is a lot—there is a lot of concern about this, and presumably we are going to see a lot of that concern, and people, whatever evidence they can bring to that, hopefully, this will all be considered when APHIS is doing these rules and taken into account.

Mr. CONAWAY. Right. I agree with the sound science. It is hard to defend it to export American stuff and not defend it on the imports, but I appreciate that, all those zeroes in that pretty statement.

Dr. GLAUBER. Yes, sorry.

Mr. CONAWAY. I yield back. Thank you, sir.

The CHAIRMAN. The gentleman yields back.

I recognize the gentleman from Georgia, Mr. Scott, for 5 minutes.

Mr. SCOTT. Thank you, Mr. Chairman.

I would like to go back and visit what I think is probably one of the top most crucial issues facing the future of agriculture, and that is our fuel and our energy. And I want to ask you what you think our future direction has to be, because we are getting mixed reports on ethanol *versus* fossil fuels, but the one thing we all know is that fossil fuels one day are going to run out. It is finite. And so we have the alternative here of ethanol.

I want to ask you two questions here. How can we really answer and respond to the vast, growing needs of fuel demands for agriculture given corn, which is arguably our most versatile product for feed, now for energy and for feed at the dinner table? The price of this corn has gone up in the last 7 or 8 years from about $2.50 a bushel to close to $4 a bushel. And then now we have the debate that in some sectors the corn—ethanol corn produces even a greater threat to the environment than petroleum.

Now, I want to get your opinion on this because it could be the petroleum industry wanting to set the stage for the way they want to go *versus* the corn industry. But seriously, Dr. Glauber, can you really tell us just how serious this situation is in this corn *versus* ethanol, because right now we in the United States, we import and we use—well, we use 18.8 million gallons of oil every day, and of that, we import 12 million gallons. So, this is the dilemma. What is the truth in this?

Dr. GLAUBER. Well, Congressman, you allow me to—as every good economist, I have several arguments, and this—this allows me to expound on it a bit more. I think that one way or the other, I think what we have seen is ethanol is here. I mean, corn-based ethanol is a vibrant industry, and I would argue that you may focus on looking at the Renewable Fuel Standard. The fact is ethanol is priced competitively to gasoline, that blenders use it for octane reasons and other things. There are constraints, certainly, with—blending constraints, and whether or not that goes beyond that is anyone's guess over the next several years. But when you see that ethanol is priced competitively to gasoline not just here, but in foreign markets, it goes a little bit towards explaining why ethanol exports have actually been strong as well.

And I think that ultimately you—what you did see under the Renewable Fuel Standard and this big growth is the capacity was built, and right now we have a capacity for production of around 14½, 15 billion gallons of ethanol annually, and producers—I think those producers are going to continue to produce ethanol from corn as long as profit margins are there, and profit margins have been there, and I think that one way or the other it is a part.

Now, hope—I am sorry. Go ahead.

Mr. SCOTT. What about the impact of land? I mean, it is the land that we have to increase to produce more corn. The price of land has jumped up now to about $9,000 an acre, putting a fantastic limit on trying to get beginning farmers in. I mean, the more corn that we grow, the more we rely on that; corn requires land, and the more land you use for corn, the less you use for others, and the price escalates.

Dr. GLAUBER. Well, two things about that, and I get back to the fact that since about 2010 or so, we have been pretty flat in terms of additional corn use for ethanol. We have been at around 5 billion, so that has been fairly flat, and we are expect—with yield growth, that means less land actually will be going into——

Mr. SCOTT. I have 1—just 1 second.

Dr. GLAUBER. Sure.

Mr. SCOTT. But I wanted to get your opinion on this latest news about corn—ethanol from corn having a greater negative impact on the environment and climate and all of that than petroleum, which, in my own opinion, I just can't see that. But I am sure you have heard of these competing reports coming out. What say you about that?

Dr. GLAUBER. Well, there is—yes. There are a lot of studies that are out there, and I—it would depend on which one you are talking about. I think it is clear that at least of the analyses that have been done, it suggests that the so-called indirect land use that have—of bringing—by virtue of the fact that we are growing more corn here, that we are creating demands for other commodities like soybeans in other countries that are creating, for example, Brazil tearing down forests which emit greenhouse gas emissions or whatever, the studies have tended to show that those impacts are likely less than what people thought maybe 5 years ago.

Now, granted, a lot—there is a lot of uncertainty in these estimates anyway, and in small changes in terms of what you think about yield growth, or what you think about yield growth in U.S., or what you think about yield growth in Brazil or some other part of the country—world can impact these analyses. And I know in this body we had a big hearing on this about 3 or 4 years ago, and so I think that these studies show that the impacts—for the most part, the studies are concluding now that the impacts are less than otherwise thought, but there are other issues like water quality, other things that people bring up, and I would be happy to chat further on this with you.

Mr. SCOTT. Thank you, sir.

Thanks for the extra time, Mr. Chairman.

The CHAIRMAN. Absolutely.

The gentleman yields back.

I recognize the gentleman from Iowa, Mr. King, for 5 minutes.

Mr. KING. Thank you, Mr. Chairman, and I appreciate your testimony, Dr. Glauber.

The subject that was brought up here by a couple of my colleagues generally from the other side of the aisle on the ethanol issue essentially directs my discussion as well. And I just punched the calculator here. I actually went on the Internet, and I thought what kind of corn increases have we seen in the memory of my lifetime? And when I heard the gentleman from California say that corn has—we were using 12½ percent of our crop at one time for ethanol, now it is 40 percent, that number, I guess, actually 38 percent of our crop, but I heard you say that ⅓ of that is coming back. Could you explain that to the panel, please?

Dr. GLAUBER. Well, in the ethanol production process, you convert a bushel of corn, you get ethanol out of it at around 2.7, 2.8 or so gallons, but what—excuse me. With that comes—about ⅓ of that volume comes back in the form of a byproduct, and it is something called distilled or dried grains, which——

Mr. KING. Let me define that——

Dr. GLAUBER. Yes.

Mr. KING.—just a little more precisely.

Dr. GLAUBER. Sure.

Mr. KING. And that is this: A bushel of corn breaks down at about three different parts, starch and protein and CO_2. And CO_2 is a byproduct of ethanol production, but it is also a byproduct of feed consumption. So I would submit that it is more accurate to say about ½ of it comes back, because ⅓ of the product goes off into the air and CO_2 whether you feed it or whether you convert it into ethanol. And I wanted to—I wanted to submit that into the record for discussion and actually ask your response to that.

Dr. GLAUBER. I would have to look at the—typically, just on a matter basis, been focusing—we focus—tend to focus on about ⅓ in terms of the volume of that comes back.

Mr. KING. I would ask you, if you could, come back to me and perhaps the panel with a response to that.

Dr. GLAUBER. Sure.

[The information referred to is located on p. 106.]

Mr. KING. Because I think it makes a difference. And we have quadrupled the corn production, in my memory, in my lifetime, and we are watching as yields have gone from 80 to 100 bushel starting back in that time in my memory up now to where there is a strong prediction of 300 bushel, and I have neighbors that are disappointed if they don't do 200 anyway. I think that is a—the market distortion of this that was addressed by the gentleman from California, do you agree with that statement that corn going into ethanol is market distorting?

Dr. GLAUBER. Well, I think corn going—certainly the ramp-up that we saw from 2005 to 2010 had a big impact on the increase in corn prices and soybean prices. Now, not all. We saw a big impact—we saw a lot of growth in world demand, we saw high energy prices, a whole range of factors, but you can't—people ask me about that, and if we were—if I were to tell you that corn exports increased from 1 billion bushels to 5 billion bushels and then say there was no impact on corn prices, you would look at me like I was crazy, and you have a similar thing going on with ethanol, but it is not the only thing going on with corn prices.

Mr. KING. I agree. And don't I recall the petroleum prices shot up a lot more than grain prices did during that period of time?

Dr. GLAUBER. Petroleum prices hit record levels over that—particularly the run-up to 2008.

Mr. KING. Corn prices did, but also petroleum prices shot up to record levels. And if we are going to accept the premise of the gentleman from California that it was market distorting on grain prices because of ethanol consumption from corn, wouldn't we apply also the same formula that it was market distorting to gas prices, and that they would have gone up a lot more had we not had those billions of gallons of ethanol into the marketplace?

Dr. GLAUBER. Well, and just to build on a point I made earlier; that is, ethanol has been priced very competitively to gasoline. The fact is for the long-term—what happens in the ethanol market will largely be determined by energy prices, and if oil prices continue to go up, then there is going to be demand for alternative fuels like ethanol.

Mr. KING. And it is true that a little over a year ago when I did a look at this, 24 percent of the domestically produced liquid fuel that is burning in gas-burning vehicles was corn-based ethanol. And can we—can you speculate as to whether we took—if we took 24 percent of a supply of any of the commodities, whether it be the gentleman's rice, or whether it be the corn or the beans, if we took 24 percent out of that marketplace, what would happen to the market prices?

Dr. GLAUBER. Well, you would see an increase.

Mr. KING. Dramatically.

Dr. GLAUBER. Yes.

Mr. KING. It would be dramatically.

And so I just quickly ask this question as I watch this clock tick down. As I understood in your comments on COOL, I would just make the comment that if the Administration would strongly come out and support voluntary COOL or repeal of mandatory COOL, we could get this done in the House and the Senate, and would bypass a lot of this discussion, and would save billions of dollars, and it would be a lot better deal to do with our trade partners.

But I wanted to ask you the economic question, and that is, on the egg issue, if California is successful in doubling the size of cage sizes and infrastructure for the egg producers in this country by regulating all of America from California by state statute, what happens to that requirement for infrastructure investment on the part of all egg producers in America?

Dr. GLAUBER. Well, certainly the concern—I know at the time the state regulations were being debated and going into force, there was a lot of concern among the California egg producers about what those costs would mean for them and the additional costs on egg production. And so I frankly haven't looked at the individual studies as closely, I would be happy to get back with you on that, but any time you put in specific standards like that, there are costs.

Now, weighing that against what the benefits are for consumer is the other side of that, and, again, I don't have any good numbers for you.

Mr. KING. I would appreciate it if you would get back to me on that, and I would just point out that doubling the infrastructure size doubles the cost, and that is the report I get back from them.

[The information referred to is located on p. 106.]

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentleman yields.

I recognize the Member from Oregon, Mr. Schrader, DVM, for 5 minutes.

Mr. SCHRADER. I will actually pass, Mr. Chairman, since I was unable to hear the testimony, and defer to my colleague from Connecticut.

The CHAIRMAN. Outstanding.

I will recognize Mr. Courtney from Connecticut for 5 minutes.

Mr. COURTNEY. Thank you, Mr. Chairman. Thank you, Mr. Schrader.

I am going to give you a break, Dr. Glauber, from corn for a few minutes. And I wanted to talk to you a little bit about USDA which has done some research about consumer demand for local meat and poultry which has shown that it is a pretty hot item for consumers, and even in Connecticut, we are experiencing that and hearing all about it, and it is a pretty exciting development, particularly for farmers all across—small farms all across the country.

The biggest sort of challenge that I hear a lot about, and I am sure I am not alone, the challenge of trying to process livestock in places that aren't part of the big supply chain of large meat producers. And again, given the fact that USDA has sort of confirmed this trend in terms of consumers, I was wondering if you could talk about whether or not USDA has some ideas and prescriptions about trying to really take advantage of this really exciting opportunity.

Dr. GLAUBER. Right, Congressman, and you are absolutely right. If you look at meat processing, it is a low-margin business, and the successful ones, you need a lot of throughput. But you weigh that against what has been going on generally across the country in terms of increased demand for local foods, those sorts of things, you clearly have a lot of people interested in that.

Now, the problem with a local processor is that they have to deal with all the same issues everyone else does. They have to deal with the same regulations, food safety regulations. FSIS has—they have now a website, or a special place on their website oriented towards small and very small processors to go through all the regulations to make sure that everyone is aware of that. That alone is actually a fairly big cost just knowing what you have to do.

They have some local food outreach efforts under way, and I would say that is true for producers as well. I mean, you look at getting certification for grass fed, with your small herd, under 50 head, those are—those are costly processes, and AMS has been putting forward a lot of effort to try to make those more accessible. They are on the verge of announcement of a Small and Very Small Producer Program that would certify for those sorts of things. So, how to address these niche markets and make it so that they can do a better job in a less costly way, particularly for kind of getting through the morass of regulations and all of that, to understand that better and to know kind of how to do it, at least FSIS, it seems like they are—they have a pretty strong outreach effort that—under way right now.

Mr. COURTNEY. The Cooperative Interstate Shipment Program also seems to be a way of trying to aggregate resources so that——

Dr. GLAUBER. Yes.

Mr. COURTNEY. You know, in a place like New England, for example——

Dr. GLAUBER. Right.

Mr. COURTNEY.—that a collection of small livestock producers could have a proximate facility to go to. Again, it seems like that is a program that USDA can also help to promote.

Dr. GLAUBER. No, absolutely. And you mentioned Economic Research Service just last year, last summer put out an excellent report on local foods and local processors of that. I will get you a copy. It is very good. They have a lot of case studies about how a lot of these businesses face all these additional costs, but then found ways through it and are seemingly thriving right now.

Mr. COURTNEY. I yield back, Mr. Chairman.

The CHAIRMAN. The gentleman yields back.

I now recognize Mr. Yoho, DVM, for 5 minutes, the gentleman from Florida.

Mr. YOHO. Thank you, Mr. Chairman.

Dr. Glauber, I appreciate you being here and your testimony.

Going back to the RFS, I hope for a complete repeal of that, but if not, in times of uncontrolled climate and growing conditions, what we saw, I think it was what, 2011, 2012——

Dr. GLAUBER. Right.

Mr. YOHO.—when the prices of corn shot up in our area, people were selling it for close to $9, $9.50 a bushel, which is unheard of in Florida, it was contracted, and we saw obviously the price of feed go way up. And in those kind of conditions, can we get the EPA—and I know it may be out of your jurisdiction, but would you recommend that they relax the mandate for X amount of gallons, 14 billion gallons it was at the time, to suspend that for a period of time until we can take care of the need of the food source for America?

Dr. GLAUBER. Congressman, I remember the waiver request quite well, and EPA does consult with—is required by law to consult with USDA during those waiver requests. Part of the problem—problems—well, no. Part of the problem is the fact that these are short-term waiver requests, and in looking at a waiver like that, I don't think you would have seen a gallon less ethanol produced largely because the gasoline blenders, others were using ethanol to enhance octane in gasoline supplies, so they needed—they needed ethanol, and they were bidding up the price of ethanol. They were creating high margins. That is something that, again, don't forget, even outside the regulatory structuring, and some are—obviously regulatory structure influences a lot of behavior, but outside the regulatory structure, there are a lot of economics.

Mr. YOHO. Right.

Dr. GLAUBER. And the fact is—with trying to get a—with the RFS, these gasoline blenders, over time, have utilized ethanol as a cheaper source of octane, and so to get rid of ethanol overnight, they would need octane, and so I think that—that is one of the reasons EPA concluded at the end that the waiver would have very little impact.

Mr. YOHO. Okay. You are saying also, too, that——

Mr. COSTA. Would the gentleman yield?

Mr. YOHO. Yes.

Mr. COSTA. Just point of information. Congressman Goodlatte and I had the opportunity here a few weeks ago to meet with the Environmental Protection Agency Administrator, and when we talked about the RFS, she said that this is the most difficult rule she has ever had to try to implement. Just to put that in the context of your conversation.

Mr. YOHO. Okay.

Mr. COSTA. The most difficult rule she has ever tried to implement.

Mr. YOHO. Well, that brings me up, you were saying that the price of ethanol is competitive. Would it be competitive if it wasn't for the 45¢ per gallon tax credit?

Dr. GLAUBER. That is gone.

Mr. YOHO. That is gone?

Dr. GLAUBER. Yes, that has been gone a few years now.

Mr. YOHO. My mistake then.

Let me switch over to the foot-and-mouth disease, the economic impact. You don't have a figure for that other than it has a lot of zeroes behind it?

Dr. GLAUBER. Well, I don't have a—no, I don't have a number on that. I mean, it is a legitimate issue, and then certainly again you can look at countries likes Taiwan or look——

Mr. YOHO. I did, and I looked at the economic impact on those countries. It ran into billions of dollars. And we looked at a study that had just five of the larger feedlots in America, but if it came here, it would be in the billions of dollars. And if you look back at BSE when we had the threat of the outbreak from the cow from Canada that went to Washington, that cost billions of dollars for a nondisease. But just the perception of American livestock or the quality of our beef, and I would urge, if you have any control, to work with us to make sure this beef doesn't come in until they have the safeguards in place that we know 100 percent, as much as we can, that it will not infect our livestock in this country. I mean, the livestock industry, especially the beef industry, is such a vital component of our economic sector.

And then I wanted to ask you real quickly on the porcine, the PEDv, are those hogs covered under the Liability Livestock Indemnity Program?

Dr. GLAUBER. They are not, and largely the Act is pretty specific about tying it to adverse weather, unfortunately.

Mr. YOHO. Okay.

Dr. GLAUBER. And for that reason we haven't considered indemnification under the Act.

Mr. YOHO. All right. I yield back, Mr. Chairman. Thank you.

The CHAIRMAN. The gentleman yields back, and I recognize the gentleman—do you want to go ahead and—okay. The gentlelady from New Mexico for 5 minutes, Ms. Lujan Grisham.

Ms. LUJAN GRISHAM. Thank you, Mr. Chairman, and I want to thank Dr. Glauber for being here today. And I am going to do—take a shift from corn, but continue to talk about how difficult it is to both project out the economics of the industries that we are talking about today in light of things that we cannot control.

So, in New Mexico, we are, as I am sure most people are aware, like most of the Southwest, in a significant drought. In fact, while the drought has been occurring for decades, we are in the 4th consecutive year of the most severe drought we have ever experienced, and I don't think that the scientific predictions about where we are headed is positive, so that extreme drought—not just drought, extreme drought conditions are the new norm.

Now, given that the livestock industry is a critical part of our state's economic aspect, and given that we have seen in the—in decades an increase in that—more than a 50 percent decrease, decline, in the livestock industry, specifically cattle, I am really interested in what USDA and what your sort of economic predictions—what can states in this situation begin to do that both recognizes that USDA—although if you can, I am all in—and, Mr. Chairman, I will launch a bill immediately; if you can stop the drought, that would be great. I am completely in. Or if maybe this rain from D.C. can be moved over, I am in. But short of that, what strategies, both conservation investments and looking at cost issues, supportive investments in controlling the cost of feed, what else can we be doing that enhances our opportunity to continue to grow cattle in New Mexico? And, in fact, we have lost families who were growing cattle for generations, who not only can't afford to do it, but have left the state, and bringing them back into this industry I don't see as an opportunity for us.

Dr. GLAUBER. Yes, I think this is a huge challenge. You look at since 2011. I mean, with the national herd, it is down more than five million head. If you go to states like New Mexico, Texas, Oklahoma, Kansas, I mean, you are talking almost ⅔ of the losses are in those states alone, I mean, and it has—I mean, you—I can remember about—well, I can tell you it was 2010, a friend of mine from out near Lubbock, I was talking to him. He says, it looks like Ireland out here.

Now, I don't know if he had ever been to Ireland, but the fact was that was the last time it was actually they had good rainfall, and they just haven't. You look at these—some of the countries there. We have 45 percent of the cattle herd right now is in areas that are in drought, and while that is down significantly from where they were in 2012, it is still quite high.

And what happens is, of course, as you contract, you have problems with the processing industry, *et cetera*. I mean, we lost Plainview, the plant in Plainview. We lost—we are likely to lose, or we are scheduling now, the Brawley plant is going to go offline, and that means that you have to ship—if you are a cow/calf guy or whatever, and you need to ship cattle out of the state.

And there was an article in the press just about southern California cattle producers in Imperial and elsewhere, having to move things out to the Panhandle to get processed. That is the longer-term issue that I think you have, and that is, how do you turn that around? Part of the problem with a cow/calf guy is what you need for expansion is you need someone to say, okay, well, I am going to retain these animals and——

Ms. LUJAN GRISHAM. And the impact—and I don't mean to interrupt you——

Dr. GLAUBER. No, no.

Ms. LUJAN GRISHAM. The reality is that, then we continue to see an escalation in beef prices, we have talked about consumer demand, so we have a problem in managing an industry that we want and need, any strategies more than—and I appreciate identifying the problems, and again, if I had the magic bullet—but are there things that we could start doing as a region that can enhance our opportunity given this climate to rebuild some of these herds and to manage some of the beef prices in a way that provides recoverable profit, recoverable building in herds, for livestock producers and also manages this economic issue for consumers?

Dr. GLAUBER. Yes, well, one is, I am happy to give that a little thought and get back to you on that. I mean, obviously, the easy answer is let it rain, but to get pastures back and then even then to get people willing to expand——

Ms. LUJAN GRISHAM. Correct.

Dr. GLAUBER.—that is going to take time. And when we are looking at a national herd, a national herd not really expanding until looking at 2016, 2017, you can imagine in areas that have been hard, hard hit by drought that that is even tougher.

Ms. LUJAN GRISHAM. Well, and Mr. Chairman, I know that my time is up, but I would really appreciate if you would think about that, respond to me and the Committee, because given the nature of this issue in that we don't control the weather and drought is probably the new norm, much like some of the commodities investments to manage that effort more productively and economically, there may be some strategies that the Committee ought to consider certainly.

The CHAIRMAN. I thank the gentlelady.

Ms. LUJAN GRISHAM. Thank you.

The CHAIRMAN. I now recognize the gentleman from Wisconsin, Mr. Ribble, for 5 minutes.

Mr. RIBBLE. Thank you, Mr. Chairman.

Good morning, Dr. Glauber. I know you have been here a long time, but I appreciate the thoughtfulness of the conversation today. I am from Wisconsin, and Wisconsin, our number one export market for agriculture and agri-food is Canada. So my question is going to kind of go right full circle from where we started today and see if I can maybe try to get some clarity for Wisconsin's agribusiness who are very concerned about the labeling regulations.

This is a significant concern for me, as their representative and for my constituents given that Canada is Wisconsin's largest export market. Is your economic analysis going to consider a state-by-state impact of the COOL regulations, and by the way, for Wisconsin's $1.2 billion?

Dr. GLAUBER. Congressman, certainly we can look at state-by-state impacts. I mean, what is hard is to get the individual movements out of those states. But in looking at aggregate effects, one can then back off certainly proportionate impacts. I understand, having lived in Wisconsin, I understand the proximity——

Mr. RIBBLE. It is a big deal.

Dr. GLAUBER.—and other things. The importance of Canada as a market.

Mr. RIBBLE. Yes, it is really important. And any type of retaliatory move by the Canadians would be devastating to Wisconsin's agribusiness. It is hard to make up $1.2 billion of export volume. I think it would be helpful.

And, Mr. Chairman, if it would be okay with you, I would like to submit the data into the record.

The CHAIRMAN. Without objection, so ordered.

[The information referred to is located on p. 105.]

Mr. RIBBLE. And I don't think it is just Wisconsin, but obviously, because I am from Wisconsin, I am so much aware of what has been going on there and the amount of effort to try to get some type of parity with the Canadian Government, and the work that has been done by Wisconsin farmers to really enhance their products to the Canadian consumer.

And so, to the degree that you could drill into the data further and provide it for us, and I realize it is difficult for you to comment on some of this because of what is going on at WTO, because we do have an obligation in many respects to follow our trade rules and so, but I really do appreciate you being here and doing that.

So, and with that, Mr. Chairman, I will yield back.

The CHAIRMAN. Gentleman yields back.

I now recognize Mr. Schrader, the gentleman from Oregon for 5 minutes.

Mr. SCHRADER. Thanks, Mr. Chairman, I appreciate it.

Following up on my colleague from Wisconsin's remarks, COOL has had a huge impact already in the Pacific Northwest that I come from, and I was talking to a firm the other day, and they have already seen $2 million hit to their operational line and $2 million hit to their marginal line, and it is kind of devastating if you are from one of the border states or border regions of this country.

I would hope that there would be some flexibility within the Administration to look at some simple changes that might enhance North American beef operations that are just intermingled by the very nature of the global market that we see right now. We are not talking about Australia, New Zealand, China or Japan; we are talking about Mexico and Canada, our historically long-term trading partners. So anything you could do in that regard, Mr. Glauber, shed a light on some of those problems would be helpful.

Dr. GLAUBER. Sure. Well, and as you mentioned, particularly those countries that are bordering, or those states that are bordering, Mexico and are close to Mexico and Canada, that is where a lot of that sourced live animal trade has been going, and we know that processors are having to make adjustments there and just the sheer decline in volume has to be made up somewhere or you are looking at reduced processing, and at a time when overall processing numbers have been going down just because of the decline in the herd, *et cetera.*

In all fairness, at least the position has been because of the first WTO ruling that the decision to put forward the 2013 rule, it was felt that that is what was needed to come into compliance with the WTO ruling. Now, that is what obviously is being decided in a compliance panel and will be ruled upon in June or later this summer.

Mr. SCHRADER. Well, and the retaliation would be devastating. We know from the Mexican trucking issue, much likely what is going to happen both in Mexico and probably similar things in Canada.

Switching gears a little bit to the trade issues, that is real important, hopefully great opportunity for American agriculture, but I am concerned about some of the opportunities that do not seem to be forthcoming so far. I wondered if you could shed a light or had any insight or using USDA's influence to deal with Canada on the dairy issues for instance, Japan on the beef issues and making sure Australia and New Zealand don't devastate the sheep industry and lamb industry here in our country.

Dr. GLAUBER. Well, I have to tell you, if we were having this hearing 25 years ago, the only thing we could be talking about is imports or disposal of surplus production. I mean, it is amazing the turnaround, and you look at how important pork exports are to the hog producers, how important beef exports are, how important dairy exports are. I mean, dairy. We are looking at record—I know it is not a hearing about dairy, but record dairy exports.

So you look at countries like Canada that we view as potentially very attractive markets for U.S. product, and dairy is one of the few commodities that are outside of the CUSTA (Canada-U.S. Free Trade Agreement), and particularly for TPP, you look at Japan, and then, looking beyond that, the idea is, hopefully you would see other countries come in and you would look at countries like China and others that have been growing markets for products like dairy products. I think this is very important for the overall health, long-term health.

Mr. SCHRADER. My question basically is, is USDA weighing in heavily so that, we don't want a lot of people in a TPP that aren't willing to play on a level field. Japan historically has been very, very restrictive and very closed to American agriculture. I am worried about flip side of that whole discussion in New Zealand and Australia and the lamb industry.

Dr. GLAUBER. I think the key to TPP is have an ambitious round. I think there is no question about that. You want to get the most access you can, and that is where the pressure has been. And the fact that we haven't been able to quite reach a deal with Japan is we are pushing for a much measure aggressive outcome.

Mr. SCHRADER. I guess, it wouldn't be right to not comment on the RFS like everyone else has at the end of the day. Your testimony states pretty clearly that the increase in feed prices can be associated, obviously, with the RFS standard. Would you say that is an accurate statement?

Dr. GLAUBER. Well, as I have said——

Mr. SCHRADER. At least a significant point——

Dr. GLAUBER. You know, what I say is, I think that increased——

Mr. SCHRADER. Deep down.

Dr. GLAUBER.—increased feed prices has certainly been in part due to the increased ethanol production. Now, how much of that is due to RFS? How much of that is due to high energy prices is a matter for discussion, because certainly over that period energy prices have propelled a lot of this.

Mr. SCHRADER. I think, with all due respect, I have to finish up here, that the next panel will tell every single livestock out there is going to suggest the that there is some slight significant——

Dr. GLAUBER. Yes. I have read their testimonies.

Mr. SCHRADER.—and very direct correlation between the increase in feed and the RFS standard.

And with that, I yield back, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Schrader.

I now recognize the gentleman from Texas for 5 minutes, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Dr. Glauber, thank you for being here today. I want to go back and make sure, the question was asked to you a while ago and I want to make sure, just for the record that I understood. When you were asked if there was any benefit, if COOL had any benefit to the consumer, I believe your answer was no; is that correct?

Dr. GLAUBER. Yes. Let me clarify that a little bit, because I think——

Mr. NEUGEBAUER. Well——

Dr. GLAUBER. No, no, no. Please, let me, if you don't mind me I will just take a second.

Mr. NEUGEBAUER. Be short.

Dr. GLAUBER. And all I was going to say is that a lot of consumers will say in surveys where they ask about that, they will say, yes, they would like to have information, they would like to have more information about product including origin. The difficulty in what USDA concluded in looking at a lot of the studies is the willingness to pay. Are you willing to pay for that? And there the answer is no, they are very negligible.

Mr. NEUGEBAUER. So the answer is no benefit to the consumer. So then, the other part of it, the ethanol you said was a vibrant industry. Is that right?

Dr. GLAUBER. I am sorry, vibrant?

Mr. NEUGEBAUER. Yes.

Dr. GLAUBER. Yes.

Mr. NEUGEBAUER. You said that. But you know, in my district, and I don't know what it is about in my district, but every ethanol plant in my district——

Dr. GLAUBER. Is shut.

Mr. NEUGEBAUER.—has gone bankrupt.

Dr. GLAUBER. Yes. Well, you have to have access to cheap feedstocks, and I think you have seen fluctuations in that market.

Mr. NEUGEBAUER. Yes. So I want to go back to the COOL issue. You know, you don't see the benefit. We have our trading partners, our largest trading partners now threatening to impose tariffs on our country. I think one of the things the livestock producers in my area are going through was, you mentioned a while ago when you were talking about Lubbock, Texas; I am from Lubbock, Texas. And, I remember going through a horrible drought. The herds are way down, and the feedlot numbers are shrinking and it is going to take a long time to be able to build these numbers back up when it rains again.

I think that the producers in my area are feeling very vulnerable in the sense that they have this COOL issue cloud hanging over them; they have the drought; and now they are concerned about this Brazilian beef and the potential to bring hoof-and-mouth disease to this country.

The question I have is, when you did the analysis for Brazil, now, I understand you used the qualitative method, but when the analysis was done, for example, in 2002 for Uruguay, they used the quantitative analysis. Some people speculate that the qualitative analysis is fairly subjective and that the quantitative analysis is a more thorough. As an important issue as this is, why would we have used a different analysis than we have used previously?

Dr. GLAUBER. Congressman, you raise a good question. I can't answer it. The FSIS did that analysis. I would be happy to get back to you with a more complete answer on that.

[The information referred to is located on p. 107.]

Mr. NEUGEBAUER. Well, I just think that we are at a very sensitive time here with particularly that industry and that these decisions should not be made lightly, and because I think that in many cases a lot of our cow/calf operations are struggling to stay viable.

And obviously that, as you mentioned, moves up the food chain, so to speak, has impact on the processors and the feedlots; and that the economic consequences of these sanctions or if we were to have an outbreak in this country, that would be astronomical and very detrimental to the industry and, quite honestly, to my district.

Dr. GLAUBER. Well, first, sorry, I misspoke. I said FSIS, of course, I meant APHIS. But, again, APHIS feels strong about the fact that they have done a good, scientific job that will hold up to scrutiny. Now, again, I think that we have seen a lot of comments. They will be looking at that, and again, I get back to the fact that we are concerned about bringing in a disease that could potentially be devastating. We also want to make sure that we are not just using a precautionary principal to keep things out because we want to be held by the same standard elsewhere and, again, I don't say that to minimize one or the other, but to get back to the fact that this has to be based on sound science.

Mr. NEUGEBAUER. Well, I do agree and I am pro-trade, but the stakes are very high that if we don't get this right that there would be consequences here. And I just——

Dr. GLAUBER. Yes, I would agree with that.

Mr. NEUGEBAUER. If we are using different methods, I think an explanation of why we use different methods is probably in order.

The CHAIRMAN. The gentleman from Texas yields back.

I now recognize the gentleman from Pennsylvania, Mr. Thompson, for 5 minutes.

Mr. THOMPSON. Mr. Chairman, thank you. Thank you for hosting this hearing.

Dr. Glauber, thanks for attending and sharing your information. I would just go with one question because I have to get down the hallway to Resources for a vote, and it is going to be the opposite of drought; it is where we do have water. You know, with the release of the new waters of the U.S. rule, there clearly is enormous amount of confusion on how the rule might impact agriculture and private land ownership. Is the USDA considering any analysis of this new rule in how it might impact the agriculture community?

Dr. GLAUBER. We are looking at the rule. We are consulting with EPA, and so we will be looking at it in more detail, yes.

Mr. THOMPSON. Okay. Any early indications? The EPA seems to be talking about, at least the early releases, although I have not found the substance to back it up, that this was not going to change any agriculture practices, it should improve things, but there doesn't seem to be any substance to that at least so far that has really any evidence to really substantiate so far.

Dr. GLAUBER. Well, and certainly, USDA has been working with EPA on that to try to clarify those rules. To try to, I mean, that is what certainly our officials have been saying, as well, and I think that the more clarity that can be laid out there, the better for producers, so there is some certainty, so they aren't operating under some cloud.

Mr. THOMPSON. Okay. Thank you, Dr. Glauber.

Mr. Chairman, I yield back.

The CHAIRMAN. The gentleman yields back.

And we are almost complete. Dr. Glauber, I have just two quick follow-up questions. One of them is on behalf of the Ranking Member and he asked me to ask this question in his absence, since he is over, like many of the Members doing in dual duty today, he is in Financial Services right now.

But his question was, what exactly do you propose that would allow GIPSA to promote fair business practices and protect competitive markets but not cause undue harm to the industry?

Dr. GLAUBER. Well, I think that GIPSA has put forward what was in the final rule. They, again, in the main, stuck to most of the provisions that were called out for and put in place that were explicitly mentioned in the 2008 Farm Bill in terms of statute.

It is a delicate balance, because what you want to do is you want to ensure that there is fairness in the marketplace. Certainly the Packers and Stockyards Act charges GIPSA for overseeing that. So you want to do it in a way that ensures that everyone is treated in a way that isn't discriminatory. But at the same time what you want to do, obviously, is do it in a way that you aren't causing, prohibiting new practices to emerge or whatever.

And I think that that is the balance that—that when the Secretary looked at moving forward from the proposed rule to the final rule he said a lot of these things look like, just given the comments that we were receiving and other things and analyses that we had done internally at that point, suggested that the costs were greater than he had first believed or had understood. And that was one of the reasons why we went forward in the final rule with a much shorter list of provisions.

The CHAIRMAN. Thank you.

And final question: Proponents of mandatory Country-of-Origin Labeling will say that consumers actually want to know where their food comes from, but they will argue that in fact consumers are willing to pay a premium for that. If in fact that is the case, from your economic perspective, you are an economist, and I will ask the same question to the producer groups, as well, but from your perspective, if in fact that was a natural-occurring market dynamic, wouldn't that have been in the interest of those producers years ago, recognizing that there was a premium that consumers were willing to pay and they would have voluntarily implemented that and we would have had this going on forward from then?

Dr. GLAUBER. The short answer is yes. The voluntary Country-of-Origin Labeling you presume would happen if you thought there was a premium to be gained there, and if you were to go into a Whole Foods you see an example of what people are putting on labels that are obviously appealing to consumer interests. Yes, I think that, that is certainly the argument.

The analyses that have been done, and there was a fairly rigorous analysis done and published this last year that looked at this issue, I believe out of Kansas State, that looked at the willingness to pay for—that consumers were willing to pay for mandatory Country-of-Origin Labeling and the numbers were, again, negligible.

The CHAIRMAN. Thank you, Dr. Glauber.

And this concludes our first panel. I appreciate you being here. I appreciate your time, your patience and your cooperation, Dr. Glauber. Thank you very much.

The clerk will now prepare the table as I introduce the witnesses for the next panel.

We have a number of groups being represented, seven in total. This will be a big panel. And I will start with a list of those witnesses and who they represent before we recognize them to speak. Mr. Roger Johnson, President of National Farmers Union.

Mr. Shane Miller, Vice President, Pork Margin Management, Tyson Fresh Meats of Dakota Dunes, South Dakota. Let me say to Mr. Miller before we go any further, as you know, most people know that in our neck of the woods we had some severe weather earlier this week devastating, some 15 fatalities, loss of property and more importantly loss of life, but displaced families, 3,000 homes at the very least that were destroyed.

But I just want to thank Tyson for stepping up and being the good neighbors that they have been in the relief efforts, providing product to families who literally have no idea where their next meal is going to come from as a result of that. So thank you to Tyson for your good neighbor attitude and good stewardship.

Dr. Howard Hill, President National Pork Producers Council, Cambridge, Iowa.

Mr. Michael T. Smith, Special Projects Manager, Harris Ranch, Selma, California, on behalf of National Cattlemen's Beef Association.

Our next witness, I apologize if I butcher your name, Mr. William P. Roenigk.

Mr. ROENIGK. Correct.

The CHAIRMAN. Excellent.

Senior Vice President and Economist, National Chicken Council, Washington, D.C.

Mr. Clint Krebs, President, American Sheep Industry Association, Ione, Oregon. I hope I didn't mess up your hometown, my apologies if I did.

And Mr. Matthew T. Cook, President and CEO, Norbest, Inc., Washington, D.C., on behalf of the National Turkey Federation.

And, if our panelists are seated and ready to go, we will begin. I will start with Mr. Johnson, President of National Farmers Union. And I just remind you that because we have such a big panel, we will ask you to really watch that clock so that we can give an opportunity for everyone to make their comments in a timely fashion. Any extraneous comments, obviously, are part of your written testimony.

So with that, Mr. Johnson, you are recognized to begin your testimony.

STATEMENT OF ROGER JOHNSON, PRESIDENT, NATIONAL FARMERS UNION, WASHINGTON, D.C.

Mr. JOHNSON. Thank you, Chairman Crawford, and Members of the House Agriculture Subcommittee on Livestock, Rural Development, and Credit.

My name is Roger Johnson, the President of National Farmers Union. Thanks for the opportunity to testify at this hearing. National Farmers Union is a grassroots organization of about 200,000 family farm members. It is organized in 33 states. Our policy positions are developed by our members.

As a general farm organization, we represent producers who raise livestock of all kinds. Even though there are significant differences among them, there are common challenges. Decreasing market competition poses a threat to livestock producers. Consumers are demanding significantly more and more accurate information about the food that they purchase and consume.

Arguments that pit the biofuels industry against the livestock growers are counterproductive and possible trade policy changes that will be talked about here are likely to be harmful. Congress and this Subcommittee must carefully consider all of these issues and others.

Rural America has lost 1.1 million livestock farms in the last 30 years. You can see this in *Figure 2* of my testimony. Since 1980, we have lost 34 percent of beef operations, 91 percent of hog farms. There are also fewer meat packers and processors. Economists say an industry is not competitive when the four largest firms control 40 percent or greater of a market. Very little competition remains if that figure exceeds 60 percent. Today the top four beef packers control 81 percent of the cattle slaughter in the U.S., and the top four swine producers control 65 percent of hog sales.

Fewer buyers result in less competition, greater opportunity for antitrust violations and a difficult market for the remaining farmers and ranchers. USDA has the authority to prohibit deceptive or fraudulent buying methods by processors and may protect farmers and ranchers if they have been harmed by unfair trade practices.

Appropriations riders over the last 3 years have kept the department from implementing these basic fairness rules. Future riders that impede enforcement of the Packers and Stockyards Act must be opposed. I commend Congress for maintaining the current Country-of-Origin Labeling standards in the 2014 Farm Bill. Consumers want to know more about the food they purchase. Farmers and ranchers are proud of what they produce. Studies have shown 95 percent of consumers want COOL. We should support efforts to provide consumers with accurate information that will help them make informed buying decisions and remain confident in the integrity of our food supply.

USDA completed over 2,000 COOL retail reviews last year, and at least 3,300 are planned for this year. Overall retail compliance is about 96 percent. COOL is implemented and is working as intended. Proceedings at the WTO and in U.S. District Court have not found the COOL lot to be out of compliance. Even in the event of a decision against COOL, the appeals process and compliance periods would allow for adjustments which likely can be made via regulatory changes.

NFU supports biofuel production as a Renewable Fuel Standard. Ranchers understand that biofuels don't just help corn farmers. The success of the ethanol industry helps the rural economy as a whole. In 2006, when the RFS was enacted, net farm income was $57 billion. In 2012, net farm income stood at over $112 billion. Meat production has not declined significantly since the enactment of the RFS, although there have been downturns due to drought and livestock prices have increased significantly.

Biofuels do not significantly drive up the price of food. According to USDA, only 16 percent of grocery costs go back to farmers and ranchers. And you can look at the attached *Farmer's Share Report* that is in the testimony that we produce monthly at our office using USDA statistics talking about the share of the food dollar that goes back to the farmers. In fact, the World Bank found that crude oil is the number one determinant in global food prices, as you can see in *Figure 4* of my testimony. We should reduce our dependence on oil consumption in order to become more food secure, and biofuel production is an excellent way to do that.

On behalf of the National Farmers Union, thanks for the opportunity to speak to you today. My full testimony including our position on trade, foot-and-mouth disease, *et cetera,* is included in the document before you. And I will be happy to respond to questions.

[The prepared statement of Mr. Johnson follows:]

PREPARED STATEMENT OF ROGER JOHNSON, PRESIDENT, NATIONAL FARMERS UNION, WASHINGTON, D.C.

Introduction

On behalf of the family farmers, ranchers, fishermen and rural members of National Farmers Union (NFU), thank you for the opportunity to testify regarding the state of the livestock industry. NFU was organized in 1902. We work to improve the well-being and quality of life of family farmers, ranchers and rural communities by advocating for grassroots-driven policy adopted annually by our membership. As a general farm organization, we represent producers in all segments of the livestock industry. This hearing is very important to our members and the U.S. economy, as cash receipts to farmers and ranchers from the sale of meat animals totaled $90.1 billion in 2012. Thus, it is certainly wise for this Committee to regularly consider livestock issues.

Decreasing market competition poses a threat to livestock producers. Consumers are demanding significantly more accurate information about the food they purchase and consume. Trade policy changes present challenges and opportunities. Congress must carefully consider all of these developments. It is important that this Subcommittee provides oversight and sound policy that will foster strong family farmers and ranchers and vibrant rural communities.

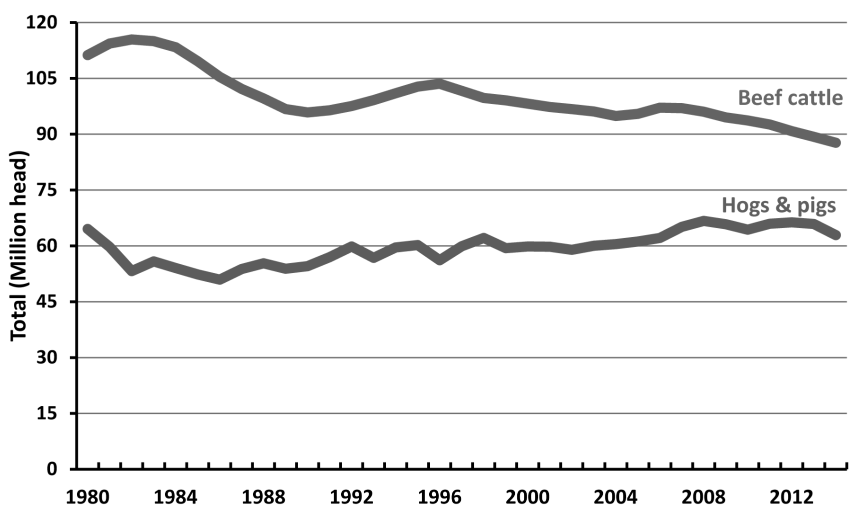
An Overview of the Livestock Industry

Although cattle prices have been high and feed prices have been low in recent months, the profits from those market conditions are just now beginning to have an effect on the expansion of the beef cattle industry. This comes after a 7 year long slide, which has resulted in a U.S. cattle herd that at the start of 2014 was the smallest since 1951: 87.7 million head, a two percent decline from the beginning of 2013 (*Figure 1*).

At the depth of the drought in September 2012, 58 percent of the pastures and ranges in the U.S. were rated poor to very poor. By mid-June 2013, the situation had improved so that less than ¼ of pasture and rangeland were in drought conditions. As a result, cattle feed supplies were limited, costs increased and total beef production fell. As the beef supply declines, prices will likely remain strong and feed prices are projected to remain low. The U.S. Department of Agriculture (USDA) projects commercial cow slaughter in 2014 to be the lowest since 2008.

Figure 1

Annual U.S. Livestock Herd Size, 1980–2014



Source: USDA.

Lower feed costs are also expected to result in increased pork production over the next 10 years, although in the short term, USDA projects porcine epidemic diarrhea virus (PEDv) will push pork production down by about two percent in 2014 and has already reduced the nation's pig population by ten percent. This issue is further discussed later in the testimony. In contrast to beef, hog numbers have remained stable to slightly increasing in recent years (*Figure 1*).

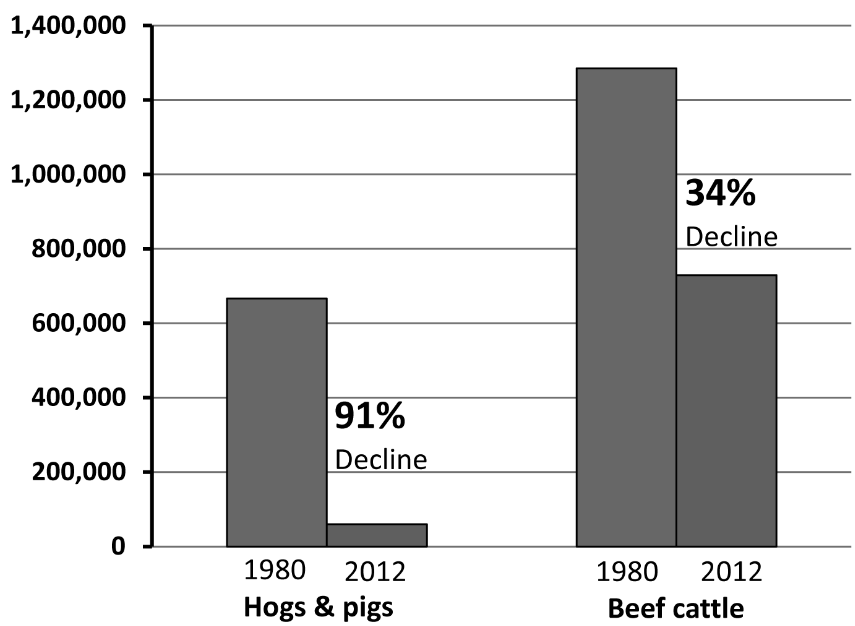
For lamb, prices remained at record-high levels throughout the first few months of 2014. This price has weakened and USDA predicts a decline as demand for lambs is expected to fall off. Despite this, a tight supply will likely keep prices well above 2013 levels.

Concentration in the Livestock Industry

The livestock marketplace experienced a marked decline in the number of family farms and ranches over the last 30 years. According to the USDA National Agricultural Statistics Service, in 1980, there were approximately 1,285,570 beef cattle operations across the country but as of 2012, only 729,000 remained (*Figure 2*). This is a decline of approximately 34 percent. In swine, the reduction has been even more dramatic. In 1980, there were 666,550 hog farms but in 2012 there were only about 60,200—a decline of 91 percent (*Figure 2*). Between the losses of pork and beef operations, rural America has witnessed the closure of about 1.1 million livestock farms in thirty years. As more and more livestock operations have closed, concentration among livestock sellers has become an increasingly important issue, not only for producers, but also for rural communities and consumers.

Figure 2

Shrinking Number of Livestock Operations



Source: USDA.

As the number of livestock producers has shrunk, there are fewer large buyers of livestock today than any other time in recent history. Economists say an industry loses competitive character when the concentration ratio of the top four firms (CR4) is 40 percent or greater, and often very little competition remains if the CR4 exceeds 60 percent. According to studies by the University of Missouri, the top four beef packers have control over 81 percent of the sales of cattle for slaughter in the United States, and the top four swine processors control about 65 percent of hog sales. Fewer buyers result in less competition and greater opportunity for antitrust violations. These trends underscore the need for USDA to even more carefully monitor conditions in these highly concentrated industries to guard against discriminatory or anti-competitive business practices.

Not coincidentally, the farmers' and ranchers' share of the consumer retail dollar for purchases of meat is shrinking. In 1980 beef producers received 62 percent of the retail dollar, according to USDA's meat price spread calculations. That portion has fallen to about 42 percent today. Over the same time frame, hog producers saw their share shrink from 50 percent of the retail dollar to about 24 percent. For many years NFU has published "the farmer's share of the food dollar" for selected consumer products (*Attachment 1*), which underscores the small percentage that farmers and ranchers receive across all segments of agriculture.

The chart on the preceding page that illustrates the relatively slight decline in the beef herd and consistency in the number of pigs and hogs over the last 30 years shows that smaller producers have been forced out of business. These statistics are a clear indication of the scant market power of family farmers and ranchers in today's livestock sector as consolidation is on the rise and competition is declining.

Enforcement of the Packers and Stockyards Act

Family farmers and ranchers routinely feel the negative effects of a consolidated agricultural marketplace that too often fails to provide a fair price. NFU has sought solutions to this problem since the formation of our organization in 1902. For example, in 1956 NFU adopted policy that asked Federal regulators to start "a continuous Congressional investigation into the widening spread between prices received by farmers and those paid by consumers. If necessary, regulatory measures should be instituted." In 1982 NFU policy urged Congress to "amend the Packers and Stockyards Act (PSA) to strengthen its enforcement provisions, with effective penalties for violations." And in 1997 NFU's policy called for regulatory agencies with "jurisdiction over the PSA" to "vigorously prosecute and break up existing monopolistic entities, fully investigate all proposed mergers in the livestock industry, and prevent further monopolistic concentration with the use of effective penalties." Farmers and ranchers need strong and continuous oversight of the livestock marketplace.

Budget constraints and appropriations riders have made enforcement of the PSA more difficult in recent years. In 2000 the Packers and Stockyards Program of the USDA Grain Inspection, Packers and Stockyards Administration (GIPSA) had 188 full-time employees who conducted and completed a total of 579 investigations, which resulted in a total of 13 formal complaints decided by an administrative law judge. Last year the program closed more than four times as many cases (2,335) as in 2000 and with only 147 full-time employees. An additional 133 cases were closed and referred to the USDA's Office of the General Counsel, and 12 more were closed after being referred to the U.S. Department of Justice. What is not known, however, is if these cases were satisfactorily resolved for farmers and ranchers or if the livestock market is any more competitive as a result of these actions. NFU calls on this Subcommittee to commission a study to determine the qualitative results of the PSA and if current enforcement levels are ensuring a competitive marketplace.

Given the greater consolidation in the marketplace outlined in the previous section, it is clear that the work of GIPSA is more important than ever before. The information collected during the joint hearings held around the country in 2010 by USDA and the Department of Justice demonstrated the need for antitrust investigations across all sectors of agriculture. Further long-term cuts and prohibitions on GIPSA's activities will impede the agency's ability to enforce the PSA and to protect farmers and ranchers against abusive market practices. Instead, Congress must allow GIPSA to do its job.

The 2014 Farm Bill allows GIPSA the authority to enforce certain competition provisions. NFU appreciates the work of the Agriculture Committees in reaching this decision. GIPSA will now be able to prohibit deceptive or fraudulent buying practices by processors and may protect farmers and ranchers if they have been harmed by unfair trade practices. Appropriations riders over the last 3 years had kept GIPSA from implementing these basic fairness rules. NFU recently sent a letter (*Attachment 2*) to appropriators in both the House and Senate demanding that any future riders that limit GIPSA's authority be rejected.

Country-of-Origin Labeling

I commend Congress for maintaining current Country-of-Origin Labeling (COOL) standards in the 2014 Farm Bill. Consumers want to know more about the food they purchase, while U.S. farmers and ranchers are proud of what they produce. A 2008 *Consumer Reports* poll found that 95 percent of consumers believe that processed or packaged food should be labeled with the country of origin and that that information should always be available at point of purchase. Now is not the time to deny consumers vital information that will allow them to make informed buying decisions and to remain confident in the integrity of our food supply.

The 2002 Farm Bill required retailers to notify customers through labeling of the source of nearly all muscle cuts and ground meat, along with fish, fruits, vegetables, nuts and a variety of other generally unprocessed products. For 5 years, appropriations riders prohibited the implementation of COOL, which was again included in the 2008 Farm Bill. After that show of Congressional support, COOL went into full effect in 2009. Canada and Mexico then brought forward a challenge in the World Trade Organization (WTO) alleging that COOL did not comply with trade agreements, despite the fact that Canada and at least 70 other WTO countries have COOL requirements of their own. A WTO appellate body found that, while the COOL statute itself complies with our trade obligations and informing consumers about the origin of their food is a legitimate objective, the way in which the COOL rule was originally implemented did not achieve that goal.

In May 2013, in order to resolve the implementation issues that arose in the WTO dispute, USDA enacted rules that require the labeling of production steps—for example, "Born, Raised, and Harvested in the U.S." This modification addresses concerns brought forward by the WTO's appellate body while providing consumers with enhanced information that reduces confusion about the food they buy. The inclusion of production steps does not require additional record-keeping to transfer information from one marketing step to the next. A lawsuit is now pending in U.S. court regarding implementation of the new labels. Initial attempts to enjoin the new COOL requirements were defeated, but the litigation continues.

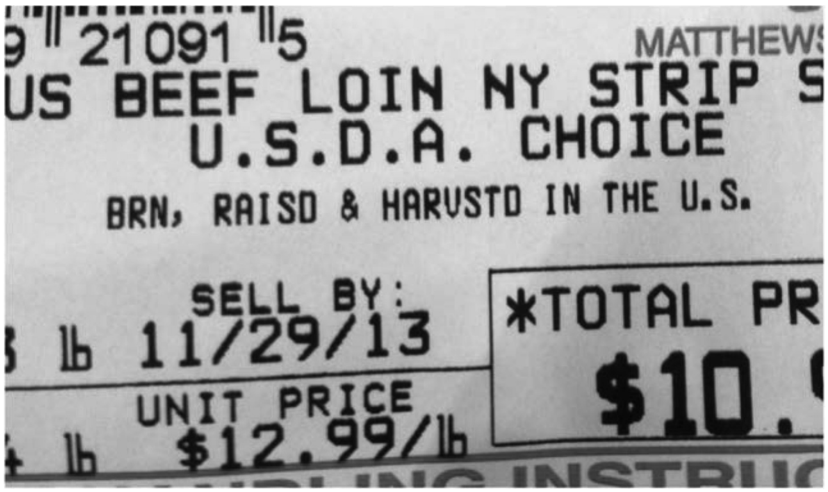
The COOL rules, as enacted in 2013, are being enforced by USDA through the Agriculture Marketing Service (AMS) Country of Origin Labeling Division. The USDA has established cooperative agreements with agencies, generally state departments of agriculture, in all 50 states. These state-Federal partnerships are cost-effective and avoid duplication by working with agencies that already conduct assessments in retail store establishments, so that COOL surveillance activities are a suitable addition to other retail responsibilities of the state agency. According to USDA and state cooperators, 2,061 initial retail reviews were completed last year, and at least 3,300 reviews are planned for 2014. Retail stores have approximately 300 COOL-covered commodity types available for sale on a given day and the overall retail compliance is about 96 percent. Compliance in the supply chain is also consistently favorable, averaging 97 percent since the inception of the COOL final rule. COOL has been fully implemented and is working as intended.

Meatpackers have complained that COOL would be expensive and cost many workers their jobs: two claims that have not come true. COOL opponents called the 2013 rules "onerous, disruptive and expensive." These same groups commissioned studies in the last decade that claimed COOL would cost upwards of $1.6 billion for the beef and pork industries alone. These cost estimates proved to be vastly over-inflated. A 2013 analysis by USDA found that changing COOL labels and eliminating flexibility for meatpackers to commingle animals would cost between $53.1 million to $137.8 million—far short of the unrealistic predictions made by those fighting against COOL.

Ongoing proceedings at the World Trade Organization and in the U.S. District Court for the District of Columbia have not found the COOL statute and current implementation to be out of compliance. Even in the event of a decision against COOL, the appeals process and compliance period would allow for further consideration of regulatory adjustments to COOL. NFU strongly opposes the use of an appropriations rider or other legislative vehicle to deny consumers access to information about their food. NFU expressed this view to House and Senate appropriators in a letter (*Attachment 2*) last month.

Figure 3

A Compliant COOL Label, 2013



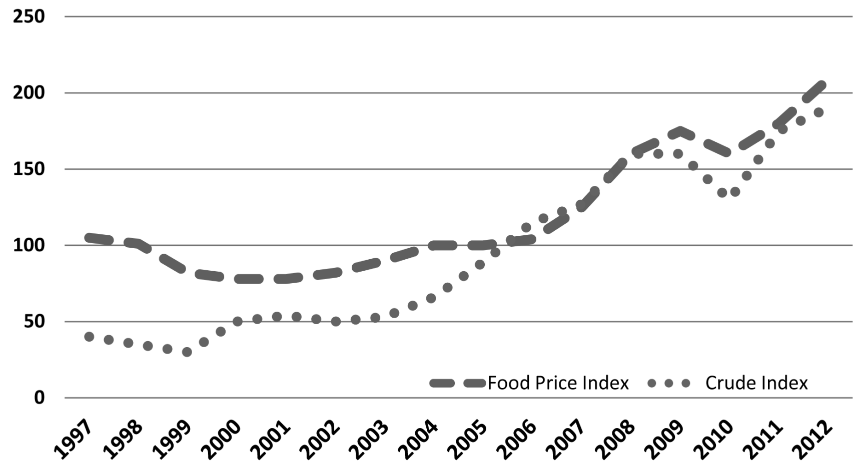
Renewable Fuel Standard

NFU is a general farm organization with a significant livestock presence in many of our states. Despite the fact that many of our members raise livestock, our organization is a strong supporter of biofuel production and the Renewable Fuel Standard (RFS). Ranchers understand that biofuels don't just help corn farmers—the success of the ethanol industry helps the rural economy as a whole. According to USDA, net farm income in the United States has risen significantly since the passage of the RFS. Net farm income was $57.4 billion in 2006 and $112.8 billion in 2012. Within the livestock sector, meat production has not declined significantly since the enactment of the RFS. There was a slight downturn in beef production due to drought, but the price received for livestock has increased since RFS enactment. The ethanol industry also supports jobs in the rural economy. According to a study by ABF Economics, the industry employs 386,781 Americans, mostly in rural areas.

Some interest groups contend that biofuels drive up the price of food. Our farmer and rancher members know that these groups would do well to look elsewhere. As earlier stated, each month NFU releases its "farmer's share of the food dollar" report (*Attachment 1*), which shows how much farmers and ranchers receive for each dollar of food sold at the grocery store. Overall, farmers and ranchers receive only 15.8¢ of every food dollar. According to USDA, off-farm costs, including marketing, processing, wholesaling, distribution and retailing, account for more than 80¢ of every dollar spent on food in the United States. Furthermore, only 16 percent of grocery costs can be traced back to the price of farm inputs, like corn. Indeed, the World Bank found that crude oil is the number one determinant of global food prices (*Figure 4*). It seems logical, then, that the United States should be working to reduce our nation's dependence on oil consumption if it wants to become more food secure. Biofuel production is an excellent way to offset oil consumption.

Figure 4

Price Indices: Food *vs.* Crude Oil



Source: The World Bank.

Animal Health Threats

NFU policy is clear regarding importation of livestock products from countries that have a history of unresolved foot and mouth disease (FMD). The following is an excerpt from the recently adopted grassroots policy statement from NFU members:

> *"Livestock health is critical to production agriculture and our nation's ability to provide a safe food supply. Achieving the necessary means to ensure livestock health is a priority for NFU. We support good animal husbandry practices as the primary means of livestock health maintenance, as well as the following initiatives to ensure livestock health:*
>
> *Ban livestock, animal protein products and meat imports that would jeopardize U.S. efforts to eradicate livestock diseases including BSE and Foot and Mouth Disease (FMD);"*

NFU strongly opposes the recent proposal from APHIS to resume importation of fresh beef from 14 Brazilian states. FMD from that region of Brazil still poses a significant threat to U.S. livestock herds. Any changes to the current ban could pose substantial threats to family farmers, ranchers and the general public due to the very real possibility of transmission of FMD to U.S. livestock, resulting in reduced consumer confidence in our food supply.

Inconsistencies between animal health disclosures reported by APHIS and the World Organization for Animal Health (OIE) further erode NFU's confidence in the safety of beef imports from countries with a history of FMD presence and a poor food safety record. Vaccinations against FMD are still occurring in the Brazilian states in question. In addition, the U.S. Food and Drug Administration (FDA) recalled Brazilian cooked and canned meat on three occasions in 2010 due to drug contamination.

The last case of FMD in the 14 state region in Brazil occurred in 2001. Even though the 14 Brazilian states in question are considered to be "FMD-free" by the OIE, Brazil has not been able to prevent the spread of FMD into its borders from neighboring countries, and as recently as 2011, Paraguay reported two outbreaks of FMD within 250 miles of the Brazilian border.

In contrast, the United States has not had a confirmed case of FMD since 1929 due to its effective disease prevention system and high food safety standards. This reputation must not be put at risk. In the rare instances when disease has impacted a portion of the livestock herd, economic devastation has followed. When bovine spongiform encephalopathy (BSE) was first identified in the United States in December 2003, 65 of our trading partners eventually imposed partial or full bans on U.S. beef. According to a Kansas State University study, the U.S. beef industry lost between $2.9 billion and $4.2 billion in 2004 alone because of BSE. Rural America should not again be subjected to severe losses simply because of lax standards for animal imports.

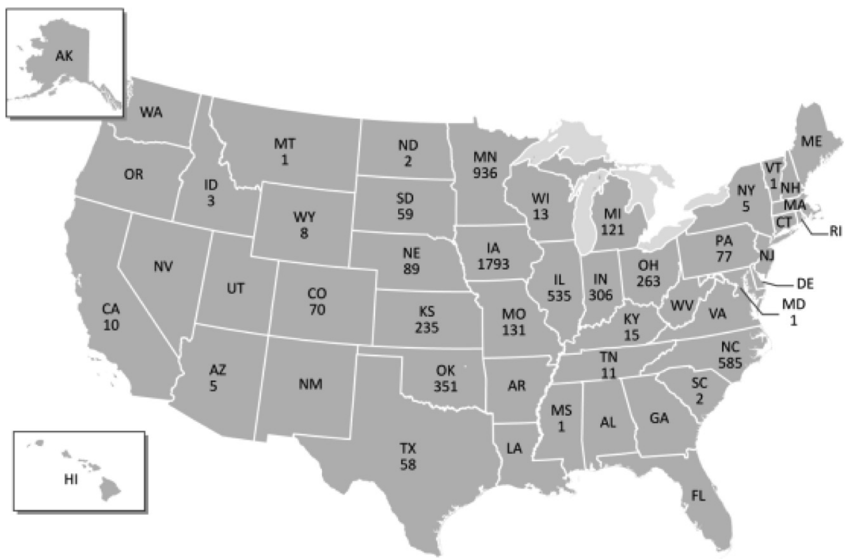
The economic costs of an FMD outbreak in the United States would be enormous. A 2002 study conducted by Purdue University and the Centers for Epidemiology and Animal Health at APHIS found that if an epidemic similar to the outbreak that occurred in the UK in 2001 were to strike the United States, a loss of $14 billion in U.S. farm income (in 2002 dollars) would result. This includes costs of quarantine and eradication of animals, a ban on exports, and reduced consumer confidence. In addition, the disease could spread to any cloven-hoofed animals, endangering other domestic livestock like sheep or pigs, as well as wild deer and antelope that form the basis of the U.S. hunting industry.

There are very few positives associated with allowing livestock products from regions of Brazil that are known to have a history of FMD to be brought into our country, but many possible undesirable outcomes from such an arrangement. Importing Brazilian beef and other livestock products is a risk not worth taking.

Figure 5

PEDv Positive Biological Accessions

Cases per State



As of April 16, 2014.
Source: USDA APHIS Veterinary Services

The consequences of a wide-spread animal health outbreak are beginning to be felt with a recent outbreak in the pork sector. The OIE issued an alert on April 21, 2014, regarding the novel swine enteric coronavirus (SECoV) that has emerged in the United States over the last year. SECoV, which is thought to have originated in China, causes PEDV. Recent reports from APHIS say there are now 5,978 cases of PEDV in 29 states (*Figure 5*). This underscores the importance of close monitoring of animal disease outbreaks in order to safeguard the reputation and integrity of U.S. animal agriculture.

Structure of the Beef Checkoff

Figure 6

USDA Commodity Checkoff Programs, as of 2014

Beef	Blueberries
Cotton	Dairy
Eggs	Fluid Milk
Hass Avocados	Honey Packers & Importers
Lamb	Mangos
Mushrooms	Peanuts
Popcorn	Pork
Potatoes	Processed Raspberries
Softwood Lumber	Sorghum
Soybeans	Watermelons

Checkoff programs have served as an effective tool to promote the consumption and research of commodity products. Twenty different commodity checkoff programs collect funds, including beef, lamb and pork. The checkoff assessment, paid by a farmer, rancher, grower or processor at the point of sale, is a worthwhile investment if the program is properly administered. The beef checkoff operates unlike most of the other programs, in that it was specifically authorized by an act of Congress with a complicated structure that allows for significant involvement from policy organizations. Additionally, funds for the beef checkoff have dwindled in recent years and there has been talk of increasing the assessment on cattle sales.

Family farmers and ranchers need meaningful reform of the beef checkoff that offers a governance structure that is more representative of all livestock producers. The beef checkoff ought to function separately from policy organizations in the way that other checkoff programs operate. Producers must have confidence in the integrity of the way in which their contributions to research and promotion initiatives are spent. NFU will not support an increase in the beef checkoff assessment until improvements are made to the structure and oversight of the program.

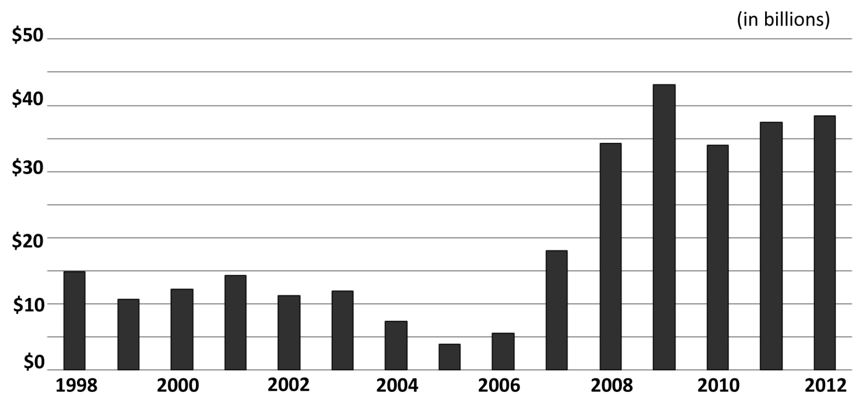
The Impact of Trade on the Livestock Sector

NFU supports fair, mutually beneficial trade that seeks to increase human welfare and respects sovereign nations' need for food and national security. NFU has historically opposed free trade agreements on the basis that the agreements were more likely to increase imports rather than open new markets to U.S. goods, even for livestock and agricultural products.

Free trade agreements are typically justified by claims that the agreements will grant American producers access to previously closed markets and thus create jobs. U.S. agriculture, including the livestock sector, does have a history of generating a trade surplus (*Figure 7*). Long-term agricultural surpluses have occurred because of our efficient system and effective farm safety net.

Figure 7

Net U.S. Agricultural Trade with the World

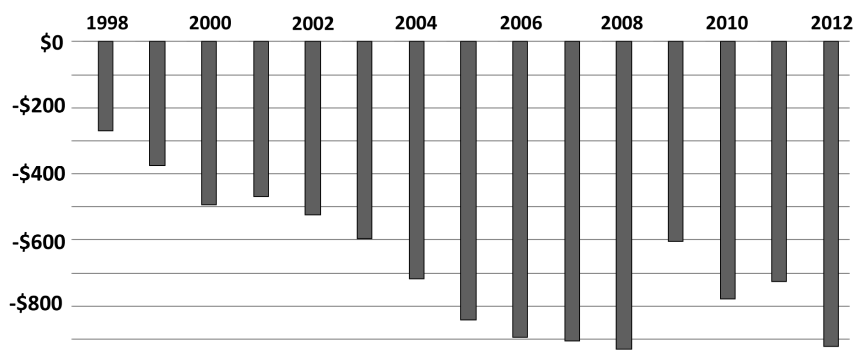


Source: USDA Economic Research Service.

On the other hand, the U.S. economy as a whole has a history of generating trade deficits (*Figure 8*). Free trade agreements have worsened the situation by making American businesses compete with countries that have lower environmental, health and food safety standards. Furthermore, vague promises of market access are made to U.S. trade stakeholders in order to encourage domestic support for a trade deal. These promises are meaningless, however, when there are no mechanisms to prevent countries from devaluing their currency, which hurts U.S. exports and total trade balance.

Figure 8

Total U.S. Trade Deficit



Source: USDA Economic Research Service.

U.S. free trade agreements have a poor track record. During the North American Free Trade Agreement (NAFTA) negotiations, for instance, American farmers were promised increased market access in the form of reduced tariffs on crops in Mexico. In reality, those tariff cut benefits were eliminated when Mexico devalued the peso by 50 percent shortly after NAFTA went into effect. Similarly, USDA analysts predicted an increase in U.S. exports of beef products to Mexico. The reality is that beef and pork, two projected NAFTA winners, saw their exports to Mexico fall 13 percent and 20 percent, respectively, in the 3 years after NAFTA was implemented compared to the 3 years prior to NAFTA. In the 20 years since the agreement, agricultural exports have indeed increased to Canada and Mexico. But, agricultural imports from these countries have increased even more, leading to an agricultural trade deficit.

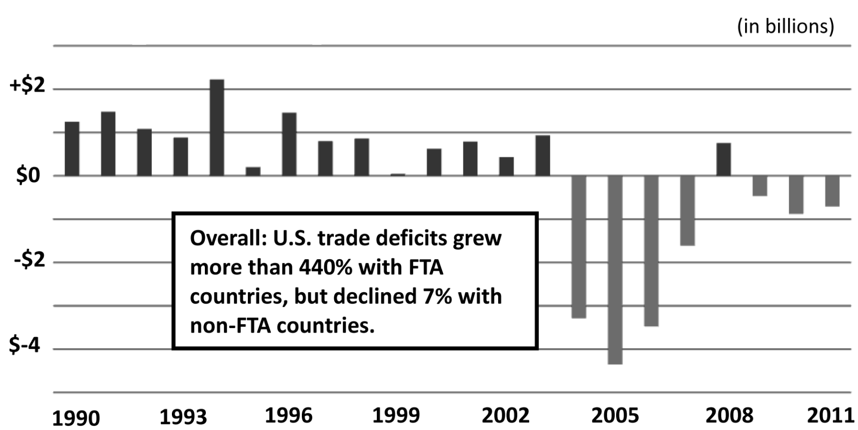
South Korea provides the most recent example of a country with which the United States has a trade agreement. Proponents of the U.S.-Korea FTA again promised increased market access for U.S. agricultural products and increased exports. In reality, exports in agricultural products dropped from around $6 billion in 2012, the year the agreement went into effect, to around $5 billion in 2013, according to the National Agricultural Statistics Service.

The International Trade Commission estimated that the U.S. goods trade balance with South Korea would improve by $3.3 billion to $4 billion. Since the FTA went into force, however, U.S. goods trade balance has *decreased* by around $4 billion. U.S. total trade deficit with South Korea also increased from $8.7 billion in 2012 to $10.6 billion in 2013. Unfortunately, the promised increases in agricultural exports did not take into consideration the effect of a Korean devaluation of its currency, which wipes out any gains made by reduced tariffs. In a recent report, the Peterson Institute for International Economics lists South Korea as one of the eight worst currency manipulators. It goes on to say that foreign currency manipulation is responsible for a $200 billion to $500 billion per year increase in account deficits, and attributes between one million and five million job losses to foreign currency manipulation. It is therefore vital that there be safeguards in place in any trade agreement that counteract currency manipulation by foreign governments.

On the whole, U.S. agriculture has actually done worse after entering into FTAs. The chart below (*Figure 9*) shows the net agriculture trade surplus (deficit) with countries that have entered into trade agreements with the United States. Each year only includes trade data from countries with which the United States had an FTA in that year. This subpar performance contrasts with U.S. agriculture's performance as a whole.

Figure 9

Net Ag Trade among Countries with U.S. FTA



Source: International Trade Commission Figures, Global Trade Watch Calculations.

Livestock Marketing Improvement Efforts

With the growth in local and regional food markets in recent years, greater information and communication is needed for farmers and ranchers to better understand the economic conditions in which they are operating. Over the last year, USDA's Market News released 30 new reports to better serve the agriculture industry, including livestock. Market News will add "local" as an element to current retail reports, which is similar to the way in which organic commodities were recently added. Additionally, AMS began publishing a Market News report covering the grass fed beef industry. These reports provide timely information to assist in marketing decisions and help small and local livestock producers to plan for the future.

The Grass Fed Verification program for Small and Very Small Producers (SVS) is another noteworthy new marketing initiative. This program provides verification assistance to those farmers and ranchers who market fewer than 50 cattle each year. This segment of producers accounts for 11.5 percent of the total number of cattle and calf operations but has been previously under-served by AMS certification processes. This is a welcome improvement that will help an emerging segment of tomorrow's diversified livestock industry.

Conclusion

NFU's policy statement, which is revised and adopted each year through a grassroots process among Farmers Union members at all levels, includes a section on "national food and fiber policy." The following excerpt from the 2014 NFU policy statement provides a clear goal for what this Subcommittee and Congress as a whole ought to do in order to provide for a strong livestock and family farm economy:

> *"The decline in the number of family-sized commercial farms must be reversed. Programs that encourage sustainable agriculture through diversified production, improved marketing strategies, and enhanced value-added opportunities can be keys to reversing this trend . . . Farmers and consumers need stability and fairness in a farm program. Farmers, rural communities and consumers are at the mercy of a marketplace that is increasingly dominated by vertically integrated, multinational grain and food conglomerates."*

Reliable access to accurate information is essential to providing farmers, ranchers and consumers a level playing field. Consumers ought to know where their food comes from and individual producers need to know the prevailing market trends and prices. Furthermore, regulators must oversee and prohibit anti-competitive behavior by the most powerful companies and interests. Budding sectors of the agriculture economy, including small livestock production and biofuels, should be strongly supported in their development. Trade negotiators must keep the well-being of farmers, ranchers and consumers in mind, and animal health import restrictions should not be relaxed simply to please foreign trading partners.

I look forward to working with the House Agriculture Subcommittee on Livestock, Rural Development and Credit to achieve these goals. Thank you for your consideration and the opportunity to testify today.

ATTACHMENT 1

National Farmers Union

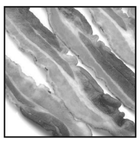
UNITED TO GROW FAMILY AGRICULTURE

Farmer's Share of Retail Food Dollar

Did you know that farmers and ranchers receive only 15.8* cents of every food dollar that consumers spend on food at home and away from home?

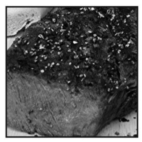
According to USDA, off farm costs including marketing, processing, wholesaling, distribution and retailing account for more than 80 cents of every food dollar spent in the United States.

Bacon
1 Pound



Retail: $6.06
Farmer: $1.03

Top Sirloin Steak
1 Pound



Retail: $7.99
Farmer: $2.37

Bread
1 Pound

Retail: $2.19
Farmer: $0.16

Fresh Carrots
5 Pounds

Retail: $4.39
Farmer: $1.54***

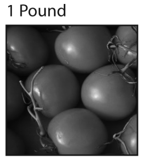
Beer
6-Pack Cans

Retail: $5.99
Farmer: $0.06

Cereal
18 Ounce Box

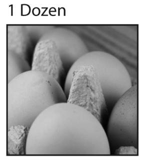
Retail: $4.69
Farmer: $0.07

Tomatoes
1 Pound



Retail: $3.59
Farmer: $0.54***

Eggs
1 Dozen

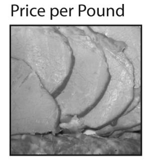


Retail: $2.89
Farmer: $1.18

Flour
5 Pounds

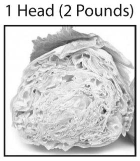
Retail: $2.39
Farmer: $0.82

Boneless Ham
Price per Pound



Retail: $4.09
Farmer: $1.03

Lettuce
1 Head (2 Pounds)



Retail: $2.19
Farmer: $0.94***

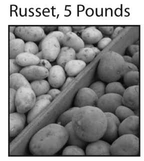
Milk
1 Gallon, Fat Free

Retail: $4.29
Farmer: $2.18

Potato Chips
Lays Classic, 10.5 oz

Retail: $4.79
Farmer: $0.24**

Fresh Potatoes
Russet, 5 Pounds



Retail: $4.60
Farmer: $0.46**

Soda
Two Liter Bottle

Retail: $1.49
Farmer: $0.08

Farmer's share derived from USDA, NASS "Agricultural Prices," 2014.
Retail based on Safeway (SE) brand except where noted.
*Figure according to U.S. Department of Agriculture Economic Research Service
**Reflects February 2014 price.
***Reflects March 2013 price.

www.nfu.org

March 28, 2014

ATTACHMENT 2

March 20, 2014

Testimony of Roger Johnson, President, National Farmers Union To the House Agriculture Appropriations Subcommittee Regarding Fiscal Year 2015 Funding for Agricultural Programs

Contact: Mike Stranz, Senior Government Relations Representative (*mstranz@nfudc.org*)

On behalf of the family farmer and rancher members of National Farmers Union (NFU), thank you for the opportunity to present funding requests for Fiscal Year 2015. As a general farm organization, NFU has a broad array of interests in the agricultural appropriations process. This letter enumerates a few of the highest priorities for our members.

Additionally, the recent passage of the 2014 Farm Bill deserves the attention of the Subcommittee. We ask that programs that were granted discretionary funding through the farm bill receive their full appropriations, and that the Subcommittee not reduce other program funding through changes in mandatory programs.

Agency: USDA Agricultural Marketing Service (AMS)

Request: No legislative riders or targeted funding reductions to limit or restrict the enforcement, legal defense or study of Country-of-Origin Labeling (COOL).

The 2008 Farm Bill requires retailers to notify customers through labeling of the source of nearly all muscle cuts and ground meat, along with fish, fruits, vegetables, nuts and a variety of other generally unprocessed products. As of 2013, the U.S. Department of Agriculture (USDA) enacted rules that require the labeling of production steps—for example, "Born, Raised, and Harvested in the U.S."—as directed by a World Trade Organization (WTO) dispute. Another WTO proceeding is currently under way to review the new COOL regulations' compliance with trade laws, and a lawsuit is pending in U.S. court regarding implementation of the new labels. Additionally, the 2014 Farm Bill requires a study on the economic impact of COOL.

NFU opposes any funding cuts or legislative riders that would circumvent enforcement, implementation, legal defense or study of COOL. Studies have found that more than 90 percent of consumers support COOL. Any threats of retaliation from Canada and Mexico are extremely premature, as WTO appeals are slow moving and typically last for years.

Agency: USDA Grain Inspection, Packers and Stockyards Administration (GIPSA)

Request: No legislative riders to limit or restrict the USDA's rulemaking and enforcement authority under the Packers and Stockyards Act of 1921.

Because of appropriations riders in the last 3 years, USDA has not been allowed to write rules that would provide greater fairness for livestock sellers and poultry growers in the agriculture marketplace, as directed by the 2008 Farm Bill. This includes prohibiting deceptive or fraudulent buying practices and permitting farmers and ranchers to seek protection under the Packers and Stockyards Act if they have been harmed by unfair trade practices.

While the last three legislative riders on GIPSA have varied, they each have significantly undermined important protections for livestock and poultry ranchers and growers. These provisions must not be prevented; thus, NFU strongly urges the Subcommittee to reject any legislative riders that would undermine GIPSA's authority and ignore Congressional intent.

Agency: Agriculture and Food Research Initiative (AFRI)

Request: Report language on public cultivar development.

The 2008 Farm Bill created the Agriculture and Food Research Initiative (AFRI), which called for AFRI to make "conventional" plant and animal breeding a priority for research grants. Implementation of these directives has been slow. NFU asks that the FY 2015 appropriations bill include report language that reiterates the need to prioritize funding for classical plant and animal breeding within the AFRI process.

Agency: Agriculture Research Service (ARS)—Genetic Improvement and Translational Breeding Initiative

Request: $25.9 million with report language directing funds to the development and release of regionally adapted, public cultivars.

The Administration's FY 2015 budget requests $25.9 million for a new Genetic Improvement and Translational Breeding Initiative to be administered by ARS.

Given the huge private and public investment in genomics and the lack of funding for classical breeding for public cultivar development, clear language ought to be included to direct ARS to focus all of the funding provided for this initiative on the development and release of regionally adapted, publicly held, cultivars to benefit farmers and ranchers across the country.

Agency: USDA Rural Development

Request: Fully fund farm bill energy title programs at discretionary funding levels and do not reduce program funding through changes in mandatory programs. Also, allow 2014 Biomass Crop Assistance Program (BCAP) funds to carry over into 2015 if they are not expended.

The 2014 Farm Bill makes substantial investments in existing energy programs such as the Rural Energy for America Program (REAP), Biomass Crop Assistance Program (BCAP), and Biorefinery Assistance Program (BAP). NFU asks that the Subcommittee not reduce any of the funds allocated to these programs. In addition, because USDA may not expend all funds for BCAP in 2014, NFU asks that language be inserted allowing for unexpended 2014 BCAP funds to be carried over into 2015.

Thank you for your consideration of these requests.

The CHAIRMAN. Thank you, Mr. Johnson.

I will now move to Mr. Miller with Tyson Foods. Mr. Miller, you are recognized for 5 minutes.

STATEMENT OF SHANE MILLER, SENIOR VICE PRESIDENT, PORK MARGIN MANAGEMENT, TYSON FRESH MEATS, DAKOTA DUNES, SD

Mr. MILLER. Mr. Chairman, Members of the Committee, it is truly an honor to be here to represent Tyson Foods. We are proud to be an American-owned company from the heartland, employing over 115,000 people worldwide: 100,000 of those individuals are working right here in the United States. We process chicken, beef and pork, and a wide variety of prepared foods like pizza toppings, soups and tortillas.

We have grown to be one of the largest meat companies in the world, and every day we work closely with American farmers to help feed the world. In fact, in Fiscal Year 2013, we paid more than $15 billion to over 11,000 farmers and ranchers. While we are certainly focused on the domestic market as you all well know, international trade is extremely important to our industry and to our business at Tyson Foods. In fact, it is worth noting, USDA concluded that 1.2 million American jobs are produced by exporting animal protein.

Protein consumption is rapidly increasing worldwide as living standards rise in many countries. The U.S. livestock and poultry industry is positioned extremely well to serve these new markets. Just underlining this point, last year 16 percent of Tyson's beef sales were international, 22 percent were pork sales from exports, and about ⅕ of our chicken sales went to overseas markets. We expect those percentages to continue growing.

With that introduction, I will take a few moments to talk about the state of the meat and poultry industry from our perspective. These are challenging, exciting times for our industry, headlined by near-record prices. Let me first start with beef. We have seen some consumer shift from beef to chicken because of rising beef prices in the last year. This is largely due to a lack of supply.

As we all know, the beef herd in the U.S. is at one of its lowest points in decades and it will likely take years to recover. The drought in major cattle-growing areas has been a major factor in this shrinking supply. Federal biofuels policies have also encouraged the diversion of corn away from feed into ethanol which has led to periods of tighter supply and price of volatility.

These pressures on the beef industry, along with others outlined in my written testimony, have been made even more difficult by the recent mandatory Country-of-Origin Labeling program. This new regulation is just simply bad for our consumers, bad for our business and bad for family farmers in general.

The new rule imposes serious costs and takes away the flexibility to commingle cattle sourced from either Canada or Mexico; yet, it doesn't resolve the challenge by Mexico and Canada at the WTO. This could result in retaliatory tariffs on a wide range of U.S. products, including beef, pork and poultry. We urge this Committee and we urge Congress to address the MCOOL issue and implement a policy that both supports an efficient and expanding U.S. beef industry and heads off potentially damaging tariffs on the livestock and poultry industries.

Moving to pork: The sector has been affected by the Porcine Epidemic Diarrhea virus, PEDv, and quite frankly has devastated progress for many family farmers across the country. We have estimated that the virus will impact domestic hog supplies by two to four percent this fiscal year, with the biggest and largest impact coming in the summer months where it could be quite a bit more extreme due to the timing of the year.

As I have said before, we work closely with family farmers who supply us, and while the industry will get through this tough period, there will no doubt be an impact on supply as we go forward. The good news is that we are seeing higher demand for pork products; in fact, domestic and international sales have increased, and we expect that trend to continue in the coming years.

Last, chicken is in high demand and we believe that will continue during the remainder of the year. As we look ahead, we expect chicken supply to respond to rising demand over the next year. That means chicken is positioned to do very well both domestically and internationally.

To conclude, while there are many things outside of our control, there are a number of policy considerations that impact the livestock and poultry industries. Most important among these today are international trade and damaging provisions like the new MCOOL regulations.

The U.S. meat and poultry industry is truly world class, and I urge this Committee to help us grow our businesses by promoting expanded trade as well as reforming policies that restrict our ability to operate fairly and efficiently so that we can continue to provide jobs for thousands of Americans across this great country.

Thank you again to the Committee for giving me the chance to be here today, I will take any questions that you may have.

[The prepared statement of Mr. Miller follows:]

PREPARED STATEMENT OF SHANE MILLER, SENIOR VICE PRESIDENT, PORK MARGIN MANAGEMENT, TYSON FRESH MEATS, DAKOTA DUNES, SD

Mr. Chairman and Members of the Committee, I am pleased to have this opportunity to discuss the state of the livestock and poultry industries on behalf of Tyson Foods, Inc. Like so many of the companies and producers represented here on this panel today, Tyson is proud to provide safe, affordable and nutritious food to millions of families across this country and around the globe. My testimony today will provide my company's general view of the pork, beef and chicken sectors, as well as highlight a few issues we believe are worthy of this Committee's attention. Since I am joined today by many of the major livestock and poultry associations, I will leave it to my colleagues to provide a more in-depth analysis of their particular sectors.

Background on Tyson Foods, Inc.

Tyson Foods, Inc. is one of the world's largest processors and marketers of chicken, beef and pork with FY13 sales of $34.4 billion and operations in 27 U.S. states. Utilizing a multi-protein business model, our over 100,000 Team Members produce about one of every 5 pounds of chicken, beef and pork in the United States along with a wide variety of prepared foods, such as pizza toppings, tortillas and soups.

Tyson is a proud partner with America's farm families; in FY13 we paid more than $15 billion in revenue to thousands of independent farmers across 39 states who supply us with livestock and production services. Like others in the industry, Tyson is vertically integrated in its chicken business, but acquires its pork and beef through negotiated purchases using a variety of methods. We value and rely upon these relationships, many of which span multiple generations.

While the vast majority of our operations are U.S. based, Tyson also maintains in-country poultry operations in China, India, Mexico and Brazil. These international locations service that particular country's domestic population, and in some cases, also serve as platforms for export to key international markets. As this Committee understands well, international trade is critically important to the livestock and poultry industries. Tyson currently exports frozen, chilled and prepared products to approximately 130 countries.

Finally, in keeping with Tyson's Core Values, we strive to be a responsible member of our communities through charitable donations, public service and volunteer work. Tyson Team Members routinely support a variety of worthy causes with their time and financial support. Our company's signature philanthropic effort is hunger relief. At Tyson, we believe that hunger and food insecurity are issues that no family should experience. Over the past 15 years, Tyson has donated nearly 100 million pounds of food to national hunger relief organizations in the United States.

I will now provide Tyson's perspective on the state of the pork, beef and chicken sectors, with attention to some key issues that could impact future success.

State of Our Industry

Overview

At Tyson, we believe this both a challenging and exciting time to be in the protein business. Based upon low supplies of live cattle and hogs, along with relatively high grain costs, we are seeing near record retail prices for beef, pork and chicken; with chicken poised to benefit in the near term as the least-cost option. However, in spite of historically high prices, we have also seen resilient consumer demand for protein. According to Nielsen data for 2013, total fresh meat volume at retail was up 1.3%. Based on the data we have available so far in 2014, we see demand for meat remaining high as consumer confidence continues to rebound.

As consumers become less defensive in their spending habits, we are also seeing changes in their expectations. In addition to price, consumers are increasingly focused on ingredients, freshness and transparency in our processes. They are also asking—Is this product good for me? In our view, these factors are all a part of the consumers' new value equation. This is certainly a challenge for all of us in the food business, but also an opportunity if we can meet these evolving customer demands.

While we are keenly focused on the U.S. market, export markets are of growing importance. Each year, our international sales increase in value to our company, reflecting the reality that the future growth in protein demand lays outside the U.S. This is why **International Trade** is the first issue I want to underscore for this Committee. Although we have seen impressive export gains in recent years, we are also facing new trade barriers on a seemingly daily basis in key export markets like China and Russia. Many of these barriers are counter to sound science and contrary to accepted international standards.

In addition to these challenges, we are also at a key juncture with regard to major trade agreements including the Trans-Pacific Partnership (TPP). The TPP holds great promise for livestock and poultry, but only if Japan and other participants agree to significant tariff reductions as part of the agreement. The U.S. must also avoid taking actions of its own that invite trade retaliation. One example is the ongoing challenge of our Country-of-Origin Labeling rules at the World Trade Organization (WTO), which could result in a damaging disruption to trade. I will discuss this issue later in my testimony.

Taken as a whole, we believe the picture for the protein sector is a positive one. Although customer expectations are evolving, the demand for our products remains strong and there is also room for growth, particularly in the areas of value-added and convenience. Demand is also strong among international consumers, but we have significant challenges to overcome in order to maximize our export potential. I will now share our perspectives on the pork, beef and chicken sectors in a little more depth.

Pork

It is appropriate to start any discussion about the pork sector by addressing the Porcine Epidemic Diarrhea (PED) virus, which has been a devastating development for so many farm families. At Tyson, we purchase about 97 percent of our hogs from independent producers. We value our partnership with these producers and believe they are the best in the world at what they do. We will get through this difficult period but there is no doubt that it will have an impact on supply.

We have estimated that the PED virus will impact domestic hog supplies by 2–4 percent this fiscal year, with the biggest impact coming in the summer months. We are working closely with our producers to make sure that we can maximize our supply in the months ahead in order to operate our plants efficiently. We anticipate that heavier weights on hogs can offset some of the headcount reductions, but clearly we could see some supply issues. We are also working with our customers to set expectations on which items could be most affected by a reduced supply in the months ahead.

Looking at the big picture for pork, we have continued to see increased consumer demand for pork products, and in fact, Tyson's FY 2014 First Quarter (Tyson operates on a September 30 fiscal year) pork sales were our second highest First Quarter sales in that category ever. We were also above our normalized range for return on sales for pork during the First Quarter. Although exports were down a little last year compared with 2012, U.S. pork exports have grown significantly over the last few decades and there are still tremendous opportunities to increase our international sales in the coming years.

Beef

The record high wholesale beef prices we have seen so far in 2014 are largely a function of supply. As this Committee is aware, the U.S. beef herd is at one of its lowest points in decades and it will take years for the herd to fully recover. The sustained drought in many key cattlegrowing areas like Oklahoma and Texas has been a major factor in herd decline. The drought's impact has also been exacerbated by Federal biofuels policies that encourage the diversion of corn away from feed and into ethanol, leading to periods of tight supply and price volatility.

Although market conditions suggest that this should be a period of heifer retention and herd rebuilding, we are not yet seeing that play out in cattle growing areas, particularly where drought is still a factor. Until we see the beef herd increase, beef processors with plants in close proximity to areas where cattle are the most plentiful will be in a position to operate most efficiently. Facilities with less access will be more negatively impacted. We have observed this within our own beef business. Prices will also continue to remain high until demand starts to decline. We are already starting to see some demand shift this year as consumers move from beef to chicken.

Given the market pressures already impacting the beef sector, I want to highlight a second issue that I know many on this Committee have an interest in—the recent changes to the **Mandatory Country-of-Origin Labeling (MCOOL)** program. I will not restate the history on this issue, but it is very unfortunate that the United States Department of Agriculture decided to impose significant costs and inefficiencies on the livestock and poultry industries in response to the previous COOL regulation's defeat at the World Trade Organization (WTO) in 2012.

While the 2009 COOL regulation imposed costs on our industry, it did allow beef processors, particularly those operating on the northern and southern borders, the flexibility to commingle cattle sourced from Canada or Mexico. This new regulation not only imposes new labeling and administrative costs, but also takes away the ability to commingle cattle, forcing segregation at the plant. As previously discussed, we are working very hard to operate as efficiently as possible in the face of a reduced U.S. cattle herd.

To make matters worse, the new MCOOL regulation did not resolve the challenge by Canada and Mexico at the WTO. Both countries are very opposed to these changes and a WTO panel is now reviewing whether or not the U.S. has come into compliance as directed by the 2012 WTO ruling. If the U.S. loses, the ultimate outcome will be retaliatory tariffs from Canada and Mexico on a wide range of U.S. products, including livestock and poultry products.

We would urge this Committee and the Congress to address the MCOOL issue and implement a policy that both supports an efficient and expanding U.S. beef industry and heads off potentially damaging retaliatory tariffs on the livestock and poultry industries.

Chicken

Given the market conditions that I have outlined already in my testimony, it is no surprise that chicken is currently in a strong position. While chicken prices have gone up, it is in a beneficial position as the less-expensive protein, a factor that is fueling demand among consumers. At Tyson, our chicken business performed well during the First Quarter of FY 2014 and overall we anticipate a very strong year for chicken.

Looking ahead, we do expect chicken supply to respond to rising demand and increase somewhat during the remainder of the year. However, in our view this increase will in part be offset by rising demand, as consumers continue to shift away from beef and pork in favor of chicken. Our President and Chief Executive Officer, Donnie Smith, has publicly predicted that we will not see a "meaningful change" in bird production until the second half of 2015.

While this is a positive time for the chicken industry, a number of policy issues could have an impact. We need to stay focused on opening new international markets for chicken products through both bilateral discussions and major trade agreements like the TPP. Our potential in China, a key market, continues to be limited by unjustified dumping and countervailing duties on U.S. chicken products, as well as other non-tariff trade barriers. As previously stated, we also remain concerned with Federal biofuels policies that can lead to tight supplies and price spikes on corns and other feed grains. This has imposed significant costs on the poultry industry since 2008.

A final issue, which extends to all of livestock and poultry, concerns the **2010 proposed regulations to the Grain Inspection and Packers Stockyards Administration (GIPSA)**. As this Committee is aware, while these proposed regulations were supposed to be a response to Congress' specific direction in the 2008 Farm Bill, the actual regulations went far beyond the scope authorized by the farm bill. If implemented, these regulations would force unnecessary and costly changes to the way processors and growers do business. We are grateful that Congress has consistently chosen to block implementation of these unnecessary regulations through the appropriations process. We urge this Committee to take the lead in advancing a permanent resolution to this issue as soon as practical.

Conclusion

In Tyson's view, this is an exciting time to be in the business and although there are certainly challenges, we believe many opportunities lay ahead. We are seeing continued demand for our products among U.S. consumers and growing demand abroad, in our view that is a very positive thing for the livestock and poultry industries.

While many market developments are outside of all our control, there are a number of policy considerations within this Committee's area of concern that can impact livestock and poultry. As I have discussed in my testimony, chief among these are international trade and damaging provisions like the new MCOOL regulations and pending GIPSA regulations. I urge the Committee to focus on initiatives that will increase market opportunities for livestock and poultry, as well as reforming policies that restrict our ability to operate fairly and efficiently.

I want to again thank this Committee for the chance to appear before you today and discuss the state of the livestock and poultry industries.

The CHAIRMAN. Thank you, Mr. Miller.

We will now move to Dr. Hill, National Pork Producers Council. You are recognized for 5 minutes.

STATEMENT OF HOWARD HILL, D.V.M., PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL, CAMBRIDGE, IA

Dr. HILL. Thank you, Chairman Crawford and Ranking Member Costa for inviting me to testify at this very important hearing.

I am Dr. Howard Hill, veterinarian and a hog farmer from Iowa, and I currently serve as the President of the National Pork Producers Council. I apologize for Dr. Steve Meyer not being here today as originally planned. I think you would agree, though, that a veterinarian beats an economist any day of the week.

NPPC has an association of 44 state organizations that serves as a voice in Washington for America's 69,000 pork producers. Last year those producers marketed more than 111 million hogs which provided 23 billion pounds of safe, nutritious pork to the world, generated gross receipts of $15 billion and personal income of $21 billion and added $35 billion to our Gross National Product.

The United States exported more than $6 billion of pork in 2013 which added about $54 to the price producers receive for each hog marketed. The U.S. pork industry is responsible for more than 550,000 mostly rural jobs in the United States. But all of those positive numbers could change because of a couple issues now facing the pork producers.

First, U.S. market hog production declined because of a sharp reduction in the number of weaners and feeder pigs imported from Canada, mostly because of implementation of the Federal MCOOL law. Although the MCOOL officially began in September 2009, it caused adjustments in Canadian hog outputs well before that date because U.S. farmers finishing hogs sought domestic animals to avoid the cost and complications of the new law such as the prohibition on commingling U.S. born and Canadian-born hogs.

The U.S. slaughter of Canadian hogs fell by nearly 50 percent because of MCOOL driven decline and Canadian hogs shipped directly to the U.S. for slaughter. One result of the decline in Canadian hogs was the April 10 closure of the John Morrell plant in Sioux City, Iowa. There simply weren't enough hogs available nor sent to the United States to maintain the pre-2010 level of packing capacity. The closure cost 1,500 jobs.

In addition to the direct economic impact of MCOOL, the U.S. pork industry may have retaliatory tariffs imposed on its products and on a host of other goods if Canada and Mexico win their case against the law which now is pending in the WTO. While tariffs may not trigger another recession, they would damage the economy and hurt the many hardworking families that depend on trade with Canada and Mexico for their livelihood.

The most pressing threat we face, however, is Porcine Epidemic Diarrhea virus or PEDv which now has spread to 30 states. While USDA estimates the disease has killed about two million pigs, the economist Dr. Steve Meyer estimates a loss closer to seven million pigs. That suggests slaughter reductions this summer could be greater then ten percent. Such reduction would push U.S. hog prices up by 15 to 25 percent and force consumer-level pork prices up 10 to 12 percent. Retail pork prices already have hit new record highs in March and most likely will rise even higher this summer and fall.

Even though a reduced supply may increase pork prices for farmers, I know firsthand that pork producers are not happy about this disease. Producers talk about their PEDv experience using terms such as *devastating, heartbreaking, gut wrenching,* when describing its impact on their herds, themselves, their families and their employees.

Additionally, reduced hog numbers mean less feed, less medicine, fewer veterinary services and shorter hours at packing and processing plants. All these dynamics reduce wages and profits generated by allied businesses. Since many of these businesses are located in small and mid-sized rural communities, this would have a significant negative impact on the nation's rural economy.

So what needs to be done about PEDv? First, it is still not known how PEDv entered the United States. The pork industry has evidence that two distinct strains of PEDv were introduced along with another virus called Porcine Deltacoronavirus. The pork industry needs USDA to conduct a thorough investigation on the pathway these viruses used to gain entry into the United States, swine herd. The agency should cooperate with FDA, DHS and other appropriate agencies in this investigation.

While the U.S. pork industry has committed nearly $2 million of research for PEDv, it would like USDA's ARS to bring significant resources to bear on the disease. This research needs to focus on basic viral propagation, pathogenesis and control. Development of a vaccine is only one of several important tools to get PEDv under control.

The pork industry also needs the National Animal Health Laboratory Network to have the ability to efficiently and electronically communicate and generate the data needed to understand and respond to PEDv and Deltacoronavirus. The information also should be available for real-time appropriate analysis.

Additionally, USDA's ability to implement or coordinate its surveillance program should be enhanced. Recently, Secretary Vilsack announced an order to require reporting of PEDv. While knowledge of the disease prevalence and movement are important in understanding the epidemiology disease, USDA needs to take a thoughtful and measured approach to development of a strategic strategy that is practical, workable and can be successful. The pork industry is willing to work with USDA.

Thank you again for the opportunity to discuss the challenges facing today's pork industry, and I would be glad to answer any questions posed by the Committee.

[The prepared statement of Dr. Hill follows:]

PREPARED STATEMENT OF HOWARD HILL, D.V.M., PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL, CAMBRIDGE, IA

State of the U.S. Pork Industry

Introduction

The National Pork Producers Council (NPPC) is an association of 44 state pork producer organizations that serves as the voice in Washington for the nation's pork producers. The U.S. pork industry represents a significant value-added activity in the agriculture economy and the overall U.S. economy. Nationwide, more than 69,000 pork producers marketed more than 111 million hogs in 2013, and those animals provided total gross receipts of $15 billion. Overall, an estimated $21 billion of personal income and $35 billion of Gross National Product are supported by the U.S. hog industry. Economists Dan Otto and John Lawrence at Iowa State University estimate that the U.S. pork industry is directly responsible for the creation of nearly 35,000 full-time equivalent pork producing jobs and generates about 128,000 jobs in the rest of agriculture. It is responsible for approximately 111,000 jobs in the manufacturing sector, mostly in the packing industry, and 65,000 jobs in professional services such as veterinarians, real estate agents and bankers. All told, the U.S. pork industry is responsible for more than 550,000 mostly rural jobs in the United States.

Exports of pork continue to grow. New technologies have been adopted and productivity has been increased to maintain the U.S. pork industry's international competitiveness. As a result, pork exports have hit new records for 20 of the past 22 years. In 2013, the United States exported more than $6 billion of pork, which added about $54 to the price that producers received for each hog marketed. Net exports last year represented almost 26 percent of pork production. The U.S. pork industry today provides 23 billion pounds of safe, wholesome and nutritious meat protein to consumers worldwide.

A Permanent Shift for Costs, Lower Numbers of Canadian Pigs

At beginning of 2014, the U.S. pork industry had lost money in four of the past years, including 2 of the 3 worst years on record in 2008 and 2009. After some recovery in 2010 and 2011, record-high feed costs in 2012 and early 2013 pushed producers' cumulative profits to their lowest point since late 2004. Now porcine epidemic diarrhea virus (PEDv) and potential trade actions by two of our largest export markets have cast a cloud over the industry.

The losses incurred since 2007 began with the initial run-up of feed ingredient prices that resulted from rapidly rising ethanol production capacity. That capacity development was hastened by Federal biofuels policy that included rising levels of mandated ethanol usage. Break-even hog production costs rose to a then-record $57 per hundred pounds (cwt.) of carcass weight—live $76/cwt.—in 2008 as corn prices hit then-record highs. Those high costs of production were complicated for producers by record-high hog supplies in 2008, the result of slight breeding herd growth and the 2007 introduction of circovirus vaccines that allowed many more pigs to survive to market age and weight. Doing what was clearly the right thing for animals' well-being had significant negative economic consequences for producers.

The losses of 2008 and 2009 led to a significant reduction in U.S. hog slaughter in subsequent years. Part of that decline in numbers was because of a liquidation of part of the U.S. breeding herd because of financial losses. The U.S. breeding herd fell by 455,000 head (7.3 percent) from December 2007 through December 2010, and, despite rapidly rising productivity, the U.S. pig crop declined from a record-high 115 million head in 2008 to just 113.7 million in 2010.

At the same time, U.S. market hog production declined because of a sharp reduction in the number of weaner and feeder pigs imported from Canada, which fell from just over seven million head in 2008 to just 4.7 million head in 2010. That decline was driven by two factors whose relative importance is very difficult to determine.

First, the value of the Canadian dollar relative to the U.S. dollar increased sharply, making Canadian producers less competitive with their U.S. counterparts. That factor plus the same higher feed costs faced by U.S. producers caused Canadian hog numbers to decline. Fewer hogs in Canada left fewer pigs to be exported to the United States.

The second factor was mandatory Country-of-Origin Labeling, or MCOOL. Though the program began officially in September 2009, it caused adjustments in Canadian output well before that date as U.S. hog finishers sought domestic sources of feeder pigs to avoid the costs and complications of feeding and marketing Canadian pigs, which most expected and eventually realized.

Finally, U.S. hog slaughter also was reduced because of an MCOOL-driven decline in Canadian hogs shipped directly to the United States for slaughter. Those numbers fell from 3.28 million in 2008 to just 1.14 million in 2010, and those hogs, in particular, were affected by MCOOL since the product from them was required to be completely segregated from product derived from pigs fed in the United States.

Total U.S. commercial hog slaughter fell by 6.193 million head (5.3 percent) from 2008 to 2010 because of these various reductions in the number of hogs available to U.S. packers. A primary and completely foreseen consequence of these lower hog numbers was a reduction in total U.S. pork packing capacity. That consequence was realized in April 2010 with the closure of the John Morrell plant in Sioux City, Iowa. The plant had long been considered vulnerable because of its lack of further-processing facilities and downtown location near the former site of the Sioux City Stockyards, which closed in 2002. It was particularly vulnerable to MCOOL-related reductions in Canadian imports because of it being one of the northernmost and westernmost plants in the United States. Its sister plant in Sioux Falls, SD, processed a significant number of imported Canadian market hogs and U.S. market hogs produced from Canadian-born pigs. When the number of those pigs declined, there simply were not enough hogs available in the North-Central United States to maintain the pre-2010 level of packing capacity. The closure cost 1,500 jobs.

That reduction of capacity remains a potential limiting factor for the U.S. pork industry today. The high feed prices of 2012–2013 and, now, PEDv have reduced

U.S. hog numbers enough that the current total capacity of 444,320 head per day will not be challenged either this year or next. But the United States is the world's low-cost producer of finished pork products, meaning that there is ample potential for long-run growth. A return of market hog numbers to the level of 2008 would result in weekly slaughter numbers that exceed the nation's MCOOL-reduced packing capacity. Should that happen, very low hog prices would result.

Clock Runs Out On U.S. Crop Weather in 2012

Two years of marginal profitability in 2010 and 2011 were followed by another period of losses, this time driven by the first significant drought to hit the Cornbelt since 1988. The combination of sharply lower corn and soybean yields and very low corn and soybean reserves pushed prices and hog feed costs to new record highs. The average break-even cost for Iowa farrow-to-finish operations modeled by Iowa State University hit $90.89/cwt carcass in 2012 and $93.95/cwt. carcass in 2013. Those compare with $52.76/cwt. from 1999–2006 before the advent of biofuels policy and roughly $70/cwt. in 2009 and 2010 after the original grain price adjustments to biofuels production growth mandated by the Federal energy acts of 2005 and 2007.

U.S. producers had begun a herd expansion in early 2012 following marginally profitable years in 2010 and 2011. That expansion was slowed by the losses of 2012 and 2013 but not completely stopped as producers correctly judged the drought-induced high grain prices and hog production costs to be temporary. A record-large U.S. 2013 corn crop has now pushed production costs back near $80/cwt—still high by long-term historical standards but much more reasonable than the record levels of 2012 and 2013.

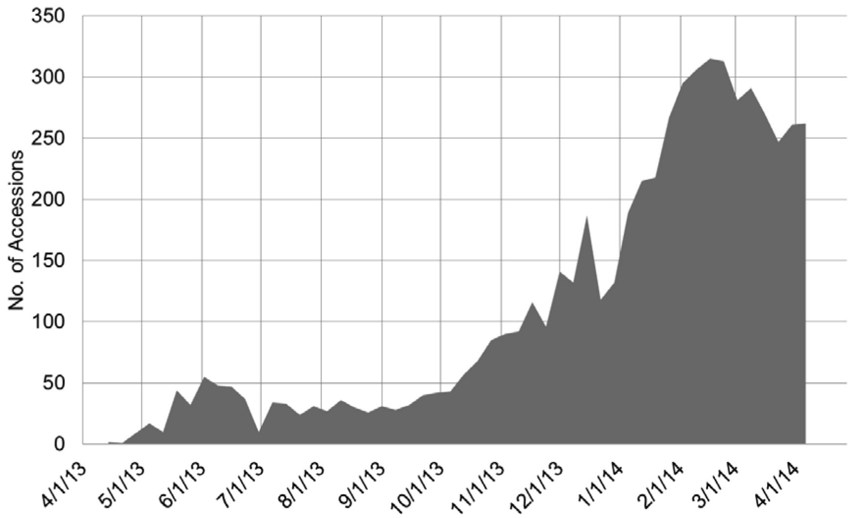
New Threats

The latest threats to the U.S. pork industry are serious indeed, especially since solutions to both are still not certain. The most pressing threat we face today is PEDv, a devastating disease that has now spread to 30 states. PEDv's biggest impact is among pigs up to 3 weeks of age, where death losses are almost always near 100 percent. USDA's March 28 quarterly *Hogs and Pigs Report* estimated that PEDv has thus far killed roughly two million head. A far more accurate estimate from U.S. pork industry economist Steve Meyer is seven million head, which is based on anecdotal but dependable estimates that roughly 2.6 million sows have been infected and that each has lost, on average, 2.7 piglets.

Those death losses began in the spring of 2013 in scattered sow farms in the Cornbelt but became significant in May and June 2013 in the Oklahoma Panhandle. Subsequent breaks in large numbers of sow farms in North Carolina began in August and September. Large numbers of Cornbelt sow farms began to break with PEDv in November and December, and the number of positive case accessions, which veterinarians consider an accurate gauge of disease activity, to animal health diagnostic labs exploded after the beginning of 2014. (See *Figure 1*.)

Using the number of positive case accessions for suckling pigs to distribute the estimated loss of seven million pigs from June 2013 through March 2014 suggests that slaughter reductions this summer could be greater than ten percent, relative to last year's levels. Higher market weights—because of lower feed costs and the industry's efforts to offset some degree of PEDv pig losses—would offset three to four percent of that reduction, but U.S. pork production would likely be down six to eight percent in the third quarter. Such a reduction would push U.S. hog prices up by 15 to 25 percent and force consumer-level pork prices upward by 10 to 12 percent.

Figure 1
Weekly Positive PEDv Accessions



Source: National Animal Health Laboratory Network, posted at *www.assv.com*.

The irony of this situation is that pork producers could benefit economically from PEDv losses because of the inelastic nature of pork and hog demand. That inelastic demand structure should cause prices to rise by a greater percentage than production declines, meaning total revenue for the pork industry would grow this year. When combined with lower costs of production, the pork industry could enjoy perhaps its best year ever financially, and producers—even those who lose pigs to PEDv—likely would see their best individual years ever, as well. The only exceptions to this success would be producers who farrow less frequently than once every 2 months and lose one or more farrowing groups of pigs to PEDv. Those operations may see output fall by a greater percentage than prices increase, thus reducing total revenue.

But let no one be deceived that pork producers are happy about this situation even if it results in economic benefits. The U.S. pork industry's deep concern over PEDv is two-fold.

First, U.S. pork producers are in the business of creating and maintaining living, healthy animals. That is, in essence, their calling as producers. Losing millions of pigs to this disease hurts them to the very core and actually signifies that they have profoundly failed to live up to that calling. Producers and their dedicated employees take these losses personally, and they hurt deeply. Producers talk about their PEDv experiences using terms such as "devastating," "heartbreaking" and "gut-wrenching" when describing the disease's impact on themselves, their family and their employees.

Second, U.S. pork producers are very concerned about the impact of PEDv on their customers and others who depend on the pork industry. Retail pork prices already hit a new record high in March and most likely will rise even higher this summer and fall. That means that some customers, both at home and abroad, will be unable to afford delicious, wholesome pork products. In addition, reduced hog numbers mean less feed, less medicine, fewer veterinary services and shortened hours at packing and processing plants. All of these dynamics reduce wages and profits generated by allied businesses. And since many of these businesses are located in small- to mid-sized rural communities, this will have a significant negative impact on the nation's rural economy.

So what needs to be done about PEDv?

First and foremost, it still is not known how PEDv entered the United States. The pork industry has good evidence that two distinct strains of PEDv were introduced along with another virus called Porcine Deltacoronavirus. The pork industry needs USDA to conduct a thorough investigation on the pathway these viruses used to gain entry into the U.S. swine herd. The agency should cooperate with the U.S. Food and Drug Administration, the Department of Homeland Security and other appropriate agencies in that investigation.

While the U.S. pork industry has committed nearly $2 million to research PEDv, it needs the USDA Agricultural Research Service to bring significant resources to bear on this disease. This research needs to focus on the basics of viral propagation, pathogenesis and control. Development of a vaccine is only one of several important needs for getting PEDv under control.

The pork industry also needs the National Animal Health Laboratory Network (NAHLN) to have the ability to efficiently and electronically communicate and generate the data needed to understand and respond to PEDv and Deltacoronavirus. The information also needs to be available for real-time, appropriate analysis. NAHLN's information technology and intellectual property issues should not be a barrier to enhanced inter-laboratory communication and data sharing.

USDA's ability to implement a coordinated surveillance program should be enhanced. Recently, Secretary Vilsack announced an order to require reporting of PEDv. While knowledge of disease prevalence and movement are important in understanding the epidemiology of this disease, USDA needs to take a thoughtful and measured approach to development of a strategy that is practical, workable and has the potential to be successful. The pork industry is willing to work with USDA to move forward on these issues.

The second pressing threat for the U.S. pork industry is looming trade sanctions from Canada and Mexico over the U.S. mandatory Country-of-Origin Labeling law. While the Obama Administration's most recent effort to satisfy the World Trade Organization (WTO) is still under challenge by the two countries and awaiting a decision from a WTO dispute resolution panel, the U.S. pork industry believes it is very likely that decision will be unfavorable for the United States. This means both Canada and Mexico would be free to impose tariffs on a large array of U.S. products as soon as this year. While NPPC's foremost concern is for U.S. pork products, this Subcommittee, along with the entire House Agriculture Committee and the House of Representatives must heed the fact that the sanctions would hit many more U.S. sectors than pork, or even agriculture. Items targeted by Canada and Mexico for retaliation include, for example, maple syrup, wine and manufactured goods.

Can the U.S. economy's fragile recovery withstand a broad-based hit on exports to two of the country's largest trading partners? While such action may not trigger another recession, it very likely will damage the economy and hurt the many hardworking families that depend on trade with Canada and Mexico for their livelihoods. The impact of any tariffs will go far beyond the boardrooms of the affected companies.

NPPC is, of course, most concerned about pork producers, who could see prices fall by roughly $2 per hundred pounds of carcass weight should tariffs actually be imposed. That reduction would reduce producer revenues by $400 million per year.

NPPC encourages Congress to consider a legislative solution to the WTO case that satisfies America's trade obligations under the WTO and avoids retaliation.

Other Issues of Concern

In addition to the challenges posed by MCOOL and PEDv, U.S. pork producers are watching several other matters that could be problematic.

DOT Hours of Service Rule

July 1, the U.S. Department of Transportation's Federal Motor Carrier Safety Administration (FMCSA) issued a final rule that requires truck drivers to take a 30 minute rest break for every 8 consecutive hours of service. For drivers hauling livestock, the hours of service would include time loading and unloading animals.

NPPC, along with 13 other livestock, poultry and food organizations, petitioned the FMCSA for a 90 day waiver, which was granted, then a 2 year exemption from complying with the rule. The groups argued that the rule would place the health and welfare of livestock at risk, particularly during times of the year with warm temperatures, and would provide no increased benefit to public safety—and likely would decrease public safety—while forcing the livestock industry and its drivers to choose between the humane handling of animals and complying with the FMCSA regulation.

Additionally, the livestock industry already has programs—developed and offered under the oversight of the U.S. Department of Agriculture—that educate drivers on transportation safety and animal welfare.

Because FMCSA has not decided whether to grant the industry an exemption from the rule, NPPC and other organizations are filing a petition to the agency for an emergency 90 day waiver to begin June 1 when summer temperatures start to rise. If FMCSA fails to eventually grant a waiver, NPPC intends to begin filing similar petitions every 90 days in order to protect the welfare of the animals in our control.

U.S. Dietary Guidelines

Every 5 years, USDA is required to update the U.S. Dietary Guidelines for Americans, which encourage people to focus on eating a healthful diet, providing evidence-based nutrition information and advice for those age 2 and older. They serve as the basis for Federal food and nutrition education programs, including the School Breakfast and Lunch programs.

NPPC in March submitted written comments to the 2015 Dietary Guidelines Advisory Committee (DGAC) and to USDA and the Department of Health and Human Services, which requested input on steps the food industry must take to maintain food safety, to ensure sustainability and to reduce sodium, added sugars and fats in the food supply. NPPC supports DGAC's work to develop "nutritional and dietary information and guidelines for the general public . . . based on the preponderance of scientific and medical knowledge . . .".

But NPPC is concerned that the DGAC is addressing issues outside its purview and scope of expertise and that politics and public opinion rather than sound science and medical knowledge could be used to set recommendations and, in the case of Federal feeding programs, to set policy that limit or restrict certain foods.

Additionally, there already exist groups working to better understand, for example, sustainability in food production, one of the areas into which the Committee has delved.

> [America's pork producers are among the most environmentally and socially conscious food producers in the world, and they have worked to improve diets and enhance breeding practices to raise leaner, healthier pigs to meet the demand for quality pork with less fat.]

The committee should remain committed to its mission of providing "independent, science-based advice and recommendations for development of the Dietary Guidelines for Americans, 2015" and not use its limited funding and nutritionally focused expertise on non-nutritional criteria to determine winners and losers among the country's food producers.

Conclusion

The U.S. pork industry is the lowest-cost producer and No. 1 exporter of pork in the world, and U.S. pork producers continue to produce the most abundant, safest, most nutritious pork in the world. They have proved very resilient, weathering financial crises and diseases as well as the vagaries of a supposedly-free market economy pushed and pulled in various directions by government intervention and regulation, while investing in and adopting new technologies that have promoted animal health, protected the environment and added thousands of jobs and billions in national income to the American economy.

To enable pork producers to continue as leaders in the global and domestic economies, the U.S. pork industry urges Congress and the Administration to pursue Federal policies and regulations that support U.S. pork production rather than hinder its ability to continue to produce safe, lean and nutritious pork and pork products for the global marketplace.

The CHAIRMAN. Thank you, Dr. Hill.

The chair will exercise a point of privilege, recognize Ranking Member Costa to introduce our next witness.

Mr. COSTA. Thank you very much, Mr. Chairman, and I appreciate that courtesy.

Our next witness is Mr. Smith, Mr. Mike Smith, who was born and raised in Southwestern Oregon but now calls California his home. He was born on a commercial cow/calf operation, graduated from Cal Poly in California but then got his master's degree at the Oklahoma State University, for my friends from Oklahoma.

He is a manager who focuses on the partnership for quality and marketing program for Harris Ranch. Harris Ranch in California is one of America's leading producers of quality beef, and Mike does a great job and he is joined here by his wife, Sarah, and his two children, Clayton and Jesse. They are getting a chance to watch Dad in action. So we welcome Mr. Smith here today.

STATEMENT OF MICHAEL T. SMITH, SPECIAL PROJECTS MANAGER, HARRIS RANCH, SELMA, CA; ON BEHALF OF NATIONAL CATTLEMEN'S BEEF ASSOCIATION

Mr. SMITH. Thank you, and good morning, Chairman Crawford, Ranking Member Costa, and Members of the Committee.

I am here today representing the National Cattlemen's Beef Association, the North American Meat Association and the company I work for, Harris Ranch, and I know that Congressman Costa is very familiar with the company, but for those who are not, let me give you a brief background.

Harris Ranch is one of the largest family-owned agribusinesses in the western United States. We operate five primary business entities under the Harris Farms of banner. For example, our hospitality division is located equidistance between San Francisco and Los Angeles. We operate a 150 room inn and a restaurant complex that will serve in excess of 1,500 meals each and every day.

Additionally, we operate a thoroughbred race horse division, and the fact is, the odds on favorite this Saturday at the Kentucky Derby is a horse by the name of California Chrome. That horse's dam was bred by a stallion that stands in our breeding barn. He was born and foaled in our foaling barn, and for the first 2 years of his life remained at Harris Farm. So suffice to say, we are pretty proud of that horse. Now, I hope I just didn't jinx him for Saturday.

Our cattle feeding division operates one of the largest beef feedlots in the United States with a one-time capacity of 120,000 head. In total, we will feed in excess of a ¼ million head of cattle each year. These cattle will then be slaughtered, fabricated and further processed in our state-of-the-art beef processing facility that is located roughly 50 miles away from the beef feedlot.

Finally, our farming operation encompasses roughly 17,000 acres of ground. In addition to the permanent crops of almonds, pistachios and citrus, in a normal year, and I will highlight that term *normal year,* we will grow tomatoes, onions, garlic, broccoli, lettuce, asparagus, melons, just to name a few. And the reason I highlighted that key word *normal,* we haven't had one of those in quite some time.

So that will kind of segue into the start of this testimony. I want to start with water, or more correctly, state of the lack thereof. In my home State of California we are suffering through one of the worst droughts in recorded history. Make no mistake, however, this drought is made even worse by actions taken by Federal and state governments to restrict the rightful allocation of water to farmers and cattle producers throughout California, especially those in the Central Valley, a region of the state that grows well over ½ of the fruits and vegetables in this country.

Our concern at Harris Ranch is the with Delta smelt. That is a 3 inch bait fish that because of its listing as an endangered species has profoundly impacted water delivery in the State of California. As a net result, this year's zero to possibly five percent allocation of water will result in Harris Farms fallowing over 11,000 acres of some of the most highly-productive crop ground in the United States. That is ⅔ of all the ground we farm will sit idle this year.

But cattle in other states face similar threats with the very real impacts of the Endangered Species Act. The potential listing of the Sage Grouse and Lesser Prairie Chicken will severely impede the ability of cattlemen in the Western and High Plains regions of the United States to operate their ranches. The undeniable fact is that Congress must immediately reopen the Endangered Species Act and provide relief to the true stewards of the land, this nation's farmers and ranchers.

One final issue impacting the beef industry I would like to discuss with you today is mandatory Country-of-Origin Labeling. As a company, we are extremely upset and quite frankly disappointed that Congress did not provide a legislative fix to COOL in the recent farm bill. COOL has been a particular burden to the beef industry for far too long now. Proponents of COOL have argued that mandatory labeling would cause the consumer to pay more for U.S. beef.

Five years of implementation have proved just the opposite. In fact, a recent Kansas State study found that the vast majority of consumers don't even look for Country-of-Origin Labeling when buying beef; in fact, most don't even know a COOL label exists nor did they care.

As one of the first-branded beef companies in the United States, you would think that Harris Ranch would strongly support Country-of-Origin Labeling, but the fact is, it is just the opposite. Our experience is that our customers are not interested in nor do they wish to pay a premium for country-of-origin information.

The question then becomes, why continue to implement a law that harms the U.S. cattle industry when the consumer is not demanding it? That question is especially relevant with the pending WTO ruling. Canada and Mexico have consistently ranked as two of the top export markets for U.S. beef. Last year, Canada and Mexico collectively imported just under $2 billion worth of U.S. beef. If we lose access to those markets, they are restricted by the enactment of tariffs, that action will have a profoundly negative impact.

In closing, we are perplexed why the government wants to hurt our industry for a simple marketing program that has proven to be ineffective, and let me be clear, COOL is all about marketing; it has absolutely nothing to do with food safety.

And finally, COOL is not a consumer-right-to-know issue; if it were, COOL would be applied to all beef and not just that, that is marketed through the retail level.

Mr. Chairman, thank you for the opportunity to be here today.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF MICHAEL T. SMITH, SPECIAL PROJECTS MANAGER, HARRIS RANCH, SELMA, CA; ON BEHALF OF NATIONAL CATTLEMEN'S BEEF ASSOCIATION

Mr. Chairman, Ranking Member Costa, thank you for the opportunity to be here today to discuss the state of the beef industry.

I am here this morning representing the National Cattlemen's Beef Association, the North American Meat Association, and the company I work for . . . Harris Ranch.

For those unfamiliar with Harris Ranch, the company is one of the largest, family-owned agribusinesses in the western United States. There are five primary business entities operated under the Harris Ranch banner. Our hospitality division, located midway between San Francisco and Los Angeles, operates a 150 room inn and a restaurant complex which serves an average of 1,500 meals each day. Our cattle feeding division operates one of the largest feedlots in the U.S., with a one-time capacity of 120,000 head of cattle. In total, we will feed roughly 250,000 head of cattle each year. These cattle are then slaughtered, fabricated and further processed in our state-of-the-art beef processing facility. In addition, we operate one of the largest Thoroughbred horse ranches in the western United States, and will breed roughly 300 brood mares at our facility each year. Finally, our farming operation encompasses over 17,000 acres growing over 35 different crops on the west side of the fertile San Joaquin Valley. In addition to the permanent crops of almonds, pistachios, grapes and citrus; in a normal year we will grow crops like tomatoes, onions, garlic, broccoli, lettuce, asparagus and melons. But the key word here is "normal", and we have not had a "normal" year in quite some time.

This is a very difficult time for the beef industry. The United States currently has the lowest cow herd in 60 years. There are a number of issues negatively impacting the cattle industry. I would like to highlight five that are having a direct and immediate impact: drought, Federal regulations, taxes, trade and Country-of-Origin Labeling.

Top of mind of course is water, or more precisely, the lack thereof. Most of the country west of the Mississippi finds itself in years 4, 5, or 6 of drought. In my home State of California, we are currently suffering the worst drought in recorded history. The drought is made worse by the actions taken by the Federal and state government to restrict the rightful allocation of water to farmers and cattle producers throughout California, but especially in the Central Valley. These actions threaten the viability of agriculture in California—a state that provides over ½ of the fruits and vegetables to the United States, as well as highly quality beef. We must have immediate relief from Federal laws that are severely restricting our access to water such as the Endangered Species Act. Congress must reopen the ESA and provide relief—and a little common sense—to reign in a law that has caused untold hardship for many hardworking people.

It's not just the ongoing drought that is hurting our industry. The onslaught of Federal rules and regulations continue to put pressure on the growth of America's cattle herd. In California, we are already subject to more rules and regulations than any other cattle producing state. These state rules are compounded by rules coming from agencies such as the Environmental Protection Agency (EPA). The EPA's recently published a proposed rule to redefine the waters of the United States under the Clean Water Act. We have been anticipating this rule for quite some time, and we have made it clear that we have serious concerns about expanding the jurisdiction of EPA and the U.S. Army Corps of Engineers. While the proposed rule does include some exemptions for agricultural practices, it does not cover every body of water that will be encountered on cattle farms and ranches across the country. Under this proposal, it is likely that some cattle producers will have to file for a permit to conduct activities on their private property. Effectively, this amounts to a huge land grab by EPA and directly threatens long established private property rights. To that end, it cannot be allowed to move forward. We need Congress to step in and either shut down this effort by EPA permanently, or restrict their funding to move such a proposal forward.

Transportation is another area where we could use some relief from obsolete or ridiculous rules. The U.S. Department of Transportation is currently enforcing their "30 minute" rule which requires drivers to stop for a mandatory 30 minute rest during each 8 hour shift. Stopping for fuel or meals does not satisfy this requirement. While we support rules to ensure that drivers operate in a safe manner, we must also look out for the welfare of our cattle. Shipping cattle is a stressful time in their lives. One way to keep the animals comfortable is to have air constantly moving through the trailer while the truck and trailer are moving down the road. If the vehicle is required to stop, airflow stops. The safety and welfare of our cattle is our utmost priority and we must be allowed the option to continue to travel without this DOT restriction. This is especially true during the summer months. I urge the Committee to engage with DOT to ensure that livestock haulers are exempt from this rule.

We also need to allow more weight to be shipped on these trailers. As I mentioned, shipping is stressful on cattle, and as a result, they lose weight or "shrink" in value. We know that with an additional axle, we can load these trailers to over 80,000 pounds and have less wear and tear on roads and bridges than we do now with only two axles. As Congress looks at the transportation reauthorization, we need to look at how we maximize our cattle shipping capabilities.

Taxes are another issue which has a huge impact on the viability of cattle operations in the United States. It is extremely important that Congress take urgent action to make permanent the tax extenders package made up of the tax provisions which expired at the end of 2013. In particular, we would like to see the Section 179 expensing be made permanent at a level of $500,000, like it was prior to expiration. Section 179 expensing has been very beneficial to producers who purchase new equipment by allowing them to depreciate the value quicker and at a larger amount. We can't talk about taxes without mentioning the Death Tax. Even though Congress made improvements to the Death Tax provisions at the end of 2012, we still need full repeal. If even one producer has to sell off a part of their operation to pay the Death Tax, it is one too many. In order to make sure that a future Congress does not revert back to the $1 million exemption, it is imperative that we finally repeal the Death Tax once and for all.

For the cattle industry, trade is one of our top priorities. We have a mature and fully developed market here in the United States. As such, it is essential we look to the international markets to grow the U.S. cattle industry. That is where international trade becomes very important to us. When you look at countries like China, we see that they have an increasing middle class with more disposable income. When you have more income, you want to eat better. When you want to eat better, you want protein. Obviously, we want the protein of choice to be U.S. beef. The trade agreements we have now are worth roughly $300 per head in the value of fed cattle. That is almost 20% of their overall value.

As we speak, our negotiators are working to conclude the Trans-Pacific Partnership (TPP). Of particular interest to us is how this agreement will define beef trade between the United States and Japan. We, and many of you as Members of Congress, made it very clear to Japan that in order for us to support their entrance into TPP, they had to commit to eliminating tariffs on beef. As of now, they have been pushing back on that point and want to reduce, but not eliminate tariffs. In order for this to be a true free trade agreement, and one that is based on what to expect of 21st century trade pacts, they need to eliminate the tariff on U.S. beef. The current 38.5% tariff is unacceptable, and your support for TPP should be based on the elimination of this tariff.

While we believe in trade, we also want to make sure we are basing our trade deals on sound science. USDA's Animal and Plant Health Inspection Service (APHIS) has proposed a rule that would allow certain states and regions within Brazil to ship fresh and frozen beef into the United States. The issue here is Brazil still has a problem with foot-and-mouth disease (FMD). We know that the FMD virus can travel on fresh and frozen product, so that immediately puts our industry at risk. In preparing our comments to APHIS on this issue, we looked at the economic impact of a FMD outbreak in the United States. Economic models show that a case of FMD could cost our industry up to $50 billion. That includes the loss of foreign markets much like we saw with the case of BSE in 2003. The World Organization for Animal Health (OIE) has guidelines that define how trade can be accomplished with countries that have disease issues. However, we don't believe that Brazil has the resources or commitment to implement and fulfill those protocols.

Even more concerning is that we don't believe that APHIS adequately prepared for this proposed rule. In preparing our comments, we requested the documents that APHIS used in formulating this rulemaking. Of the documents they gave us, 60% were in Portuguese with no translation. We wonder how these documents could have been effectively used by APHIS. We were then forced to FOIA the remaining documents we had requested, and we still have not received those documents even though the comment period closed last Tuesday. Of particular interest is the result of a site visit conducted in 2013. We believe any site visit would have huge implications on how Brazil intended to implement the safeguards and protocols. To date, we have not received this document of even an acknowledgement from APHIS that it exists. These games do not give us faith that APHIS has done their due diligence. We are asking that you engage with APHIS on this rule and help us shut it down.

Trade leads me to my final point. We are still very upset and discouraged that Congress did not fix mandatory Country-of-Origin Labeling (COOL) in the farm bill. COOL has been a particular burden for our business.

COOL has plagued our industry for almost 2 decades. Proponents of COOL have long said that mandatory labeling would cause the U.S. consumer to pay more for U.S. beef. Five years of implementation has proved just the opposite. Kansas State University conducted a study on COOL which showed that the vast majority of consumers don't even look at the COOL label when buying beef. In fact, most didn't even know there was a COOL label. While the COOL proponents say they have surveys that show Americans want to know where there beef comes from, the K-State study actually measured how Americans vote. Americans vote with their pocketbook by purchasing beef, and the vast majority don't consider COOL in their purchasing decision. Why then would we continue a law that has incurred costs on the U.S. cattle industry when the consumer is not demanding it? That question is especially relevant when you look at the World Trade Organization (WTO) case filed by Canada and Mexico against the COOL program. If they continue to win their case, which we believe they will, they will be allowed to retaliate against our industry. Canada and Mexico have consistently been two of our top five markets for the export of U.S. beef. In 2013, Canada imported over a billion dollars in U.S. beef and Mexico imported just under a billion dollars. That is big money for our industry. If we lose access to those markets, or they are restricted by the enactment of tariffs, that will have a negative impact on all U.S. producers. We remain perplexed why our government wants to hurt our industry for a simple marketing program that has proven to be ineffective? COOL is all about marketing and has absolutely nothing to do with food safety. Those who use that argument know nothing about the food safety protocols in this country.

It is also not a "consumer right to know" issue. If it were, then COOL would apply to all beef sold and not just the beef sold at the retail level. This claim is a red herring used by COOL proponents in a desperate attempt to hold on to their position. Clearly COOL is a farce and its proponents obviously have no idea how modern beef production in the United States actually works. We have to fix COOL now, and I would urge Members of this Committee to take up this challenge.

Mr. Chairman, thank you for the opportunity to be here today.

The CHAIRMAN. Thank you, Mr. Smith.

I will now recognize Mr. William P. Roenigk. Mr. Roenigk, you are recognized for 5 minutes.

STATEMENT OF WILLIAM "BILL" P. ROENIGK, SENIOR VICE PRESIDENT AND ECONOMIST, NATIONAL CHICKEN COUNCIL, WASHINGTON, D.C.

Mr. ROENIGK. Thank you, Chairman Crawford, Congressman Costa, and Members of the Committee.

We very much appreciate the opportunity to participate in this important and timely hearing on the status of the U.S. chicken industry and the issues that are impacting the poultry industry. On behalf of National Chicken Council, I appreciate your invitation to provide comments and recommendations regarding a number of vital issues and difficult challenges confronting our industry.

U.S. chicken producers and processors will certainly need the Subcommittee's support if the chicken industry is to successfully overcome the increasingly broad array of difficult issues and challenges, some of which I will outline in my statement. I am Bill Roenigk and presenting this statement on behalf of the National Chicken Council, the organization that represents companies that produce and process over 95 percent of the chicken in the United States.

The 30+ vertically-integrated firms are comprised of federally-inspected chicken industry, I can assure the Committee are a very dynamic, forward looking and most essential part of America's agribusiness. Most importantly, these companies can be characterized as survivors. They work hard every day to continue to earn that status.

As Dr. Glauber said earlier this morning, chicken production this year will reach a record high of 38.1 billion pounds on a ready-to-cook weight basis, 1.8 percent above 2013, a percentage very similar to what we increased last year. Normally, current market conditions would stimulate production to be somewhat higher, that is a percentage more aligned with a long-run average of about four percent per year. So why are chicken producers not stepping up production to better match the long-term average of four percent?

In short, we would if we could, but we can't. Yes, we would like to produce more pounds of chicken if we could, but unfortunately at this time, we cannot. The basic primary reason for the industry's inability to step up production can be attributed to the problems caused by a failed policy that has been with us since 2006.

The devastating impact of an inflexible Renewable Fuel Standard for conventional biofuels especially following this somewhat unprecedented drought of 2012 that severely reduced corn harvest continues to have broad and deep ramifications. Very high and very volatile corn prices even prior to 2012, most notably in 2009 when chicken production decreased almost four percent for only the third time since 1950 helps set the stage for the restrained production.

Not only did chicken producers have to significantly adjust production downward to survive but also the negative economic ripple affected the primary breeders. This is the life blood of our industry. The primary breeders had to adjust their production also as companies reduced their orders for day-old pullet chicks and in some cases even had to cancel their orders, and that inflicted financial pain on the primary chicken producers.

The chicken companies will rebuild their hatch, resupply flocks to better meet market needs, but until then, the chicken industry will continue to grow production but it will be at a more measured pace. We are especially aware that increased chicken production at this time and for the foreseeable future would be appreciated by consumers.

As we have heard, cattle and hog producers are confronting their own challenges to produce more beef and pork, and at this time, we think many consumers, if not most consumers, are increasingly finding chicken a favorable alternative when the competition provides such an opportunity to better compete.

It is frustrating to our industry that we are not able to increase our production, especially when we hear people say it only takes 7 weeks to grow a chicken. In the end, consumers are once again paying the price for a biofuels policy, and program that is broken beyond repair. In short, the state of the industry at least for those surviving companies is good in terms of net margins, but the industry continues to be frustrated by the results of an inflexible, renewable fuel policy.

In the interest of time, let me just mention a couple other issues I have listed here. The GIPSA rule that was finalized, has gone against the instructions of Congress. Efforts to defund that Congress has done several times. We think it is important that the rule be permanently defunded.

Also, regarding international trade, we very much support the prompt passage of trade promotion authority, continue Congressional support for a successful conclusion to the Trans-Pacific Partnership and to Transatlantic Trade and Investment Partnership and continue Congressional support for the WTO actions involving U.S. poultry trade with China, India and Indonesia and South Africa.

The National Chicken Council looks forward to working more closely with the Committee so that poultry producers will have a better opportunity to successfully manage the increasing difficult challenges and issues.

Thank you, Mr. Chairman, and Members of the Committee.

[The prepared statement of Mr. Roenigk follows:]

PREPARED STATEMENT OF WILLIAM "BILL" P. ROENIGK, SENIOR VICE PRESIDENT AND ECONOMIST, NATIONAL CHICKEN COUNCIL, WASHINGTON, D.C.

State of the Chicken Industry: 2014

Good morning, Chairman Crawford, Congressman Costa, and Members of the Subcommittee. Thank you, Chairman Crawford, for the opportunity to participate in this important and timely hearing on the status of the U.S. chicken industry and issues impacting the state of the poultry industry. On behalf of the National Chicken Council, I appreciate your invitation to provide comments and recommendations regarding a number of vital issues and difficult challenges confronting our industry. U.S. chicken producer/processors will certainly need the Subcommittee's support if the chicken industry is to overcome the increasingly broad array of difficult issues and challenges some of which I will outline in my statement.

I am Bill Roenigk and am presenting this statement on behalf of the National Chicken Council, the organization that represents companies that produce and process over 95 percent of the chicken in the United States. The 30+ vertically-integrated firms that comprise the federally-inspected chicken industry, I can assure the Committee, are a very dynamic, forward-looking and essential part of American agribusiness. Most importantly, these companies can be characterized as being "survivors." They work hard every day to continue to earn that status.

Snapshot of 2014 Chicken Production

USDA estimates that chicken production this year will reach a record high of 38.1 billion pounds on a ready-to-cook weight basis, 1.8 percent above 2013, a percentage increase very comparable to last year's rate. Current favorable market conditions would normally stimulate production to be somewhat higher, that is, a percentage increase more aligned with the long-run annual average of four percent. So, why are chicken producers not stepping-up production to better match the long-term average of four percent? We would if we could, but we can't. Yes, we would like to produce more pounds of chicken if we could, but unfortunately we, at this time, cannot.

The basic, primary reason for the industry's inability to step-up production can be attributed to problems caused by a failed policy that has been with us since 2006. The devastating impact of an inflexible Renewable Fuel Standard for conventional biofuels, especially following the somewhat unprecedented drought of 2012 that severely reduced the corn harvest continues to have broad and deep ramifications. Very high and very volatile corn prices even prior to 2012, most notably in 2009 when chicken production decreased almost four percent for only the third year since 1950 helped set the stage for the restrained production. Not only did chicken producers have to significantly adjust production downward to survive, but also the negative economic ripple effect of an inflexible RFS caused the primary broiler breeders to also significantly adjust their production downward. Further, broiler breeders had to curtail their production plans for the future. Primary breeders are the companies that are the lifeblood of our business because they generate the grandparents, great grandparent, and pedigree flocks. The primary breeders suffered significant financial strain during this time as orders for day-old pullet chicks were reduced or even cancelled by chicken producers who were also confronting severe financial pain because of an inflexible RFS. It is obviously taking the primary breeder companies time to rebuild their grandparent flocks that produce the day-old pullet chicks that mature in 7 months into the mother hens for our chickens. In time the primary breeders will generate larger, more sufficiently-sized flocks. At that time they will again be able to provide pullet chicks at a more normally-expected rate. In turn, chicken companies will enlarge their hatchery supply flocks to better meet market needs. Until then, the chicken industry will continue to grow but it will be at a more measured pace.

We are especially aware that increased chicken production at this time and for the foreseeable future would be appreciated by consumers. As cattle and hog producers confront their own challenges to produce more beef and pork, many consumers, if not most consumers, increasingly find chicken a favorable alternative. When the competition provides an opportunity to better compete, it is a bit frustrating to find yourself, as the chicken industry does, in the position of "we would if we could but we can't," especially when we hear "It only takes 7 weeks to grow a chicken."

In short, the state of the industry, at least for those surviving firms, is good in terms of net margins but the industry continues to be frustrated by the results of an inflexible renewable fuels policy and program. The often-dismissed fact, especially today as grain prices moderate, is that the RFS has inflicted deep and sustained damage to chicken production. In the end, consumers are once again paying the price for a biofuels policy and program that are broken beyond repair.

High and Volatile Corn Prices Force "Survivor" Chicken Companies to Cope

With the many difficult challenges chicken companies have faced and are facing in production, processing, and marketing, firms operating today have certainly earned the title of "survivor." Over the past 5 decades broiler production has decreased on an annual basis only three times: 2 years in the mid-1970s and then again in 2009. With the very steady track-record of increasing production, the industry's growth has offered increased opportunities for growers to expand their operations and build their net worth. Since the Renewable Fuel Standard (RFS) was implemented in 2006, that strong track record of growth has been in very serious jeopardy because an overabundance of corn is being diverted to fuel production and thus squeezing-out corn that should be available for feed, even when there is not an adequate supply of corn for all users.

In October 2008 when corn prices escalated to record high levels, it became more and more evident that the national policy regarding corn-based ethanol has been heavily tilted toward using corn for fuel rather than for food/feed. The need to rebalance the policy is long overdue. Picking one market for corn to be the winner at the expense of the loser should not be the function of government. Mandating the use of ethanol and protecting ethanol's feedstock from competition is double over-kill. Greater energy independence is a worthy goal for the United States, but the negative and unintended consequences of moving too far too fast with corn-based ethanol have become overly apparent. For the chicken industry, like other animal agriculture producers, fewer pounds of product have been produced and will also not be produced in the foreseeable years. Consumers who have sufficient income to devote to cover the higher costs of food will reach deeper into their pocketbooks and pay the higher food prices. Consumers in this country and around the world who cannot continue to afford animal protein in their diets will have to shift to other foods. However, with land being a limiting factor in the production of food, it is most likely all foods will be higher in price, whether of animal origin or not.

It can reasonably be argued that U.S. animal agriculture when compared with ethanol producers and overseas buyers is the most vulnerable corn buyer whenever there is a shortfall in corn.

Renewable Fuel Standard for Conventional Biofuel: Time to Repeal

Recent market developments and government actions again re-confirm that the Renewable Fuel Standard for conventional biofuels is broken beyond repair and, therefore, must be repealed. The RFS imposes biofuel blending requirements that greatly and negatively impact the chicken industry. When the original RFS was implemented during the 2005/06 crop year, ethanol consumed about 15 percent of the corn crop. By the 2012/13 crop year, ethanol's consumption reached more than 43 percent of the crop.

EPA has proposed a reduction in the RFS this year, but nonetheless, ethanol will consume about 40 percent of the 2013/14 U.S. corn crop. Despite EPA's proposed adjustment this year, under the statute providing for the RFS (the Energy Independence and Security Act of 2007) corn ethanol is still mandated to grow further.

The RFS has created a very uneven playing field for chicken companies to compete for necessary feedstuffs. Since the RFS was enacted, chicken companies have incurred over $44 billion in higher actual feed costs due to the RFS. Adding together the higher cumulative feed costs for chicken, turkey, table eggs, and hogs, the total is almost $100 billion in additional feed costs. Also higher feed costs for other agricultural animal producers, such as dairy and beef cattle, would add measurably to the $100 million cost. To put this $100 million of added feed cost in perspective, it can be noted that ethanol production has totaled a cumulative 85.4 billion gallons since the RFS was expanded in 2007. Spreading the $100 million over the 85.4 billion gallons of ethanol means poultry and swine producers have been forced to incur an additional $1.35 per gallon by paying these higher feed costs. This perspective, I suggest, helps illustrate the food *versus* fuel situation.

Most importantly, from 2007 through 2013, due in large part to high and volatile feed costs brought on by the RFS, at least a dozen chicken companies have ceased operations, filed for bankruptcy, or have been acquired by another company. And, the beat goes on, with two more chicken companies so far this year being acquired by other companies. While corn prices have moderated somewhat this year from their recent record highs, the chicken industry is only one drought away from another economic crisis.

The National Chicken Council believed at one time that the original RFS included a workable provision that provided for an "off ramp" in times of economic crisis. On at least two major occasions, that belief has proven to be very naïve. In 2012, the worst drought in more than 50 years coupled with record high and very volatile corn prices was deemed insufficient to trigger a temporary waiver of the RFS. Similarly, in 2008, historically high corn prices did not trigger the waiver under EPA's authority. At the same time with ethanol producers faced with domestic blend wall limits, the RFS gives ethanol producers such leverage that they are able to produce and export surplus ethanol, which further constrained the corn market in the United States. One has to ask if such exports and the import of Brazilian sugar cane based ethanol under the "advanced" category of the RFS further the law's intent to have the United States gain greater energy independence.

EPA's proposal for the 2014 RFS reflects again clear evidence that our nation's biofuels policy is broken, and broken well beyond repair. The issues of the blend wall, food *versus* fuel, mandates for non-existing cellulosic ethanol and other issues will not go away until Congress deals with the reality of the unworkable, unsustainable, imbalanced, and misnomered RFS.

The National Chicken Council strongly supports efforts to create a more reasonable and sustainable approach to the nation's energy policy. We recognize EPA's recently proposed action to adjust the RFS may prove to be a small first step. Nonetheless, Congress must provide a longer term, more certain solution by repealing the mandate for corn-based ethanol.

Over-Reaching GIPSA Regulations Need Addressing

In the 2008 Farm Act Congress directed the U.S. Department of Agriculture/Grain Inspection, Packers and Stockyards Administration (GIPSA) to develop criteria in five areas of poultry and swine contracts. The five areas were:

- Undue or unreasonable contractual preferences/advantages to/for particular contracting parties;
- Whether a live poultry dealer or swine contractor has provided reasonable notice to a poultry grower or hog farmer of any suspension of delivery of birds or hogs;
- Reasonable requirements for additional capital investments over the life of a contract;
- Provide reasonable period of time for a poultry/swine grower to remedy a breach of contract; and
- Reasonable terms for arbitration in poultry and swine contracts.

When USDA published its proposed rule in the *Federal Register* on June 22, 2010, interested parties were given 60 days to comment on the rule. The very short comment period provided an insufficient time for a serious and thorough analysis of the rule. Further, there was no credible, adequate economic impact analysis accompanying the proposed rule. Most egregious, the proposed rule went far beyond what Congress had instructed USDA to consider. After significant debate, USDA extended the comment period an additional 90 days.

Six areas in the proposed rule where GIPSA went beyond what Congress instructed are as follows:

- Onerous record-keeping requirements;
- Redefines "competitive injury" requirements;
- Redefines the term "fairness";
- Additional capital investment requirement for grower to recoup 80% of costs;
- Modification in the payment system to growers; and
- Disclosure and online publication of contracts.

The rule would have burdened the broiler industry with a cost impact of over $1 billion during the first 5 years, and further, would change the way companies and growers do business that has been successfully conducted for more than 5 decades. The vertically-integrated industry structure with growout contracts with family farmers is a system that has been successful and has made the U.S. chicken industry the most efficient and economically-viable in the world. The rule would have put the U.S. chicken industry at a global disadvantage, as other countries would not have to face these onerous requirements. The rule would have created greater uncertainty and cause unnecessary and costly regulatory and legal burdens in the marketplace by making it much more difficult for companies and contract growers to get competitive financing. In addition, companies would not have the incentive to use capital to improve and expand operations; rather there would be more of a financial incentive to restructure their businesses to include their own company growout operations. In short the rule has the government dictating private contract terms between businesses.

Since June 2010, when the rule was proposed, poultry and livestock producers have been working to have the GIPSA rule be compatible with Congressional intent. After the rule was proposed, Congress asked for an economic impact analysis of the rulemaking.

Despite objections raised by bipartisan opposition in Congress, GIPSA issued a final rule in December 2011 that still exceeded the agency's authority under the Packers and Stockyards Act and also failed to comply with the 2008 Farm Bill. Congress defunded the rulemaking effort in the FY 2012 Agriculture Appropriations bill.

Defunding language was also included in both of the FY13 continuing resolutions and the FY 2014 continuing resolution. Similar language needs to be included in the FY 2015 Agriculture Appropriations bill. Such language or amendment mirrors the action taken by Congress in the appropriations bills and signed by the President four times. The defunding amendment was also offered during the July 2012 markup of the House version of the farm bill and passed with an overwhelming majority voice vote.

Defunding language has been passed by Committee action and by the entire Congress five times over the past 3 years (FY12 appropriations bill, 1st FY13 CR, 2nd FY13 CR, House Agriculture Committee farm bill markup in July 2012, and House Agriculture Committee farm bill markup in May 2013). Clearly, the track record of passage by Congress reflects strong Congressional support to correct the GIPSA rule. The National Chicken Council urges the Subcommittee to support language to correct the GIPSA Rule in the FY 2015 Appropriations bill.

Prompt Passage of Trade Promotion Authority Necessary/TPP and T–TIP Success Imperative

Congressional approval of Trade Promotion Authority (TPA) which was previously called "fast track authority" is necessary to ensure a more successful outcome for the on-going negotiations for the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (T–TIP). It is necessary to have TPA enacted because it will be essentially impossible to gain Congressional trade pact approval otherwise.

TPA legislation provides for an up or down vote in the House and Senate without the opportunity to provide amendments or make changes in the agreements. The previous authority expired in 2007 and this vacuum has given negotiators on the other side of the table an unnecessary excuse to drag their feet toward reaching a final, beneficial deal. The "heavy lifting" in negotiations is now taking place, as we have seen in recent reports.

Trade Promotion Authority legislation must receive prompt passage so that the position of the U.S. international trade negotiators is strengthened as they continue to move forward to successfully conclude these two critically important agreements. Both pacts are expected to include provisions of great importance and benefit to U.S. poultry interests.

At the T–TIP Stakeholders Forum held by USTR late last year accompanying the National Chicken Council statement were two letters that had been previously delivered to the U.S. Trade Representative in 2013. Both letters were signed by over 45 agricultural organizations. Both letters stated "(w)e strongly believe that a comprehensive and ambitious U.S./EU FTA will generate economic growth, reduce market volatility, and create thousands of new jobs on both sides of the Atlantic. But such a momentous free trade agreement must be built on the foundation established by the United States in the TPP and other U.S. free trade agreements, which build, as you have said, 'the best trade policy for the future' ". As the negotiators for both TTP and T–TIP move toward a conclusion, that statement is even more important.

At one time, Russia and China were the United States two largest poultry export markets, but these two markets have been severely disrupted with trade curtailed from previous levels. It is now more important than ever to expand poultry sales to other world markets. Passage of these trade agreements would cost U.S. taxpayers essentially nothing but would create thousands of jobs in the United States.

It is difficult to think of a more appropriate time than now, to have TPA approved and for TTP and T–TIP to be successfully concluded. This is especially true if more jobs and an improved economy are indeed top national priorities.

Although international trade rules in the post-Uruguay Round world are certainly not perfect, they have been improved significantly and are generally accepted and observed by the majority of WTO member nations. Rules for enforcement of trade obligations have also been strengthened through an improved system of dispute settlement, and can be very effective if our government is willing to use those enforcement mechanisms and to insist on adherence by our trading partners to the rule of law.

NCC supports the move toward improved free and fair international trade. That position has been demonstrated and shared with Congress countless times. With more than 20 percent of our production being exported to over 100 other countries out outside-the-border customers are becoming more and more important, especially for our dark meat parts.

TTP, if successfully concluded for U.S. poultry, will expand U.S. chicken exports by at least $500 million annually and possibly more, if restrictive market access measures and sanitary/veterinary issues and other non-tariff trade barriers can be addressed.

T–TIP could benefit U.S. poultry exports by over $600 million yearly. Such increases would help generate more farm income, jobs in rural, districts, and improve the U.S. trade balance.

Resolution of Poultry Trade Issues Would Expand Exports

Timely resolution of certain pending trade issues more specific to U.S. poultry would also greatly enhance the opportunity to increase U.S. chicken exports. It is recognized that the Office of the U.S. Trade Representative has an abundance of priorities on its agenda, but there are a number of international poultry trade disputes that require a greater sense of urgency.

Among the special concerns of the U.S. chicken industry are the following:

- The effectiveness of international rules in challenging unfair practices was demonstrated when the U.S. Government challenged the unfair imposition of antidumping duties on U.S. poultry by the Republic of China. Prior to 2009, the United States was exporting approximately $700 million of chicken products to China. But in 2009, after the U.S. imposed safeguard duties on Chinese tires, and Congress discriminated against the Chinese by passing the so-called DeLauro Amendment that denied China the right to apply for USDA Food Safety and Inspection Service approval of some of its products (the only country Congress singled out for this treatment), China retaliated and imposed dumping duties on our poultry products. Unfortunately, because of the size and success of our exports, our industry became the target for retaliation and a pawn in this trade dispute between China and the United States.

  WTO ruled in August 2013 that China had violated numerous obligations when China imposed antidumping duties and countervailing duties on U.S. chicken. China did not accept the WTO finding and a WTO panel was established in March this year to determine if China's claim of consistence is valid.

  Also, quite irksome is China's statewide bans on poultry from Virginia, Arkansas, Wisconsin, New York, and Pennsylvania due to China's avian influenza concerns. China's bans are without merit and approval of the states to again export poultry to China must be accomplished as soon as possible.

  Regarding a related matter, I am sure Members of this Committee, like the NCC, have received a volume of correspondence regarding the issue of "Chinese Chicken" coming into the United States. Our industry's ability to meet and exceed both domestic and international standards for wholesomeness, food safety, and quality has granted us unparalleled access to foreign markets and solidified our ability to compete effectively and efficiently on a global scale. We believe any country that is able to meet the stringent safety standards set by USDA especially those involving HACCP and pathogen reduction programs, should be able to compete in the U.S. marketplace.

  In order to be effective, free trade must operate as a two-way street. If we expect fair treatment from trading partners based on sound science and analysis, it is right that we afford our trading partners the same fairness.

- India was taken to the WTO in February 2013 as a way to have India begin to open its market for U.S. poultry. A WTO Dispute Settlement Panel was established at that time to hear the case and determine a decision. India uses a variety of measures that prevent U.S. poultry the opportunity to have market access. Chief among the non-tariff trade barriers used by India is its position regarding avian influenza. India's stance is clearly inconsistent with the World Health Organization for Animal Health (OIE) guidelines and the WTO Agreement on Sanitary/Phytosanitary Measures (SPS). No country in the world exceeds the United States in being more aggressive, more comprehensive, and more rigorous in preventing, controlling, and eradicating avian influenza. A conservative estimate is that if India provided for fair market access for U.S. poultry annual sales would exceed $300 million.

- Indonesia's lack of providing market access for U.S. poultry is another WTO case that is pending. In September 2013 the United States joined New Zealand and other countries in the effort to have the WTO determine if Indonesia's restriction on importing poultry are consistent with its WTO obligations. Indonesia uses a number of hurdles to prohibit poultry imports, including a non-automatic import licensing scheme, quotas, and other very difficult, costly paperwork. Having Indonesia open its market to poultry imports would greatly benefit U.S. exports.
- Mexico has a pending antidumping NAFTA Chapter 19 dispute against U.S. chicken leg quarters. Only three of the five NAFTA dispute-settlement process panelists have been appointed. This protracted procedure continues to create unnecessary uncertainty with poultry trade with Mexico. At the same time, Mexico has other commodity trade issues with the United States. U.S. chicken exporters are concerned that Mexico will take action against U.S. chicken as leverage to have other agricultural trade issues satisfactorily addressed by the United States. Mexico is using the dumping theory of the so-called "weighted average cost of production" which the WTO has determined to be both inconsistent with international trade rules and economically irrational. In similar WTO cases (China and South Africa) this theory was ruled to be in violation of WTO rules and the obligations of WTO member states.
- African Growth and Opportunity Act (AGOA) provides special duty preferences to the countries of sub-Saharan Africa, including the Republic of South Africa and a number of other important and potentially-important export markets for U.S. poultry. In 2000, the United States extended the benefits of AGOA to South Africa and in the same year (2000) South Africa imposed prohibitively high and illegal antidumping duties on U.S. poultry. Since 2000, U.S. poultry exports to South Africa have been essentially zero. Congress is now considering another extension of AGOA for South Africa and other countries.

  Earlier this year the National Chicken Council presented a statement to the U.S. International Trade Commission hearing regarding AGOA. NCC at the ITC hearing stated that unless South Africa changes its policies, lifts its imposition of dumping duties against our poultry products, and allows trade to resume fairly and without restraint, NCC and other members of the U.S. poultry industry will strongly oppose any further extension of AGOA preferences to the Republic of South Africa. Fourteen years to be illegally shut-out of a market is far too long. Perhaps, being shut-out of the EU for 17 years is the only more egregious situation. The time has passed for the U.S. Government to initiate a WTO Dispute Settlement case against South Africa. It is now time, actually well-passed time, for South Africa to remove its restrictions against U.S. poultry. U.S. poultry is entitled to have the opportunity to again have market access and give South Africa consumers an option to purchase U.S. poultry that is ⅓ the cost of South African chicken.

Congressional Attention Regarding Other Challenges Would Improve the State of the U.S. Chicken

In brief, there are a number of other challenges confronting chicken producers/processors. Chief among these issues are the need for immigration reform, especially a strengthened and more reliable E-verify system that allows employers to better secure a legal workforce; the need for a much better rail transportation system that has a greater capacity to more adequately and efficiently move grain, oilseeds, and other feedstuffs with rail rates that are fair to both the transporter and the rail transportation user; and the need for greater oversight and foresight regarding the supply of propane and related gases, especially during times of unusual cold weather conditions.

Conclusion

While there are many issues impacting the state of the chicken industry, I have limited my statement to what the National Chicken Council considers to be some of the top priorities. To summarize those priorities, I note the following:

- The rules of the game must be balanced and the playing field should be leveled to permit chicken producers and other animal agriculture producers to more fairly compete for the supplies of corn, especially in years of short grain supplies. Since there is apparently no workable mechanism to adjust the RFS when necessary, Congress must repeal the RFS for conventional biofuels.
- With respect to the USDA/Grain Inspection, Packers and Stockyards Administration's rule addressing competition and contracting the poultry and livestock industries, Congress should approve defunding language, preferably permanently, regarding the provisions where USDA went beyond the instructions of Congress and the basic statute.
- Regarding the trade promotion agreements being negotiated, the National Chicken Council suggests, as have other groups, that these agreements be called U.S. job-creation agreements. Increased poultry exports as the result of implementing these agreements would definitely result in more jobs in the poultry industry and more family farmers growing poultry. Also, the more specific international trade actions being taken by the United States through the World Trade Organization must be pursued with more intense effort, and with a heightened sense of reaching a successful outcome in a timely manner.

The National Chicken Council, its members, and the many allied industry companies that support poultry production, processing and marketing look forward to working more closely with the Subcommittee and others in Congress so that poultry producers have a better opportunity to successfully manage the increasingly difficult challenges and issues. Improving the state of the poultry industry not only helps poultry companies and poultry farmers but, perhaps, more importantly will allow consumers of poultry products to continue to enjoy an ongoing, adequate supply of wholesome, quality chicken at reasonable prices.

Thank you, Chairman Crawford, Congressman Costa, and Members of the Subcommittee, for the opportunity to share the thoughts, comments, and recommendations of the National Chicken Council. I request that the National Chicken Council complete statement be entered into the record of the hearing. I look forward to your questions and comments.

The CHAIRMAN. Thank you, sir.

We will now move onto our next witness, Mr. Clint Krebs, President of American Sheep Industry Association. Mr. Krebs, you are recognized for 5 minutes.

STATEMENT OF CLINT KREBS, PRESIDENT, AMERICAN SHEEP INDUSTRY ASSOCIATION, IONE, OR

Mr. KREBS. Thank you, Mr. Chairman and thanks for calling this hearing on livestock issues. Thank you. I will start over again. Thank you, Mr. Chairman, and thanks for calling this hearing on livestock issues.

I am pleased to visit with you and your colleagues about the status and the priorities of the American sheep industries, ranchers, farmers, and I might add also lamb feeders, lamb processors, wool warehouses and wool manufacturing, and to some degree, wool textile industries.

My wife and I ranch with our son and daughter-in-law in eastern Oregon near the Town of Pendleton which is the home over 100 years ago of Pendleton Woolen Mills, and I am happy to say they have purchased our family's wool for almost 100 years. But more proudly than that, it gives me an opportunity to be involved in their operation where they hire in their small operation in Oregon over 2,000 employees to process my product.

My family deals firsthand with the issues detailed in the American Sheep Industry Association's statement that I would like to be included in the written record. We have four sheep herders from Peru that are highly trained and in various key parts of our operation. We graze part of the year on Federal lands, both BLM and

Forest Service. We work daily to minimize the stress on our livestock. We are always concerned about the rain, grass, drought, floods, snow storms. We are constantly in a battle to secure good prices for our lamb and wool clip, and yes, Congressman, we struggle to pay our feed bills.

Issues such as these were important enough to the sheep industry that 150 years ago sheep farmers and ranchers joined together and formed the earliest national livestock association called the National Wool Growers at that time. Decisions of our government and increasingly decisions of foreign governments can and do have serious impacts on my ranch and my neighbors who raise sheep.

That is why I believe your role in representing agriculture and livestock and Federal regulation is so critical. I am pleased to help today and pledge the sheep industry support in the continued fight for American families' farms and ranches. After all, all we do is feed, fuel and clothe the world.

We need the USDA and the USTR to aggressively seek access to export markets for American lamb. The fact that the Japanese market has been closed to American lamb for over 10 years is just wrong. Japan was a top market for us then and it should be now. It must be a priority for trade negotiations to get American lamb back in play. The same is true for several other global markets that we are not allowed to ship to: Taiwan, China and the European Union, for example.

The U.S. lamb market is among the most open and highly valued markets in the world, yet it seems to me that this so-called free trade era is a one-way street. We ask for an aggressive stance by our government to provide opportunities overseas for American lamb.

Wildlife Services performs another important role and we ask for your continued support. The House voted overwhelmingly in 2011 to support the Wildlife Services Predator Program, and we need to be prepared for votes in the future. The witnesses in this hearing are a great example of the program's importance: Starling control for dairies and feedlots, feral hog control for the pork industry, the cattlemen are dealing with wolves and a host of other predators, and I am sure there are many people in this room that spend a lot of time on jet airplanes, and I know none of us wants to be on the jet that sucks up a goose.

I again commit the support of ASI's membership to you and as you address the needs of farmers and ranchers and immigration reform. My wife and I spend a large amount of money and time filling out paperwork and working to keep our herders legal, all to make the H–2A Program work. In fact, ASI members probably have the most legal workforce in agriculture and have had for over 60 years.

I hope this is recognized and respected in any new legislation. I fear that without direction from Congress our sheep herder provisions will be lost in the rush of regulations resulting in ⅓ of our sheep ranchers and farmers being forced out of business.

Volatility of price has been a key issue for sheep producers, lamb feeders and meat companies over the past 3 years. I think it is remarkable that the USDA reported not one complaint from the sheep industry regarding last summer's announcement to the increase of our checkoff rate by 40 percent. Second, USDA continues to be a great partner in marketing our lamb and wool, the National Sheep Industry Improvement Center financial support has proven valuable in raising money.

Mr. Chairman, thank you again for the opportunity to visit with you and your colleagues, and I will be pleased to answer any questions.

[The prepared statement of Mr. Krebs follows:]

PREPARED STATEMENT OF CLINT KREBS, PRESIDENT, AMERICAN SHEEP INDUSTRY ASSOCIATION, IONE, OR

On behalf of the 80,000 family farms and ranches that produce American lamb and wool, I greatly appreciate this opportunity to discuss the sheep industry with the agricultural leadership of the U.S. House of Representatives.

I am Clint Krebs, a fourth generation sheep rancher from Ione, Oregon and I currently serve as President of the American Sheep Industry Association (ASI), the national trade organization of the nation's sheep industry. Mr. Chairman and Members, I also relay that our association celebrates its 150th anniversary during our national convention in January of 2015. ASI and our predecessor, the National Wool Growers Association, have continuously advocated for sheep ranchers since 1865, meaning we are among the oldest national livestock and agriculture organizations in the United States.

The sheep industry of the United States produces lamb and wool in every part of the country. The industry provides nearly a billion dollars in farm and ranch gate sales to the American economy, and is a mainstay of the many rural communities in which sheep ranchers and farmers are foundational members.

We provide snapshots of our lamb and wool markets over the past 5 to 10 years showing revenue to sheep farms and ranches. Over the 5 years to 2013, U.S. lamb market experienced significant volatility, gaining 80 percent to record-highs in 2011, only to slump by 35 percent the following 2 years. By mid-2013, lamb prices began a rebound and gained through the first quarter of 2014, back to 70 to 80 percent of their 2011 highs.

The lamb industry has hopefully entered a lasting higher-demand era, largely supported by continued tight supplies and steady lamb prices. In early 2014 it is evident that the slow recovery in U.S. incomes, high-priced protein substitutes, and recovering lamb demand are supporting current slaughter rates and excellent quality.

The Livestock Market Information Center sees "cautious optimism" for sheep producers in 2014. While we can obviously do better, we are headed in the right direction.

U.S. wool market prices saw a trend similar to the lamb market. Prices hit record-highs in 2011 only to decline steadily through the following 18 months. In the 3 years prior to 2011, average U.S. clean wool prices gained over 200 percent from $1.50 per lb. to $4.50 per lb. In 2011, wool prices began a steady downturn with prices falling 22 percent by the end of 2013.

Volatility of prices has been the key issue for sheep producers, lamb feeders and meat companies. I would add that the dramatic run up in feed and input costs, particularly in 2012, has led to an intense struggle for producers to cover expenses.

This hearing provides a key opportunity to relay what our industry is doing to strengthen production and steady markets, as well as several topics in which Congressional support is critical.

Our association petitioned the U.S. Department of Agriculture with a proposed checkoff order which was successfully implemented in 2002 as the American Lamb Board (ALB), a lamb industry-wide research, information and promotion program. In 2013, the Department fulfilled our industry's request for an increase in the assessment rate of 40 percent! We believe this critical funding, provided by lamb producers, feeders, processors, and export companies, will lead to improvements in the lamb business.

The immediate use of the additional funds is centered on a Lamb Industry Roadmap plan as announced by the Lamb Board this January in coordination with sheep industry associations and lamb feeding and processing sectors. This 3 year initiative is focused on improving lamb quality and demand, sheep production and efficiency, and industry communication.

We wish to recognize USDA's Agricultural Marketing Service (AMS) for several areas of cooperation focused on addressing lamb market volatility and production.

In addition to oversight of the lamb checkoff, AMS also oversees the National Sheep Industry Improvement Center. Amongst other collaborative initiatives, the Center provided grant funds matched by industry contributions for development of the Lamb Industry Roadmap. AMS is also in the process of addressing a requested update to the Mandatory Price Reporting system for lamb, which includes consideration of reporting requirements and thresholds for domestic lamb companies and lamb importers.

ASI supports several changes that have been incorporated in the past year and regulatory changes yet to be published in 2014. AMS will be able to finalize a standard for instrument grading of lamb carcasses and we anticipate a tenderness standard in the near future.

We were concerned with the lack of AMS market reports for live animal and meat during the shutdown last October, it served as a reminder of how much our industry relies on AMS Market News. AMS Market Reports should be classified as an essential service in case of a repeat of last October, and we fully encourage funding the voluntary and mandatory reports that our industry depends on. Finally, we offer our full support for reauthorization of the Mandatory Reporting for Livestock due in the fall of 2015.

Mr. Chairman and Members, the following market access issues would be critical to accomplish for the future viability of sheep farmers and ranchers:

Access to foreign markets for American lamb. Japan was a significant export market for American lamb until the BSE issue closed that market for our lamb at the same time it was closed for American beef. Unfortunately, we are still locked out of the Japanese market. In fact, access to Japan for American lamb is the lone benefit of the entire proposed Trans-Pacific Partnership (TPP). Mexico and Canada are already our largest lamb export destinations and we have no intentions of trying to sell lamb into Australia and New Zealand.

We point out that the United States is one of the most open and highly sought after lamb markets in the world. There are no economically important barriers to these four proposed TPP countries trading their lamb in America. In fact, ½ of our lamb consumption is now imported compared to just 11% in 1991.

Unlike the European market, which is highly restricted with tariff rate quotas up to 100% *ad valorem,* the American market is essentially wide open for lamb. Additionally, this winter Uruguay was approved for export of lamb to our market. We have asked for lamb market access to Taiwan, Korea, China, the European Union, and Japan. As an American sheep producer facing unrestricted global competition in my home market, I would ask that every effort be made by the United States Government to fight for American lamb access to the markets of our trading "partners", and I encourage Congress to support that request. To borrow a phrase from my "fowl" friends, what is good for the goose is good for the gander.

ASI works with the wool industry to export 50 percent or more of our wool clip every year to China, India and the European Union, further proof that we can compete if given a chance. However, one wool trade issue of concern is the position of the Vietnamese and Australian Governments in the Trans-Pacific Partnership regarding a single transformation rule on wool textiles. The bottom line for sheep producers and our American wool mills is that allowing such a position would essentially allow Chinese wool yarns and fabrics to flow into Vietnam for assembly and receive TPP trade benefits as if of Vietnamese origin. We sell ½ of the American wool clip to domestic mills, including the companies that produce the uniforms and socks for all American service men and women, therefore the textile trade is important to our industry and to America.

We commend the Agriculture Committee for the leadership and commitment to secure the farm bill this year. We welcome the authorization of the Livestock Indemnity and Livestock Forage programs. California drought and the killer blizzard in South Dakota last fall has sheep producers in those two states, and others, already meeting with county Farm Service Agency officials. Our organization has met with the Department staff sharing our commitment to the proper implementation of new provisions, particularly livestock indemnity including Federal reintroduced or regulated predators, including avian predators. A sheep producer in Idaho last year had over 150 animals killed in one night by wolves despite two herders and several livestock protection dogs present. This is just one example of why we supported the new provision in the indemnity program. I can also relay that producers have no resource whatsoever when eagles, vultures and ravens start killing young lambs. All too often federally protected birds stalk the sheep when producers move the flock to avoid the kills.

The Livestock Risk Protection program for lamb (an industry owned product) is the sole price-risk management option for the nation's lamb producers and feeders. The pilot program was launched in 2007 to provide price-risk protection in the event of an unexpected price decline in the lamb market. Hundreds of thousands of lambs were insured during the pilot period. The Federal Crop Insurance Corporation (FCIC) board plans to receive a presentation from the sheep industry next week on a recommended revision of the product, we hope the board will be able to approve the recommendations and that sales can begin again soon.

Sheep and lamb losses to predators and predator management costs are the second largest expense to sheep operations; second only to cost of feed. We thank the Committee for its longstanding support of USDA Wildlife Services. Wildlife Services provides an invaluable tool to livestock producers attempting to deal with wildlife damage. Our industries provide many millions of privately owned acres of habitat for public wildlife, and a professional resource to assist or advise farmers and ranchers is absolutely critical. I am pleased to share that national livestock organizations are once again united in defending Wildlife Services from misguided attacks and are joined by a coalition of pilots, county and state governments, agriculture organizations, and sportsmen, just to name a few. A joint letter signed by 169 organizations was delivered to Congress this March representing perhaps the broadest coalition of support for any USDA program.

Another challenge in the wildlife arena poses perhaps the largest threat to American sheep production, and that is the U.S. Forest Service and Bureau of Land Management's consideration of further constraints on Federal grazing allotments for sheep.

In 2010, the U.S. Forest Service prohibited 13,000 sheep from grazing on their historic grazing allotments within the Payette National Forest in Idaho. This action drove one ranch out of business entirely and drastically reduced the operations of three others. The reason for this reduction was an obscure regulation of the National Forest Management Act requiring each National Forest to maintain "minimum viable" populations of all vertebrate species found there. Environmental activists argued that by allowing domestic grazing to continue, the Forest Service violated this regulation and bighorn sheep might contract a pneumonia-like disease from domestic sheep, threatening their "viability".

Region 4 of the U.S. Forest Service announced this month that by February 2015, analysis and management decisions regarding sheep grazing allotments would be made in the states of Utah, Wyoming, Nevada, and Idaho. Over forty percent of the sheep industry is reliant on Federal grazing for a portion of the grazing season, meaning the impact of west wide decisions to eliminate grazing would be catastrophic to ranches, not to mention the loss of lamb and wool handling operations. USDA's Agriculture Research Service is heavily involved in research to identify the causes of bighorn diseases and their transmission factors. Sheep producers strongly support this research and have provided additional funding of nearly $100,000 over the past 18 months.

This wildlife issue joins the concerning trend of managing Federal lands by single species rather than multiple use (Sage Grouse, wild horses and bighorns as examples). Much like the Wildlife Services funding debate in the U.S. House of Representatives, we share this grazing and habitat controversy in anticipation of seeking the support of agriculture leaders in Congress on behalf of American ranch families.

I would be remiss not to mention that fully ⅓ of our animals are shepherded by immigrant sheep herders. Our industry has benefited from the H–2A guest-worker program since the 1950's and utilized several procedures to make the program work. The sheep industry likely has the most documented and truly legal workforce of any in agriculture, achieved annually at great expense and with much paperwork. We ask that any legislation on immigration reform codify the procedures we have long used.

Again, thank you for securing approval of a farm bill containing key provisions for America's sheep ranchers and farmers, disaster assistance, the sheep production and marketing grant program, and Country-of-Origin Labeling for lamb.

We appreciate the opportunity to share the current status of the nation's sheep producers, the market outlook, and the numerous challenges these families face in providing food and fiber to the world.

The CHAIRMAN. Thank you, Mr. Krebs.

Moving on now, Mr. Matthew T. Cook, President and CEO, Norbest, Incorporated, on behalf of the National Turkey Federation. Mr. Cook, you are recognized for 5 minutes.

STATEMENT OF MATTHEW T. COOK, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NORBEST, INC., MORONI, UT; ON BEHALF OF NATIONAL TURKEY FEDERATION

Mr. COOK. Good morning, Chairman Crawford, Congressman Costa, and Members of the Subcommittee.

My name is Matt Cook, and I am the President and CEO of Norbest, an 84 year old turkey cooperative based in Moroni, Utah, and a current member of the National Turkey Federation's Executive Committee. Thank you for inviting me.

I have spent my professional career in and around the turkey industry, and I am proud of the industry's accomplishments and growth. Today, I am here on behalf of the National Turkey Federation. NTF represents all segments of the $29 billion industry which includes 95 percent of U.S. processors, growers, distributors and suppliers.

From 2006 to 2013, U.S. turkey producers watched their average feed price cost increase over 125 percent. To compensate for higher costs of feed wholesale prices had to increase and they did. But while feed costs more than doubled, average turkey prices increased by only 26¢ per pound. The cost increases from feeding turkeys with rising cost of corn and soy milk increased the cost to consumers by $1.3 billion last year alone.

The total cost increase for all foods was much higher, but that is just on average. Twice in periods lasting about a year each an unexpected oversupply of turkey brought prices down, yet our feed costs remained uncommonly high. In those years, all throughout the turkey business, hundreds of millions of dollars are lost. Most companies responded to this crisis by reducing production. At Norbest, we had to cease all production for 3 months.

To this day, on average, feed and food prices remain higher. What Congress does impacts my bottom line, so I ask this Committee to remain vigilant about how Federal energy and agricultural policy play a key role in shaping supply and demand forces that influence food costs. We in the turkey industry are on an eventual losing end when our product prices go up because of higher costs, and thus consumers pay more and eventually buy less. Please insist that your colleagues in Congress consider the full consequences of the policies put in place in both the renewable energy and agricultural arenas.

We continue to be challenged with a multitude of issues that impact those of us in the turkey business. As previously mentioned, the Renewable Fuel Standard in its current form has and will continue to negatively distort feed costs for turkey producers until the policy changes. We commend EPA for its proposal to lower the 2014 RVO levels, but the responsibility still falls back on Congress to find a lasting solution to this rigid policy.

The proposed modernization of poultry slaughter inspection rule has been scrutinized from every perspective. We feel strongly that science and data compiled over the last decade of the 25 poultry plants currently operating under this system clearly demonstrate that the food produced at these plants is at least as safe as that being produced in traditional poultry plants while maintaining high worker safety standards.

NTF is working to improve a proposed FDA safety rule for feed mills. There is no need for a detailed expensive regulatory burden, when the owner of the animals and manufacturer of the feed are one and the same, as is the case with our vertically integrated industry. In cases like ours, the economic incentive to produce high quality safe feed is greater than any possible regulatory incentive or disincentive. FDA has written a rule in a way that exempts one portion of animal agriculture, primarily cattle feedlots, while requiring most other segments, especially poultry and swine, to prepare the costly plans.

Tomorrow, NTF will testify in the Senate, regarding the propane shortage that caused over 20 states to declare a state of emergency over skyrocketing prices and fear that there was not enough propane to last the winter. We appreciate the leadership of Ranking Member Collin Peterson in evaluating this year's dangerous propane shortage. We survived this year, but the fundamental problems still exist. Once winter conditions kick in, it is too late to fix the shortage without dramatic government intervention.

In the interest of time, I would just briefly like to mention some additional issues facing our industry. Immigration reform. There is currently no one bill that is a silver bullet, but it is time to resolve the immigration debate for the good of the country. In order for companies like Norbest to ensure the legal hiring of enough qualified workers using a trusted E-Verify program is essential and critical to long-term success.

We were disappointed that GIPSA provisions were not fixed in the farm bill and look forward to working with Congress to correct this. We are very troubled by the news that EPA and the Corps of Engineers recently proposed a rule to revise the definition of *waters of the United States* under the Clean Water Act.

Though I know I have emphasized areas of concern, I want to acknowledge that certain government programs have and continue to play a positive role in the poultry and livestock industry. We anticipate the measures taken in the 2014 Farm Bill to expand the disaster assistance program. The Livestock Indemnity Program is a critical program for our industry, and with program expansion, turkey growers will be able to utilize the program in the event of a disaster. We also continue to support the EQIP and REAP programs. As implementation begins, we look forward to working with the Committee in the area of oversight.

Thank you again, and I will be happy to answer any questions.

[The prepared statement of Mr. Cook follows:]

Prepared Statement of Matthew T. Cook, President and Chief Executive Officer, Norbest, Inc., Moroni, UT; on Behalf of National Turkey Federation

Good morning, Chairman Crawford, Congressman Costa, and Members of the Subcommittee. My name is Matt Cook, and I am the President/CEO of Norbest, a grower owned cooperative based in Moroni, UT, and current member of the National Turkey Federation's Executive Committee. Thank you for inviting me.

I have spent my professional career in and around the turkey industry and am proud of the industry's accomplishments and growth. For the last 3 years, I have been the President/CEO of Norbest, a turkey processing co-op founded in 1930. Membership in the Norbest cooperative has changed a few times over the last 80 plus years of its existence, as local farmer co-ops have merged, dissolved, or changed focus. Today, I am here on behalf of the National Turkey Federation. NTF is the national advocate for all segments of the $29 billion turkey industry that provides services and conducts activities that increase product demand enhancing members' ability to profitably provide wholesome, high-quality, nutritious products. The NTF represents integrators, processors, growers, and allied members. There is no one-size-fits-all model in the turkey industry. We rely on the important grower relationships along with the rest of our allied members to remain successful. We have family owned companies, grower owned cooperatives, and large, agriculturally-diversified international companies that all play a critical role in determining NTF policy at each level, all the way up to our Executive Committee.

Feed Costs and Industry Profitability

From 2006 to 2013, U.S. turkey producers watched their average feed costs increase from 22.7¢ to almost 51¢ per pound of turkey raised, a 125 percent increase. To compensate for the higher cost of feed, wholesale prices had to increase—and they did. But while feed costs more than doubled, average turkey prices increased by only 26¢ per pound. The cost increases from feeding turkeys with rising costs of corn and soy meal increased the costs to consumers of $1.3 billion last year. The total cost increase for all foods was much higher.

But that's just on average. Twice in periods lasting about a year each, an unexpected oversupply of turkey brought prices down—yet our purchase of corn and soy meal to feed turkeys remained uncommonly costly. In those years, all throughout the turkey business, hundreds of millions of dollars were lost. Most companies responded to this crisis by reducing production, but at Norbest we had to cease all production for 3 months. As feed supplies were reduced, the short-term lower consumer prices evaporated. And to this day, food costs, on average, remain higher as costs to feed turkeys remains high.

What Congress does impacts my bottom line, so I ask this Committee to remain vigilant about how Federal energy and agricultural policy play a key role in shaping supply and demand forces that influence food costs. We in the turkey industry are on the eventual losing end when our product prices go up because of higher costs, and thus consumers pay more and eventually buy less. Please insist that your colleagues in Congress consider the full consequences of the policies put into place in both the renewable energy and agricultural arenas. The policies of the last 8 years have been strongly biased in the direction of higher-cost consequences with an unfair burden on turkey producers and our customers, the American food consumer.

We also continue to be challenged with a multitude of issues that impact those of us in the turkey business and look forward to working with each of you to address these issues. I have outlined below a list of priority issues that we remain focused on fixing.

Future Challenges

RFS

As previously mentioned, the Renewable Fuel Standard in its current form has, and will continue to negatively distort feed costs for turkey producers—as well as the rest of livestock producers—if the policy does not change. We commend EPA for its proposal to lower the 2014 RVO levels, by acknowledging that a problem exists with the current policy. The inflexible RFS mandate continues to have a detrimental impact on the economy and makes feeding animals a risky business because our industries are simply not competing on a level playing field. So while EPA's actions are a step in the right direction, the responsibility still falls back on Congress to find a lasting solution to this rigid policy. Turkey producers feed corn and soybean the season after harvest, and especially this past season, we are still paying high prices for corn while the corn producers saw their market drop from the artificial oversupply of the ethanol mandate of the RFS. The flawed policy from RFS will cause continued volatility that distorts feed prices unnecessarily. Let's be clear, we are not advocating a policy that would keep feed costs artificially low; we are just seeking a policy that allows true market forces to act on feed pricing.

GIPSA

NTF was disappointed that the provisions that clarify Grain Inspection, Packers and Stockyards Administration (GIPSA) authority were not corrected in the farm bill. While we applaud the Administration for reducing the scope of its final rules that came out of the 2008 Farm Bill on production and marketing, we remain concerned that new regulations will result in negative impacts on farmer and processor relationships. We hope this Committee will remain committed to finding a vehicle to put this topic to rest soon.

Modernization of Poultry Slaughter

The proposed Modernization of Poultry Slaughter Inspection rule has been scrutinized from every perspective, and we want to commend USDA for its efforts to enhance food safety, maintain the safety of poultry plant workers and FSIS inspectors while creating more jobs in rural communities. Starting with implementation of the HACCP rule in the late 1990s, continuing efforts to further improve the U.S. meat and poultry inspection system has been one of this nation's finest examples of non-partisan, public-interest policymaking. The U.S. turkey industry understands and recognizes the complexity of this rule, but we feel strongly that science and data complied over the last decade at the 25 poultry plants currently operating under this system clearly demonstrate that the food produced at these plants is at least as safe as that being produced in traditional poultry plants, while maintaining high worker safety standards. We appreciate the Chairman and Ranking Member of this Subcommittee and the full Committee for their support for this proposed rule.

Feed Mill

NTF is working to address concerns with a rule that FDA recently proposed as part of Food Safety Modernization Act (FSMA). The proposed rule requires mills producing animal food to prepare detailed and expensive preventive control (food safety) plans that incorporate current good manufacturing practices. We understand the intent is to protect buyers from low-quality, unsafe feed, but are concerned it places an additional burden that is not justified in the case of the turkey industry. Because our industry is vertically integrated, where the owner of the mill and the turkeys are one in the same, the economic incentive to prepare high quality, safe feed effectively negates the need for this regulation. However, FDA's proposal limited the exemption to cases where there was common ownership of the mill, the animals and the land on which the animals are raised. This exempts one portion of the animal producing industry (primarily cattle feedlots) while requiring most other segments (especially poultry and swine) to prepare the costly plans. We agree the exemption currently proposed by FDA is appropriate; it just needs to be expanded. In recent industry comments, NTF requested that FDA amend the definition of farm in the proposed rule or otherwise expand the types of mills eligible for an exemption to address production issues as they pertain to the turkey industry.

Propane

What started as a Midwest propane supply shortage developed into a larger, national discussion with over 20 governors declaring a state of emergency, scrambling to secure adequate supplies to meet the need during the critical winter months. Why did this occur? A large, late and wet corn harvest along with an early start to the cold season started the drawdown in propane storage, but fuel stocks were never able to rebound when early sub-zero winter weather set-in across much of the Midwest and Northeast, hindering propane gas movement by pipeline and rail. Additionally the increase in exports of propane has made it more difficult to get the needed supply to many areas around the country. This ultimately hit the people in rural communities that heat their homes with propane along with those in the turkey business that need propane to keep turkey barns warm in the winter directly in the pocket book. The turkey industry is appreciative for the leadership of Ranking Member Collin Peterson and his staff this past winter to elevate and step in to avert this year's dangerous propane shortage. While there are many things that can be done, at the very least, the government should establish an early warning system to allow time to adjust before our hands are tied and next winter's danger presents itself again.

Immigration

The turkey industry supports comprehensive immigration reform that includes the following policies and provisions that will maximize benefits to the turkey industry and ensure a strong and durable immigration system that meets the needs of the U.S. economy. Most turkey plants are located in rural, low-unemployment areas. To fully staff these plants, the industry must recruit from outside their local area and, in many instances, must rely on first-generation Americans. Practical immigration reform is important to the industry's future. There is currently no one bill that is a "silver bullet," but it is time to resolve the immigration debate for the good of the country. In order for companies to ensure the legal hiring of enough qualified workers, using a trusted E-Verify program is essential, and critical to long term success.

EPA–CWA

Before closing, I must mention that EPA and the U.S. Army Corps of Engineers recently released proposed rule to revise the definition of "waters of the United

States" under the Clean Water Act. Despite the agencies' stated aim that the proposed changes will clear up confusion and have little impact on agriculture, we remain concerned that the measure may greatly expand the universe of farms facing new permitting and regulatory requirements.

How Government Can Help

Though I know I have emphasized areas of concern here, I want to acknowledge that certain government programs have, and can continue, to play a positive role in the poultry and livestock industry. We appreciate the measures taken in the 2014 Farm Bill to expand the disaster assistance program. The Livestock Indemnity Program (LIP) is a critical program for our industry and with the program expansion turkey growers will be able to better utilize the program in the event of a disaster. We also continue to be supportive of the Environmental Quality Incentive Program (EQIP) and the Rural Energy for America Program (REAP) as these programs continue to provide additional assistance to turkey growers as they work to meet the needs of state and Federal regulations. As implementation begins, we look forward to working with the Committee in the area of oversight.

Thank you again for the opportunity to discuss the state of the turkey industry. I will be happy to answer any questions you may have.

The CHAIRMAN. Thank you, Mr. Cook.

I appreciate all the witnesses that have taken time to be with us today.

We will now begin our round of questioning. I am going to recognize myself for 5 minutes to begin.

Mr. Miller, I know you were present when I asked this question to Dr. Glauber, but as I said, I wanted to ask it again to the member groups. I know there are those advocates of mandatory Country-of-Origin Labeling that argue that there is a premium to be paid for that. Could I get your input, your thoughts on if that were the case, why were producers not engaged in that marketing practice years before this was mandated?

Mr. MILLER. Again, Mr. Chairman, it is a good question. I would say that is a fair assumption. You know, we are obviously sensitive to whatever our customers want, what our customers' needs are. They are the closest to the consumer, so they are getting the feedback from the consumers through whether it is retail or food service channels. So, we are obviously getting that feedback in a pretty normalized basis.

There has been no evidence that the consumer is demanding Country-of-Origin Labeling of meat and poultry, so therefore, to your point, originally, we hadn't gotten any feedback that is necessary.

The CHAIRMAN. Okay. Let me follow up on that, since we are on this subject. I know it is difficult to implement, commingling being one of the most, probably the most onerous areas with regard to implementation of mandatory COOL. Could you comment on that—and maybe just enlighten us from your perspective for those less familiar with beef packing, just sort of expand on that a little bit and explain some of the difficulties that you run into?

Mr. MILLER. Yes, it really affects operations in three different phases. If you think of the front end of the plant. In the front end of the facilities, you end up having to increase your amount of sortation and space that is necessary to hold the livestock because you are bringing in various—whether it is product to U.S., product to U.S. Canada, product to U.S. Mexico, so you have the various different animals that are coming in the front end of the facility.

Once you actually get into the plant, you end up having to deal with a lot more grade changes and cost to process, cattle or hogs, whatever that may be. The down time to stop through the segregation ends up costing us a lot of money as we have several team members that are standing around through the grade changes.

On the back end of the plant, the third phase, there is additional space that is needed to segregate, whether that is the various stock keeping units, the SKUs, whether it is additional capital that is needed to expand material handling out the back of the plant, too. So there are truly three different phases that are affected by MCOOL.

The CHAIRMAN. Thank you.

Mr. Smith, I find that your operation that you are representing is really pretty fascinating. You call it vertical integration, closed loop, whatever you want to call it, it is very diverse obviously, and you described it in some detail, but I find it ironic that while your beef operation is made less efficient through the implementation of mandatory Country-of-Origin Labeling, I would think that your farming operation then becomes vulnerable to those retaliations from our neighbors to the north and south.

Talk about that a little bit and give me your perspective on that.

Mr. SMITH. And Congressman, that is a very real concern of the companies as well. If the WTO sides with Canada and Mexico, and if they do in fact have an opportunity to impose tariffs, I mean, I believe they will follow a similar concept that we in the U.S. use, a carousel type system where they are going to go after and preferentially target other commodities, commodities other than beef, pork, poultry, and so there is a very real potential it will have a negative impact on those other commodities, those fruits, nuts, vegetables that we would potentially try to market into those countries as well.

The CHAIRMAN. Excellent. I am not going to ask anymore questions of you because Mr. Costa will direct some questions your way, so yes, some really hard ones.

So, I want to shift gears just a little bit and talk about transportation, and Dr. Hill, you touched on this. Regarding transportation regulations that you mentioned, does the waiver requirement to take a 30 minute break all together waive that requirement to take a 30 minute break all together, or does it simply prevent drivers from having to include loading and unloading times in their calculations to the 8 hour period?

Dr. HILL. Thank you. Right now we don't have a waiver. We had a waiver last year during the 3 months of hot weather, and we thought we were going to have a 2 year waiver. That hasn't—my understanding, that hasn't been approved, so we may ask for a 90 day waiver for the next hot months. The question you asked, it does include the time it takes to load and unload livestock.

The CHAIRMAN. I understand. All right. Thank you, Dr. Hill.

I now recognize Ranking Member Costa for 5 minutes.

Mr. COSTA. Thank you very much, Mr. Chairman.

Our colleague, Congressman McIntyre, has another committee that he needs to be at, so I am going to pass at this point after the next Republican gets a chance to ask his questions and change the order, so as to allow Mr. McIntyre to ask his questions and then get to that committee.

Mr. MCINTYRE. Thank you, Mr. Chairman.

I have a—we are going into a markup in a Armed Services subcommittee, so I appreciate the consideration.

For the record, I have asked that the subcommittee staff submit a question I had for Panel I, for Dr. Glauber, requesting a response in writing in the next 7 to 10 days, and I want to appreciate the subcommittee staff on that, and that question will be submitted to him.

Second, for this panel, I just have one question. Mr. Miller, as you know, the USDA recently announced a proposed plan to require mandatory reporting of PED virus cases by pork producers and potentially tracking of animals. Given that Tyson Foods is the largest purchaser of independent hogs in the country and knowing the impact that PED virus has had on the pork industry, do you agree that USDA should go to great lengths to include the pork industry in the formation and implementation of the regulation and that the regulation should not be subject to any sort of unreasonable time constraints in order to get the program correct?

Mr. MILLER. Yes, Congressman, you are right we do procure about 97 percent of our livestock that are fabricated through our facilities on the outside, so we are the largest purchaser of independent livestock in the open market. I would say on that, in our view, we don't need producers forced to deal with anything that would potentially create artificial disruptions, so therefore, reporting programs, they need to be practical at the farm level. So the key here is to ensure that they are practical. Obviously, the reporting is good that we are going to get into the reporting process, but it needs to be practical at the farm level so it doesn't disrupt commerce either.

And I would leave it to Dr. Hill to maybe get into a little bit more detail because he is obviously representing the NPPC, but from a packer point of view, it is key that the reporting program needs to be practical at the farm level.

Mr. MCINTYRE. Thank you. Did you want to add any subsequent comment to that in the remaining time, Dr. Hill?

Dr. HILL. We have been working with the USDA on this rule, trying to cooperate with them. Our point is we have had this disease for a year, and it seems now that USDA wants to get a rule in place and implement very, very quickly in a matter of just weeks, 2 or 3 weeks here, and we feel as though to get the buy in of the industry, we need to progress a little bit slower and make sure that we have a program that is when we implement it, it really does what we want it to do, and that is to help identify where the disease is and to control the spread of the disease. We don't think that it would be beneficial in any way to limit producers ability to move livestock.

Mr. MCINTYRE. All right. Thank you.

Thank you to my colleague Mr. Costa, and thank you, Mr. Chairman.

The CHAIRMAN. The gentleman yields, and I recognize the gentleman from Iowa, Mr. King, for 5 minutes.

Mr. KING. Thank you, Mr. Chairman, and I appreciate the witness' testimony, and I turn first to Mr. Miller, and I am going to reminisce a little bit. I am going to ask whether you will agree with my recollection of the sequence of events, and that is that we passed a farm bill that was—actually we thought it was 2007 but it actually is the 2008 Farm Bill. The COOL regulations that were testified about here were implemented in September of 2009, and my recollection of that language in the 2008 Farm Bill, was that it was written vaguely in its requirements so that there would be an option for the packers to label, say born, raised, and harvested in a location as opposed to the specificity of those distinctions, and we left the passage of that Farm Bill in 2008 with the idea that it was not going to put a constraint on our packers.

Do you recall those events? I am just going to ask if you would relate the balance of that or maybe ask me to finish it, whichever you prefer.

Mr. MILLER. Congressman, I think I am going to have you finish that one.

Mr. KING. Okay. I will. Thanks for the question.

Mr. MILLER. Yes. I send the question back to you.

Mr. KING. And my recollection is that we left this Committee and the floor passage of the 2008 Farm Bill with confidence that COOL was resolved in such a way that it was not going to put a bind on the packers, and I recall a letter that was signed by the chairs of the respective committees, House and Senate Agriculture Committees to the packers that said you are not complying with our intent, not the language, but with the intent, and my recollection is that the packers generally agreed that they would comply with the stated intent of the letter, which is why we are talking about September 2009. Any of that inconsistent with your recollection, Mr. Miller?

Mr. MILLER. Mr. Congressman, I would agree. We never believed that the mandatory Country-of-Origin Labeling program was necessary because there was never a food safety issue, nor for our retailers and consumers who never demanded it, and with the initial program, the flexibility that allowed us to commingle, we could still run our operations to a point that we didn't have to incur additional breaks or sortations. With the current law, the current process, that is not practical anymore, so that those additional costs are ultimately borne on the consumers because those costs are pushed back upstream.

Mr. KING. And I would say that, as I have watched this, it was relatively simple in 2008, and it has gotten more and more complex since then, and to this point that I made to the earlier witness, that if this Administration would come out strongly in favor of the repeal of COOL, we could get this done and get it to the President's desk, and a lot of money is being spent otherwise. I just appreciate your attention to this.

But I would like to turn then to Dr. Hill, and your testimony on PEDv and where we need to better understanding of the depth of that now, but what is the progress that is being made on vaccine?

Dr. HILL. We do have an experimental vaccine there from Harris Labs, but that vaccine is nothing effective if you vaccinate a sow and then hope to protect the pigs. It does seem to have some value in these chronic herds, helping those chronic herds recover, but this is a Corona virus. Corona viruses are very difficult to develop a good immune response to, so it is going to take a lot of effort and a lot of time.

We know that there are at least four major biologic manufacturers working diligently at trying to come up with a vaccine. I know one company, for example, just told me they had 26 scientists working on this. Of course, it is a big plumb if they get one, they will have a huge market.

Mr. KING. And if we are not able to develop a vaccine that is effective, what is the next best method?

Dr. HILL. Well, then things that producers are doing now, biosecurity, ensuring that feed stuffs are not involved in the transmission of this disease, which now we know they are. The Canadians proved that for us, so there is a lot of effort in looking at feed stuffs and making sure that that is not a source of transmitting the disease over long distances.

We know that when the virus gets into a herd and we have adjacent herds close by that there is so much virus produced that it is very difficult to keep it just moving laterally, but we have had this virus jump miles and miles in unrelated herds early, and we think that could have been from feed.

Mr. KING. Thank you, Dr. Hill.

I just want to ask a quick question of Mr. Roenigk, and I didn't hear real fans of the RFS in this particular panel, which I know it was just an odd anomaly. However, your testimony, you testified to the inflexibility of the Renewable Fuel Standard, and when I heard that, I want to give you an opportunity to express that a little bit because even though the Renewable Fuel Standard by statute is relatively inflexible, the EPA has added their own flexibility to it and rationed it down dramatically.

So, do you have any comments you would make as to the creation of flexibility by the EPA on the Renewable Fuel Standard?

Mr. ROENIGK. As we are all aware, there were two opportunities, or two requests for waivers, neither of which were successful from our viewpoint. EPA, as your question suggests, is now proposing an adjustment to the Renewable Fuel Standard. As Congressman Costa said, the Administrator feels this is one of her most difficult decisions. I would be glad to help her make that decision if she would allow me. I think it is a rather easy decision, but we hope the decision is correct and that there will be some recognition not just of the blend wall but the damage that it has done. Not just high prices but the volatility of corn.

Mr. KING. Maybe we could join together in agreeing that it was the largest corn crop ever, however.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentleman yields back.

I now recognize the Ranking Member for 5 minutes.

Mr. COSTA. Thank you very much, Mr. Chairman. I want to go to Mr. Smith.

Mr. Smith, you, I thought, did a good job of highlighting the impacts of the drought, especially the regulatory impacts of the drought to California and the production of agriculture products that the fruits and vegetables that we do so good, not only to Harris Ranch but to agricultural producers throughout California.

I want to go back to MCOOL. At Harris Ranch, what do you believe you are going to have to do in order to comply with the

MCOOL rule based upon obviously what happens with the WTO ruling here later this year?

Mr. SMITH. Well, Congressman Costa, we are currently in compliance with the rule and even the revised rule. It has actually added some additional negative impacts on our company in terms of the additional——

Mr. COSTA. How much on costs? Have you done an estimate on the cost?

Mr. SMITH. No, sir, not direct estimate on the cost of the company, but it is—and you know what, Congressman, I will—we will actually run those numbers and get them back to you, but—I can have that number.

Mr. COSTA. If you could provide them for the Subcommittee, I think it would be helpful.

Mr. SMITH. Yes, sir.

[The information referred to is located on p. 106.]

Mr. COSTA. It would certainly give us a snapshot as to what a premium-sized packing operation that you folks run in California is costing you.

You heard my statement earlier on, if in fact the ruling is adverse, maybe the point there then is an opportunity to say stop and let's take another look at this. Would you agree?

Mr. SMITH. Oh, wholeheartedly, sir. I mean, I think some common sense needs to prevail somewhere in this whole process, and if the ruling does come down negatively or in favor of Mexico and Canada, I would encourage somebody to put the breaks on.

Mr. COSTA. No, I would concur, and your comments about the potential retaliatory impacts in using the example of the Mexican truck situation a few years back is clearly one that we could see both Canada and Mexico acting on.

I know you deal with a number of different issues within your purview, but we just passed the farm bill. Did you get a chance to look at any of the livestock disaster relief elements within the bill?

Mr. SMITH. No, I know it is very helpful, and I know a lot of producers in the State of California, or I would have to assume that a lot of those producers would take advantage of that financial opportunity extended by Congress, but once again, I don't have a number for you, Congressman.

Mr. COSTA. I would like to move on to GIPSA.

Mr. SMITH. Yes, sir.

Mr. COSTA.—and impacts from your perspective on GIPSA. I wasn't here to ask the last question from Dr. Glauber, but the Chairman was. It has been troubling I know for you and others, not only the beef packing industry but the poultry processing facility. Would you care to comment?

Mr. SMITH. Yes, Congressman. I think that the two issues that were really highlighted by the proposed rule that came out of Mr. Butler's office were related to alternative marketing agreements. As you mentioned in your introduction, I manage our producer alliance. We call it our Partnership for Quality. We are currently working with 70 of the most progressive ranching families in the western United States. The majority of those are in California. We offer them incentives in the form of premiums that we pay for using certain genetics, vaccination protocols, delivery points, we provide them with opportunities to——

Mr. COSTA. It is value-added, value-added that ultimately——

Mr. SMITH. Correct.

Mr. COSTA.—passes to the consumer.

Mr. SMITH. Correct. But if that rule would have gone into place, we would had to have shut that program down because I would have had to have justified to every person that I purchased cattle from why we were providing premiums that we were, and so that and the other provision that within that proposed GIPSA rule related to packer ownership of cattle. As you are aware, Congressman, our feedlot and beef processing facility, they are integrated. They are functionality integrated. Without one, the other cannot operate, and for a rule to be written which says that a packer cannot own livestock would basically destroy our business model.

Mr. COSTA. Well, and not only yours but other, throughout the country.

Mr. SMITH. Correct.

Mr. COSTA. Which is one of the reasons that I have had—and I would go further to say that the Congress is, in three successive budget appropriations opined its view on this and to still have the United States Department of Agriculture pursuing rulemaking in spite of that fact, is really a violation of separation of powers, but I mean, I am not a constitutional lawyer.

My time has expired, but I would like to ask Mr. Roenigk, if we have a second round, about his view on the GIPSA impact as well.

Mr. ROENIGK. Yes. Thank you. The two issues, one, USDA is not following the instructions, directions of Congress, so I think that is a broader issue that we all need to be aware of, and then second, the overreaching into business relationships. We have had family farmers under contract growing for 40 or more years, and that relationship is very stable, and it has been dealt with under the previous rules, so it is a case of regulating a problem that doesn't exist.

Mr. COSTA. Thank you.

The CHAIRMAN. The gentleman yields.

The chair recognizes the gentleman from Pennsylvania, Mr. Thompson, for 5 minutes.

Mr. THOMPSON. Thank you, Chairman.

I want to pick up where the Ranking Member left off and check in with Mr. Miller and see, specifically as the Ranking Member kind of laid out, the intent of Congress has been repetitive and clear, yet despite that, this issue persists.

Mr. Miller, could you take a moment to explain why much of the livestock sector still believes this final rule is bad for your business and bad for producers?

Mr. MILLER. Congressman, I am sorry, are you referring to GIPSA or——

Mr. THOMPSON. Yes, sir.

Mr. MILLER. GIPSA. Okay. Yes. The GIPSA rule really leads to increased litigation costs, but the biggest thing I think it does, it decreases innovation that is out there. I mean, ultimately, in today's beef and pork business, we spent 25 to 30 years trying to get out of this commodity bucket and trying to tailor different products, to different programs, to different consumers, and ultimately every pound of beef or every pound of pork isn't necessarily equivalent to every pound of beef and every pound of pork, if that makes sense. So, ultimately the offerings are becoming larger and larger, and the GIPSA rule, as originally proposed, would greatly increase litigation cost without adding any additional benefit to the farmers, ultimately to our customers and consumers either.

Mr. THOMPSON. Thank you.

Now, Mr. Smith, we heard a lot from my cattlemen most recently about potential impact with opening up trade from Brazil with beef and the potential, which as a country has dealt with, had some issues in certain areas, I think it was with foot and mouth, and what that potentially would do perhaps to negatively impact our beef industry, so I was just curious to get your perspectives.

Are there safeguards that would make fresh and frozen beef imports from Brazil viable and safe for U.S. cattle sector, and is the problem with this rulemaking primarily one of flawed process or simply insufficient scientific data that offered judgment in the matter?

Mr. SMITH. Congressman, to the first part of your question, I am not a trained microbiologist, so I don't know if I could effectively and correctly answer the question relative to is there something we could do to negate if—to minimize any potential impact to product coming in on fresh product. I would have to get back to you and visit with some of the scientists I am familiar with.

Regarding the second portion of your question, our biggest concern as an industry is one of making certain that due diligence has in fact occurred. I think we would take the position that we have to be overly cautious. Using a term that USDA likes to use quite often, in the abundance of caution, we might suggest that we either slow down this process or just make certain that what we are proposing to do, *i.e.,* allowing fresh product from Brazil to come into the country, that we have in fact dotted 'I's and crossed 'T's.

Mr. THOMPSON. Thank you.

Mr. Roenigk, in your testimony, you outlined a number of challenges to our producers facing the global market, and in two regions, and specifically with the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership, we have opportunities to address several of these issues. Do you believe that the current path of these negotiations will yield satisfactory outcomes, and on which key issues do you believe the U.S. should be pressing harder?

Mr. ROENIGK. You have asked an excellent question. In the case of Trans-Pacific Partnership, Canada has a supply management program for poultry and dairy. Our position is that Canada can maintain that supply management system if they prefer. We would just ask that the border be open to—for free and fair trade for U.S. poultry, and we hope that negotiation does that.

In the case of the agreement being discussed with the European Union, we have been shut out of that market since 1997, originally because the issue was we used chlorinated water in our processing. We have indicated that we would be glad to use something other than chlorinated water, which we do in the case of Russia. That has not been sufficient for the EU to revisit that issue. We think that is a $600 million market. They import over $2 billion of poultry a year. We think we could get at least ⅓ of that market. And to be shut out of the European market because of really a non-tariff trade barrier is really unfortunate, and if the negotiations do not resolve that, I am not sure when the next good opportunity will be to address that, so we are hopeful.

I would like to predict that we will be successful, but as they say, nothing is agreed to until everything is agreed to, so we are staying in close contact with our negotiators.

Mr. THOMPSON. Okay. Thank you, sir.

And thank you to all the panel.

Mr. Chairman.

The CHAIRMAN. The gentleman yields.

The chair now recognizes the gentleman from Georgia, Mr. Scott, for 5 minutes.

Mr. SCOTT. Yes. I would like to sort of continue the line of questioning on trade and zero in on the Trans-Pacific Partnership, and especially as it affects market access and particularly with Japan. I am very much concerned about what impact this would have particularly on beef and pork, I guess most of you, but especially there.

So, Mr. Michael Smith and Mr. Shane Miller, would you share with the Committee exactly what the impact would be on your industry if an agreement is made and Japan is exempted and does not remove their tariff and non-tariff trade barriers in this agreement?

Mr. SMITH. I will ask my counterpart here to comment as well, but I will tell you my personal opinion is, if Japan says that they will not negotiate in terms of relaxing the tariffs that are currently being applied to beef, that we would encourage you not to vote for TPP.

Mr. SCOTT. What would happen if we did? I am not saying we will, but it would help us not to do that if you would tell us the grave impact it would have on your industry if that agreement was approved and giving, without Japan committing to access, what impact would it have on the other 12 or 11 nations?

Would it be a bad precedent? What would be the cost to you and your industry? What would be the impact to the people of America, the cost? Can you give us something that we can hold our hat on to go to bat for you that would tell us how bad an impact this would be on American beef and pork especially?

Mr. SMITH. Mr. Miller, because he included pork in the question, Congressman, I would ask my counterpart here to——

Mr. SCOTT. All right.

Mr. SMITH. So I can come back and address it for my company as well.

Mr. SCOTT. Okay.

Mr. MILLER. Congressman, from a Tyson perspective, ultimately we do share the goal of getting to zero on tariffs and appreciate the support of the Administration and Congress on the issue. However, we do need to achieve significant market access for our products as part of the TPP negotiations, but we also need to ensure that we stay on a level playing field with our global competitors.

Having some access, meaning from a Japanese perspective, is the largest pork revenue destination for U.S. exports in the world.

Mexico is number one from a volume perspective, but Japan is number one from a total dollars standpoint, so accessibility is definitely key from a pork perspective and also from a beef perspective from Tyson's point of view.

Mr. SCOTT. All right.

Mr. SMITH. And Congressman, I don't want to sound like a parrot, but I would echo a lot of those comments. The Japanese market is very important to the U.S. beef industry. Harris Ranch is fortunate to be one of the first companies or the first company to get back in their country once they allowed us with their 20 month rule. There is tremendous upside potential to be able to increase the volume of product being moved into Japan, and especially if those tariffs were removed.

Mr. SCOTT. Okay. Very good.

And I certainly agree with you and certainly will help you, and, because I believe it will have a devastating impact. It will set a bad precedent, and I hope that we in Congress will not approve that trade agreement unless Japan acquiesces and give us that market access, but let me go to one other point I raised earlier about the renewable fuels because Congressman King and I working together will have a solution for this.

If you were here earlier, I told him in a—he asked and I said if I were a farmer in Iowa, indeed, I would be planting corn, corn, corn, with the way it is going, but at that Renewable Fuel Standard is having a devastating impact on you and on your feed cost. My issue here is that why not put a great more emphasis on other areas of carbohydrates? I mean, why—corn is there, you are not going to change that. I think the die is set, the economics are set there, but as I said earlier, there is just so much corn we can do, and now 40 percent of all the corn we produce is used for ethanol, and if you get the renewable standard going with more and more automobiles, more and more, then you just would get more. I think that we should be putting—there are other ways to make the ethanol.

There is switchgrass to make it. There are ways in which, now, of course, with sugarcane. Perhaps a part of your plea may be in adjusting this because the issue with you is bringing down the impact of feed costs, that the FNL is putting the downward pressure on, and so I think that there is other areas.

I know in the south at the University of Georgia, for instance, great progress is being made in other areas of carbohydrates, and perhaps we might do well to take a look at Brazil and maybe suggest to Congress that we lift those tariffs on the import of sugarcane, at least to a way that the sugar industry here can accept and begin to look to other means of being able to add to the supply of ethanol because ethanol is in the future. It is going to be more.

Renewable fuels is where we are going. The Earth is going to run out of petroleum and fossil fuels, so I just wanted to make that comment and look at it more holistically. There are wood chips that can make ethanol, pine straw now. All we need to do is put our efforts to that, and I would encourage you—we will work with you on the renewable fuels, but I would also encourage you to work with helping us in Congress to lift the downward pressure off of all of this ethanol that is being made on corn and shift to other areas.

Yes. The gentleman, did you want to respond, Dr. Hill?

The CHAIRMAN. Do you want a quick response?

Mr. SCOTT. Yes, sir, please.

Dr. HILL. I live near Ames, Iowa. The town just to the east is Nevada, Iowa, and right now there is a major construction project to build a cellulosic ethanol plant. It is being financed entirely by DuPont. My son, who farms, has been working with DuPont for the last 3 years in working on the proper collection of corn stover. This is going to be—that is what is going to feed this plant, so there is activity other than corn based ethanol, going forward.

Logistics of the amount of corn stover *versus* a grain, corn is phenomenal, but at least we do have private industry putting money into this, and you are right, there are other sources.

Mr. COSTA. Thank you, sir.

Thank you, Mr. Chairman. I appreciate the time.

Mr. JOHNSON. Mr. Chairman.

Dr. HILL. Thank you, Mr. Scott. Sorry.

Mr. JOHNSON. Could I make a comment on the RFS as well? I think what tends to get lost in this conversation is the RFS, when it was originally conceived, contemplated using corn for the first half of the development of the renewable fuel industry, and really the next big chunk was going to come from these advanced biofuels like stover, like wood chips, like manure, like all those kinds of things.

We have largely gotten the first half done. Corn got us there, and what we learned in this industry by producing renewable fuel from corn is enormously important to developing that next step. If we back up from this thing now, we will destroy the opportunity to do the next step, and that will be a terrible shame.

Mr. COSTA. Well stated. I agree with you 100 percent.

Mr. COOK. Mr. Chairman, may I also make a comment about RFS.

The CHAIRMAN. Yes.

Mr. COOK. I would like to briefly illustrate what it has done to our company individually. I was at a farmer cooperative meeting in Minneapolis, and a gentleman who was a ethanol plant developer stood up and he was asked a question, what the impact was on the livestock industry because of the ethanol. And he made the comment there was no impact on the livestock industry, and that is absolutely not true.

I report in my testimony that our feed cost had gone up 125 percent from 2006 to 2013. Individually, our company, we are on the lower end of that at 80 percent, and you can argue, well, why is that? Your cost gone up or do you use your feed inefficiently, did you buy it wrong, you can argue all of those things.

We have reduced the—or improved the efficiency of our feed by millions of dollars since then, and we are—we average better that our industry peers in the use and the feed conversion of our turkeys. And the other side of that is, we are compared to 339 feed mills in the United States. We buy, we are ranked number 37. So, I would argue that we buy and use the corn we have to purchase as competitively as anyone, but our costs have gone up 80 percent, and we don't have the opportunity, in the turkey business, it is a zero sum game.

There are other things we can feed our turkeys like wheat, but there are only so many acres, and so I would urge you strongly a complete repeal of the only—if the market is established for ethanol, just let it work. Let the free market work, and if they want to buy corn to put in ethanol, then they should have to pay and not be mandated that that portion of the market go to corn. Just those that want, need corn, we become more efficient through competitiveness but not a mandate saying you get this much.

Mr. COSTA. Thank you.

The CHAIRMAN. Thank you.

Ranking Member Costa, any closing remarks?

Mr. COSTA. No. I thought it was a good hearing, Mr. Chairman.

The CHAIRMAN. Thank you.

I want to thank the witnesses. Great insight. We feel like this will help us address those issues that you have laid out in front of us, and we will keep your comments, and—do we keep the record open, do we keep this open for a period of 10 days for additional remarks, extension of your remarks.

So thank each one of you for being here, and with that, we adjourn.

[Whereupon, at 12:48 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED FACT SHEET BY HON. REID J. RIBBLE, A REPRESENTATIVE IN CONGRESS FROM WISCONSIN

WISCONSIN–CANADA

- ***Canada is Wisconsin's top export market***
- ***Canada is Wisconsin's number one export market for agriculture and agri-food***

Top agricultural exports

$1.2 billion total agricultural exports to Canada

Beverages & alcohol	$390 million
Pasta, breads & cereal preparations	$174 million
Meat, fish & seafood preparations	$104 million
Prepared vegetables	$75 million
Dairy products, eggs & honey	$54 million

Top agricultural imports

$573 million total agricultural imports from Canada

Cereals	$92 million
Live animals	$74 million
Animal feed & food industry residues	$53 million
Animal meats	$49 million
Animal or vegetable fats, oils & waxes	$41 million

Top Wisconsin exports that will be threatened by COOL retaliation

Of Canada's listed products for retaliation, 30 export commodities from Wisconsin will be threatened

Ethyl alcohol & other denatured spirits (HS220720)	$282 million
Breads, pastries & cakes (HS1905)	$62 million
Peptones & other protein substances (HS350400)	$36 million
Prepared or preserved beef, offal & blood of cattle (HS160250)	$29 million
Prepared or preserved other meat, blood of swine, including mixtures (HS160249)	$17 million

Wisconsin's top foreign agricultural & agri-food markets

Canada	**48%**
Mexico	8%
Korea, South	4%
Japan	4%
China	4%

Let's keep a good thing growing!

*All figures in U.S. dollars, based on 2012 data. **U.S. Census Bureau**: trade (2/2013 release). Figures may not add up due to rounding.*
Produced by the Embassy of Canada in Washington, D.C., August 2013.

Canada

SUPPLEMENTARY MATERIAL SUBMITTED BY JOSEPH GLAUBER, PH.D., CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE

Insert 1

Mr. KING. And that is this: A bushel of corn breaks down at about three different parts, starch and protein and CO_2. And CO_2 is a byproduct of ethanol production, but it is also a byproduct of feed consumption. So I would submit that it is more accurate to say about ½ of it comes back, because ⅓ of the product goes off into the air and CO_2 whether you feed it or whether you convert it into ethanol. And I wanted to—I wanted to submit that into the record for discussion and actually ask your response to that.

Dr. GLAUBER. I would have to look at the—typically, just on a matter basis, been focusing—we focus—tend to focus on about ⅓ in terms of the volume of that comes back.

Mr. KING. I would ask you, if you could, come back to me and perhaps the panel with a response to that.

Dr. GLAUBER. Sure.

While there are several ways to look at the ethanol production process and outputs, I think we can agree that a simple weight breakdown of output of dry-mill ethanol production can obscure the value of the stream of products being produced. The simple rule of thumb that ⅓ of the weight of the corn being processed ends up as ethanol, another ⅓ as DDGS and another ⅓ as CO_2 is roughly accurate from a weight standpoint, but as you point out, issue of CO_2 and other gasses released in livestock feeding as well as CO_2 produced in ethanol processing complicates such a simple analysis.

Further, that ⅓, or approximately 17 pounds per 56 pound bushel of corn, which comes back as dried distillers grains, or DDGS, returns to livestock rations not just to displace corn, but also to displace higher valued products such as soybean meal in many non-ruminant rations for swine and poultry. Some facilities also capture the CO_2 produced for sale into markets such as consumer beverage production. Dry mill ethanol facilities continue to refine their processes to capture value and corn oil is now commonly extracted from the DDGS after ethanol production with many facilities extracting up to 1 pound of corn oil per bushel to be used in biodiesel production or returned into reformulated livestock feeds in 'fine-tuned' rations.

Other potential advancements might see the large scale conversion of corn fiber in the pericarp converted to cellulosic ethanol, further expanding the volume of ethanol produced per bushel. So while the statement that ⅓ of the weight of a bushel of corn returns as livestock feed, there are other comparisons that can be made depending on the focus of the discussion. In light of the livestock feed discussion at the hearing and the direct weight displacement often made in livestock rations, this was the comparison put forth.

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Mr. KING. . . .

And so I just quickly ask this question as I watch this clock tick down. As I understood in your comments on COOL, I would just make the comment that if the Administration would strongly come out and support voluntary COOL or repeal of mandatory COOL, we could get this done in the House and the Senate, and would bypass a lot of this discussion, and would save billions of dollars, and it would be a lot better deal to do with our trade partners.

But I wanted to ask you the economic question, and that is, on the egg issue, if California is successful in doubling the size of cage sizes and infrastructure for the egg producers in this country by regulating all of America from California by state statute, what happens to that requirement for infrastructure investment on the part of all egg producers in America?

Dr. GLAUBER. Well, certainly the concern—I know at the time the state regulations were being debated and going into force, there was a lot of concern among the California egg producers about what those costs would mean for them and the additional costs on egg production. And so I frankly haven't looked at the individual studies as closely, I would be happy to get back with you on that, but any time you put in specific standards like that, there are costs.

Now, weighing that against what the benefits are for consumer is the other side of that, and, again, I don't have any good numbers for you.

Mr. KING. I would appreciate it if you would get back to me on that, and I would just point out that doubling the infrastructure size doubles the cost, and that is the report I get back from them.

Under Proposition 2, California egg producers who employ the conventional "battery cage" system must adopt a new production system before January 1, 2015. Proposition 2 would prohibit confining egg-laying hens on farm, for all or the majority of any day, in a manner that prevents the hen from (a) lying down, standing up and fully spreading both wings without touching the sides of the enclosure or other egg-laying hens, and (b) turning around freely. Significantly, the new housing requirements will apply to all eggs sold in California including those produced in other states. Currently, California imports about 12 million cases of eggs annually, about 25 percent of which in liquid or dry form (Bell, 2013). Four states (Iowa, Minnesota, Missouri and Ohio) account for 70 percent of the eggs imported by California.

Carman (2012) estimates that increasing the size of battery cages to 116 square inches per hen would increase the costs of egg production systems by 12.5 percent. That cost increase would likely result in a 2.5 percent decline in California egg production and a 12 percent increase in retail prices for California consumers.

Bell, Don. "California's Egg Requirements—2015." Egg Industry Center. Iowa State University. Available at *http://www.ans.iastate.edu/EIC/newsletters/CA_Effect_Oct_Special_Report.pdf*.

Carman, Hoy. "Economic Aspects of Alternative California Egg Production Systems". August 30, 2012. Available at *http://www.cdfa.ca.gov/ahfss/pdfs/regulations/Dr_Hoy_Carman.pdf*.

Insert 3

> Mr. NEUGEBAUER. Yes. So I want to go back to the COOL issue. You know, you don't see the benefit. We have our trading partners, our largest trading partners now threatening to impose tariffs on our country. I think one of the things the livestock producers in my area are going through was, you mentioned a while ago when you were talking about Lubbock, Texas; I am from Lubbock, Texas. And, I remember going through a horrible drought. The herds are way down, and the feedlot numbers are shrinking and it is going to take a long time to be able to build these numbers back up when it rains again.
>
> I think that the producers in my area are feeling very vulnerable in the sense that they have this COOL issue cloud hanging over them; they have the drought; and now they are concerned about this Brazilian beef and the potential to bring hoof-and-mouth disease to this country.
>
> The question I have is, when you did the analysis for Brazil, now, I understand you used the qualitative method, but when the analysis was done, for example, in 2002 for Uruguay, they used the quantitative analysis. Some people speculate that the qualitative analysis is fairly subjective and that the quantitative analysis is a more thorough. As an important issue as this is, why would we have used a different analysis than we have used previously?
>
> Dr. GLAUBER. Congressman, you raise a good question. I can't answer it. The FSIS [clarified later to say APHIS] did that analysis. I would be happy to get back to you with a more complete answer on that.

APHIS bases its import decisions on sound scientific risk assessments and allows imports only when sufficient protective safeguards are in place. Most of APHIS' risk assessments have been, and continue to be, qualitative in nature. APHIS believes that quantitative risk assessment models are useful in cases, such as the 2002 risk analysis for fresh beef from Uruguay, where risk management questions cannot be addressed with a qualitative assessment. APHIS believes that, when coupled with site visit evaluations, qualitative risk assessments provide the necessary information to assess the risk of introducing animal diseases like Foot and Mouth Disease (FMD) through importation of commodities such as fresh beef. Furthermore, the OIE (World Organization for Animal Health) states that, particularly for diseases listed in the Terrestrial Animal Health Code (such as FMD), where there are international standards and broad agreement concerning likely risks, a qualitative assessment may be all that is required (OIE. 2014. Chapter 2.1. *Terrestrial Animal Health Code*).

SUPPLEMENTARY MATERIAL SUBMITTED BY MICHAEL T. SMITH, SPECIAL PROJECTS MANAGER, HARRIS RANCH; ON BEHALF OF NATIONAL CATTLEMEN'S BEEF ASSOCIATION

> Mr. COSTA. Thank you very much, Mr. Chairman. I want to go to Mr. Smith.
>
> Mr. Smith, you, I thought, did a good job of highlighting the impacts of the drought, especially the regulatory impacts of the drought to California and the production of agriculture products that the fruits and vegetables that we do so

good, not only to Harris Ranch but to agricultural producers throughout California.

I want to go back to MCOOL. At Harris Ranch, what do you believe you are going to have to do in order to comply with the MCOOL rule based upon obviously what happens with the WTO ruling here later this year?

Mr. SMITH. Well, Congressman Costa, we are currently in compliance with the rule and even the revised rule. It has actually added some additional negative impacts on our company in terms of the additional——

Mr. COSTA. How much on costs? Have you done an estimate on the cost?

Mr. SMITH. No, sir, not direct estimate on the cost of the company, but it is— and you know what, Congressman, I will—we will actually run those numbers and get them back to you, but—I can have that number.

Mr. COSTA. If you could provide them for the Subcommittee, I think it would be helpful.

Mr. SMITH. Yes, sir.

During our last fiscal year, Harris Ranch Beef Company lost approximately $2.4 million due to our implementation of mandatory COOL.

SUBMITTED LETTER BY CLINT KREBS, PRESIDENT, AMERICAN SHEEP INDUSTRY ASSOCIATION

March 17, 2014

Hon. HAROLD ROGERS,
Chairman,
House Committee on Appropriations,
Washington, D.C.;

Hon. NITA M. LOWEY,
Ranking Minority Member,
House Committee on Appropriations,
Washington, D.C.

Dear Chairman Rogers and Ranking Member Lowey:

The 169 undersigned organizations represent a broad range of food producers, wildlife organizations, sportsmen, local governments and resource interests that benefit from the cooperative efforts of the USDA–APHIS/Wildlife Services (WS) program. We write in strong support of sufficient funding for this critical program and in opposition to any effort to restrict or eliminate WS funding.

Wildlife causes more than $12.8 billion in damage each year to natural resources, public infrastructures, private property and agriculture. WS works to prevent, minimize or manage this damage and to protect human health and safety from conflicts with wildlife. Wildlife damage to U.S. livestock, aquaculture, small grains, fruits, vegetables and other agricultural products has been estimated to reach nearly $1 billion annually. Wildlife predators cause more than $126 million in death loss to livestock; field crop losses due to wildlife total $619 million annually; losses to vegetables, fruits and nuts total $146 million annually; and 70 percent of catfish farmers incur wildlife-related damage resulting in losses of $10 million to $13 million annually from double-crested cormorants in Mississippi alone. As a result, WS is an essential program in agriculture production in the United States.

The spread of wildlife-borne diseases to humans, livestock and other wildlife is a growing concern. WS monitors and manages pests and diseases in the United States. WS is often the first line of defense in reducing and eliminating diseases such as the West Nile virus, avian influenza, pandemic H1N1, chronic wasting disease, pseudo rabies, bubonic plague, Hantavirus, lyme disease, bovine tuberculosis and rabies. In fact, rabies-associated costs range from $300 million to $450 million annually in the United States primarily for pet vaccinations, education, diagnostics, post-exposure treatment and case investigations. WS also prevents entry and controls invasive species such as feral swine, nutria, the brown tree snake, European starlings and the beaver. Feral swine are a subject of increasing concern as potential carriers or catalysts for a variety of diseases. It is estimated that there are more than five million feral swine in 38 states that cause an estimated $1.5 billion in damage annually with more than $800 million of damage to agriculture resources.

In fiscal year (FY) 2012 alone, WS conducted 67,842 technical assistance projects to reduce wildlife damage to property in urban, suburban and rural locations as well as airports across the country, which include homes, schools, industrial facilities, roads, bridges, airport runways, dams and electrical and water systems. One example of this work is WS efforts in reducing deer collisions with automobiles, which injure an average of 29,000 people annually and cause more than $1 billion in damage. In addition, WS works to protect wetlands habitat, riparian habitat, tidal marsh and timber from a variety of pest species including feral hogs, nutria and beavers, which alone cause millions of dollars of damage each year—more than any other U.S. wildlife species. WS expended more than $18.6 million to protect property from wildlife damage in FY 2012, up from $16.1 million in 2008.

Protection of natural resources is a growing need for WS. Last year, WS invested resources in conservation of game species including mule deer, bighorn sheep, antelope and waterfowl in eight states. In FY 2012, WS spent $6.5 million for cooperative work with Federal and state agencies to protect and assist 169 threatened or endangered species in 35 states, Puerto Rico, Guam and the U.S. Virgin Islands. In more than 95 percent of the projects, local threatened and endangered species either increased or remained stable.

More than 130,000 wildlife strikes with civil aviation have been reported since WS began keeping records in 1990. In FY 2012, there were more than 10,700 wildlife collisions with civil aircraft reported, with an additional 5,930 strikes reported by military aviation costing the total aviation industry more than $700 million annually. WS provided direct services at 354 airports in FY 2012 including population management through harassment, habitat modification or removal. Technical assistance, such as initial consultations and wildlife hazard assessments, was provided at 772 airports across the country.

As the "Miracle on the Hudson" demonstrated in 2009, the management of wildlife hazards on and near our nation's airports is a critical safety priority. WS provides valuable support to the aviation community in addressing these hazards. From its assistance in preparing FAA-required wildlife hazard assessments to its help with managing hazardous wildlife populations, WS staff ensure that U.S. airports both meet the regulatory obligations under 14 CFR Part 139 and reduce the safety risks associated with aircraft wildlife strikes. WS also assists the FAA in monitoring national trends regarding wildlife populations and the hazards they pose to aviation. At a time when airports are facing significantly expanded wildlife hazard management requirements through recently issued FAA Advisory Circulars and grant assurance modifications, its role will be even more critical to the aviation community, going forward.

It has been WS's cooperative nature that has allowed it to accomplish all of the above listed programs and has made it the most cost effective and efficient program in the Federal Government in the areas of wildlife damage management and public health and safety. WS has more than 2,000 cooperative agreements, up 20 percent from FY 2000, and, in FY 2012, had 90,641 access agreements to professionally monitor and manage wildlife on private, state and Federal lands.

WS cooperators include agriculture, forestry, private industry, state wildlife agencies, state departments of health, state departments of agriculture, schools, universities, counties, local governments, Indian nations, homeowner associations, conservation groups and others that, together with WS, mitigate the damage and dangers that public wildlife can inflict.

Chairman Rogers and Ranking Member Lowey, we appreciate your demonstrated leadership and strong support of this essential program. Our organizations are committed to working with you to strengthen WS resources and to ensure a continued Federal partnership in the responsible management of our nation's wildlife.

Air Line Pilots Association, Int'l
Airlines for America
Airports Council, International—North America
American Association of Airport Executives
American Beekeeping Federation
American Farm Bureau Federation
American Feed Industry Association
American Horse Council
American Sheep Industry Association
American Society of Agricultural and Biological Engineers
American Veterinary Medical Association
Animal Health Institute
Association of American Veterinary Medical Colleges
Association of Fish and Wildlife Agencies Association of National Grasslands
Catfish Farmers of America
Catfish Institute
Congressional Sportsmen's Foundation
Livestock Marketing Association
Mule Deer Foundation
National Aquaculture Association
National Association of Federal Veterinarians
National Association of State Departments of Agriculture
National Cattlemen's Beef Association
National Farmers Union
National Milk Producers Federation
National Pork Producers Council
National Renderers Association
National Rifle Association
National Shooting Sports Foundation
National Sorghum Producers
North American Meat Association
Public Lands Council
Rocky Mountain Elk Foundation
Safari Club International
Society for Range Management
Sportsmen for Fish and Wildlife
State Agriculture and Rural Leaders Association
United States Animal Health Association
U.S. Cattlemen's Association
USA Rice Federation
Wild Sheep Foundation

National Association of Counties

Alabama Catfish Producers
Alabama Farmers Federation
Alabama Meat Goat and Sheep Producers
Arizona Cattle Feeders Association
Arizona Cattle Growers' Association
Arizona Cattlemen's Association
Arizona Wool Producers Association
Arkansas Cattlemen's Association
Arkansas State Sheep Council
Association of Oregon Counties
California Agricultural Commissioners and Sealers
California Cattlemen's Association
California Farm Bureau Federation
California Wool Growers Association
Colorado Cattlemen's Association
Colorado Wool Growers Association
Connecticut Sheep Breeders Association, Inc
Delaware Sheep and Wool Producers Association, Inc.
Delta Council
Eastern Regional Conference of the Council of State Governments
Empire Sheep Producers
Florida Cattlemen's Association
Garden State Sheep Breeders Inc
Georgia Cattlemen's Association
Georgia Sheep and Wool Growers Association
Hawaii Sheep and Goat Association
Idaho Cattle Association
Idaho Farm Bureau
Idaho Wool Growers Association
Illinois Lamb and Wool Producers Inc.
Independent Cattlemen's Association of Texas
Indiana Sheep Association
Iowa Cattlemen's Association
Iowa Sheep Industry Association
Kansas Livestock Association
Kansas Sheep Association
Kentucky Cattlemen's Association
Kentucky Sheep and Wool Producers Association
Louisiana Cattlemen's Association
Maine Sheep Breeders Association
Maryland Sheep Breeders Association
Massachusetts Federation of Sheep Associations
Meat Sheep Alliance of Florida, Inc
Michigan Sheep Breeders Association
Midwestern Legislative Conference of the Council of State Governments
Minnesota Lamb and Wool Producer Association
Minnesota State Cattlemen's Association
Missouri Cattlemen's Association
Missouri Sheep Producers
Montana Association of State Grazing Districts
Montana Farm Bureau Federation
Montana Public Lands Council
Montana Stockgrowers Association
Montana Wool Growers Association
Nebraska Cattlemen, Inc.
Nebraska Sheep and Goat Producers
Nevada Cattlemen's Association
Nevada Wool Growers Association
New Hampshire Sheep and Wool Growers Association
New Mexico Cattle Growers' Association
New Mexico Department of Agriculture
New Mexico Farm & Livestock Bureau
New Mexico Federal Lands Council
New Mexico Trappers Association
New Mexico Wool Growers, Inc
North Carolina Sheep Producers Association
North Dakota Lamb and Wool Producers Association
North Dakota Stockmen's Association
North Dakota Department of Agriculture
North Dakota Game and Fish Department
Northeast States Association for Agricultural Stewardship
Ohio Cattlemen's Association
Oklahoma Cattlemen's Association
Oregon Cattlemen's Association
Oregon Dairy Farmers Association
Oregon Department Agriculture
Oregon Farm Bureau Federation
Oregon Forest Industries Council
Oregon Outdoor Council
Oregon Seed Council
Oregon Sheep Growers Association
Oregon Small Woodlands Association
Oregonians for Food & Shelter
Pennsylvania Cattlemen's Association
Pennsylvania Farm Bureau
Pennsylvania Sheep and Wool Growers Association
South Carolina Sheep Industries Association
South Dakota Cattlemen's Association
South Dakota Sheep Growers Association
South East Dairy Farmers Association
Sportsmen for Fish and Wildlife Idaho
Tennessee Cattlemen's Association
Tennessee Sheep Producers Association
Texas and Southwestern Cattle Raisers Association
Texas Cattle Feeders Association
Texas Farm Bureau
Texas Pork Producers Association
Texas Sheep and Goat Predator Management Board
Texas Sheep and Goat Raisers' Association
Texas Wildlife Damage Management Association
United Dairymen of Arizona
U.S. Cattlemen's Association
Utah Cattlemen's Association
Utah Department of Agriculture and Food
Utah Farm Bureau Federation
Utah Wool Growers Association
Vermont Sheep and Goat Association
Virginia Farm Bureau
Virginia Cattlemen's Association
Virginia Sheep Producers Association
Wasco County Livestock Association
Washington Cattlemen's Association
Washington Cattle Feeders Association
Washington Forest Protection Association
Washington State Sheep Producers
West Virginia Cattlemen's Association
West Virginia Shepherds Federation
Western United Dairymen
Wisconsin Sheep Breeders Cooperative
Wyoming Animal Damage Management Board
Wyoming Farm Bureau Federation
Wyoming Game and Fish Department
Wyoming Sportsmen for Fish & Wildlife
Wyoming Stock Growers Association
Wyoming Wild Sheep Foundation
Wyoming Wool Growers Association

SUBMITTED QUESTIONS

Response from Joseph Glauber, Ph.D., Chief Economist, U.S. Department of Agriculture

Questions Submitted by Hon. Frank D. Lucas, a Representative in Congress from Oklahoma

Question 1. As has been stated several times in the prepared testimony for this hearing, the cattle herd is at its smallest size since 1951. Has the nature of this drawdown been more a matter of a reduction in size of individual herds, or a matter of cow/calf operators exiting the business altogether? What are the short and long-term implications of this situation for the beef packing sector?

Answer. The national herd has shrunk due to a combination of both factors. The number of farms with cattle and calves fell 5.2% from 2007 to 2012 to a total of 913,246 farms and at the same time the cattle and calves inventory fell by 66% to 89.9 million head over the same period. The very smallest and largest farms showed either modest declines or even growth, while the bulk of the operations, those between 50 and 500 head, saw their numbers and inventory decline.

The short run implication for the packing sector will be increased competition for the cattle that are available as they seek to keep existing capacity operating, supporting live animal prices and encouraging producer expansion. The longer run situation for the packers depends on the extent of that expansion in the future. Cattle producers may respond to current high prices, expand output and offer supplies to keep existing slaughter capacity in operation or if supplies are insufficient, it may result in an adjustment in slaughter capacity which more closely reflects cattle availability. Packers in the short run may reduce slaughter schedules which could be reversed if supplies increase but extended periods of excess capacity could result in a more lasting reduction in capacity through the closure of slaughter facilities.

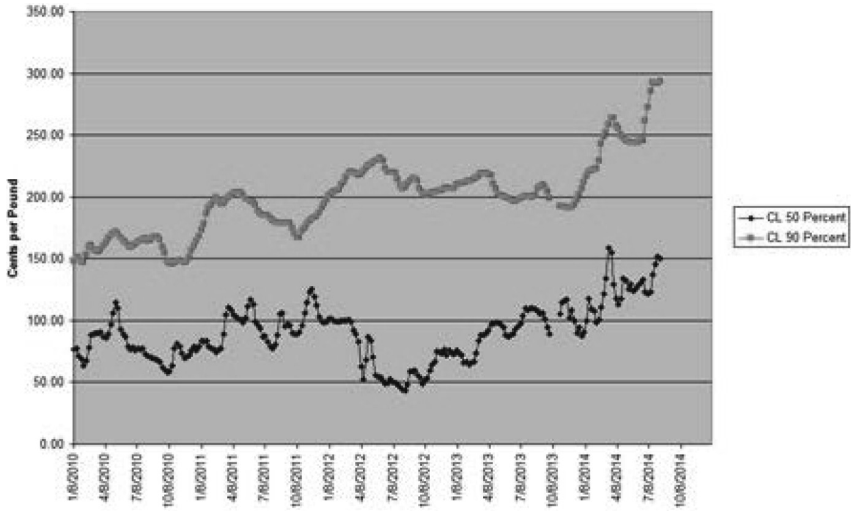
Question 2. The price of lean ground beef has taken a double hit over the last couple of years. First, the quality of lean finely textured beef was called into question, which led to a safe product being largely excluded from the ground beef supply. And now, consumers are looking at a low supply of beef and, consequently, high beef prices overall. Can you please comment on the impact of reintroducing products like lean finely textured beef on the price and availability of lean ground beef?

Answer. Lean finely textured beef remains in the market place and available although demand has fallen substantially and several operations which process the product have closed. The trimmings used to produce lean finely textured beef product have been diverted to other, lower value uses, reducing the value of the live animal to the packer.

Prices of 50 percent lean (50CL) trimmings dropped sharply as demand for fat trimmings as an ingredient in blending for hamburger dropped; conversely, prices for 90 percent lean (90CL) trimmings jumped as processors looked for alternatives for LFTB. 50CL prices have recovered as demand for processing beef has remained strong.

While this has contributed to the increase in ground beef prices by reducing supplies, the larger issue of reduced cattle numbers and strong consumer demand through preference changes are more significant contributors to the increase in ground beef prices. Increased consumer acceptance of the product could expand supplies of ground beef which would have a modest impact on prices. However, it remains uncertain if consumers would be willing to accept the product in ground beef purchases. Media stories indicate that the market for LFTB remains fairly weak.

Weekly Wholesale Fresh Lean Beef Prices



Question 3. The high price of beef and pork has become a fairly common topic of conversation. The cattle herd will take a long time to rebuild, even if conditions improve immediately. What role does cattle production in Canada and Mexico play in ensuring consumers in the United States have access to beef when they do their shopping?

Answer. The United States imports live beef animals from both Canada and Mexico. Mexico primarily supplies feeder cattle while Canada provides both slaughter and feeder cattle to the U.S. market. At the same time, the United States imports some table cuts of beef but primarily processing grade beef from abroad.

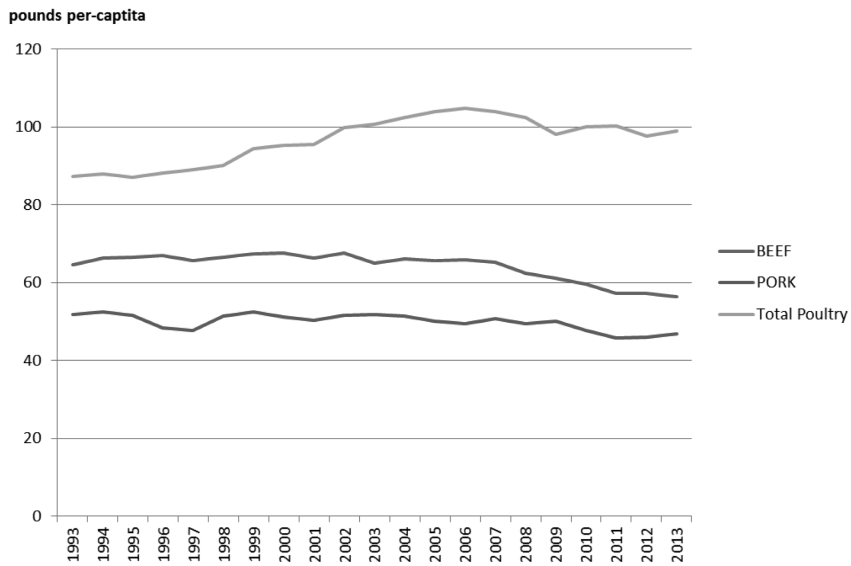
Animal and meat trade has become increasingly important for both U.S. consumers and producers. Live animal trade of both cattle and hogs from Canada including feeder pigs, has helped increase supplies, as have imports of processing grade beef. At the same time, U.S. meat exports have grown and remain strong despite current high prices. Trade in animals and meat products allows U.S. consumers to benefit from a larger pool of supplies as well as allow processors to sell specific cuts into markets where they are most valued meeting consumer demand at home and abroad. A broader market helps to reduce price swings in times of local market disruptions.

Question 4. Estimates show that per capita beef consumption is expected to drop more than 2.5 pounds in the coming year and trends are similar for the other major meat sources. How strong is the correlation between this drop in consumption and the rising cost of meat? Do you expect the industry work to curb these statistics, or will higher profit margins nullify the incentive to increase consumption levels?

Answer. In the short run, demand for meat in the United States is fairly inelastic, meaning U.S. consumers tend to be slow to respond to increases in meat prices, but will adjust over a longer period of time as well as make changes to types of meats they purchase. Beef demand has thus far remained surprisingly resilient, but continued high prices may eventually weigh on demand or cause a shift to lower priced beef cuts or reduced cut sizes. Processors have also turned to export markets where they have had some success in marketing fed beef product.

High feeder calf prices will eventually prompt herd expansion by cow-calf operators if profitability is sustained which will improve cattle availability at the feedlot and processor levels. Competition at each level of the industry will provide the necessary incentive to expand, however, the significant biological lags in bringing cattle to market and past economic performance in the cattle sector may make for a somewhat slower turn in cattle numbers. In the meantime, some parts of the sector will enjoy strong profits.

I expect the industry is concerned about driving away demand at the consumer level with current high prices, demand that may be difficult to win back in the future when cattle numbers increase. In addition, the industry is likely concerned with maintaining the necessary infrastructure in feedlots and processing facilities for an expanded herd.



Other meat prices have risen along with beef in part due to consumer shifts to other lower priced meats.

Question 5. Part of the U.S. Department of Agriculture's response to Porcine Epidemic Diarrhea Virus (PEDv) has been to deem it a reportable disease. Producers will be required to report instances of the disease associated with premises identification numbers (PIN). Please list what additional information will be required with each report, what information is generally associated with premise identification numbers, and what steps USDA is taking to ensure that this information is protected.

Answer. Reporting on PEDv and other swine enteric coronavirus diseases (SECD) began on June 5. If a herd is known to be affected with an SECD by a positive laboratory test, producers, veterinarians and laboratory personnel must report it to USDA or State animal health officials.

The report must contain the following:

- A premises identification number (PIN or alternate);
- Date the sample was collected;
- Type of unit being sampled (sow, nursery, finisher);
- Test methods used to make the diagnosis; and
- Diagnostic test results.

The premises identification number is a six-digit figure that points to a street address, including city, state, and ZIP Code, for a location.

USDA will use all available authorities to protect information it collects, and we will protect producer privacy to the fullest extent of the law.

Question 6. The packing sector has identified the May 24, 2013 Country-of-Origin Labeling rule-an attempt to bring the United States into compliance with its WTO obligations-as particularly onerous with respect to an efficient processing system benefitting producers, retailers, and consumers. If the WTO formally establishes that this rule has not brought the United States into compliance, will the Administration withdraw the rule until the issues surrounding Country-of-Origin Labeling have been resolved?

Answer. The U.S. Department of Agriculture (USDA) implemented regulations as directed by the COOL statute, which Canada and Mexico successfully challenged through the WTO dispute settlement process. On May 24, 2013, USDA amended those regulations to bring the United States into compliance with its WTO obligations. Canada and Mexico brought WTO compliance proceedings against the United

States arguing that the May 24, 2013, regulation did not bring the United States into compliance.

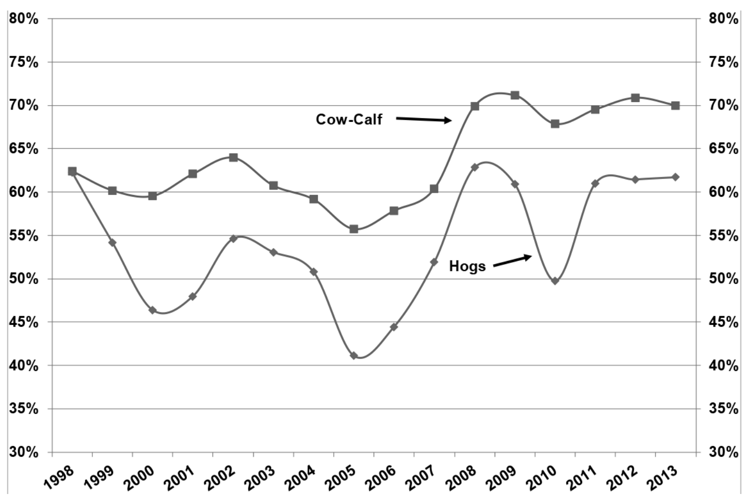
We expect a report of the panel to be circulated to WTO Members and made public later in 2014. Should the WTO ultimately find that the United States has not complied in this dispute, the Administration will certainly work with Congress, and interested stakeholders.

Questions Submitted by Hon. Collin C. Peterson, a Representative in Congress from Minnesota

Question 1. Is there a way to quantify which industry may have been impacted the most with the increase in corn prices? One of the witnesses on the next panel indicated that they believe that the livestock and poultry industry is the most impacted. Can you relate what you saw since 2009 in the various end-user markets for corn?

Answer. Feed costs are a large part of livestock and poultry operations. For example, roughly 81 percent of dairy production costs are feed costs; 62 percent of operating costs for a hog farm are feed costs; and about 70 percent of a cow-calf operation are feed costs. Those are up since 2007 due to the increase in prices for corn and soybeans.

Feed as a % of Total Operating Cost



By comparison, the farm share (including corn and soybeans) of the food dollar spent by consumers is currently about 17 percent. For some consumer items the farm share is higher or lower. For example, the farm share of cereal and bakery products peaked at about 25 percent in 1974 and is now only seven percent. Similarly, the farm share of fats and oils peaked in 1974 at 47 percent, but has fallen since, and now is only 20 percent of the food dollar spent by consumers.

These shares and the associated elasticity in these markets, the willingness of buyers to accept increases in price, and the price of competing offerings all impact market response. In the case of corn, the margins in production, be it beef or ethanol, will ration the supply of corn. If the processor is unable to pass on the increased corn cost, margins will narrow, and producers of beef or ethanol will respond by reducing output.

In the short run, livestock producers may have limited ability to reduce grain purchases as they feed existing animals on hand despite margin reductions.

Question 2. Dr. Glauber, as you are well aware, feed costs are of critical concern to the livestock industry. Can you discuss the volatility in the market and some of the reasons for those movements? Among this group there has been significant focus on the corn market so could you also discuss that market separately?

Answer. Corn ethanol production increased dramatically over the past decade, from just over 2 billion gallons in 2002 to almost 14 billion gallons in 2011. Driven by a combination of favorable market forces and government biofuel policies, including the RFS, the increase has spurred corn production and corn use for ethanol and has been one of the factors in the recent grain price boom and overall improvements in farm balance sheets including record farm incomes over the past few years.

Strong demand for agricultural commodities, combined with global supply shortfalls, have reduced global stocks and increased price volatility. We have seen three price spikes since 2006. Moreover, driven in part by tight feed supplies and high feed costs, low operating margins have characterized the livestock, dairy and poultry industry over the past few years. Corn ethanol production has been a factor; however, the rise in commodity prices over the past few years has been due to a variety of factors, such as increasing global demand, key production shortfalls due to droughts, as well as increasing energy prices.

Looking forward, with corn use for ethanol slowing due to constraints on domestic ethanol consumption (the so-called "blend wall") and prospects for record corn and soybean harvests this fall, it is anticipated that stock levels will rise and prices will moderate, which should lead to stronger profits in the livestock and dairy sectors. The outlook over the next 10 years calls for moderate productivity growth and flat to declining real prices for commodities.

Question 3. You indicate that higher feed costs have had an impact on the livestock sector. Can you lay out which factors you believe are most responsible for those higher feed costs among the various factors of weather impact on production, export demand and other domestic uses such as ethanol, that have led to higher crop commodity prices?

Answer. As mentioned above, corn ethanol production increased dramatically over the past decade. That increase has spurred corn production and corn use for ethanol and has been one of the factors contributing to higher feed grain prices. However, I also mention that the rise in commodity prices (and consequently feed prices) over the past few years has been due to other factors, such as increasing global grain demand, key production shortfalls due to droughts, as well as increasing energy prices.

In particular the 2012 drought pushed livestock feed prices to historic highs. With the highest plantings since 1937 and expectations of record yields due to early planting progress, expectations in May 2012 suggested a record crop of 14.8 billion bushels of corn. The drought sharply reduced yields and harvested acreage. Final production estimates were over 4 billion bushels less than what had been expected in May.

Soybean prices rose in early 2012 due to poor crops harvested in Brazil and Argentina in the winter and early spring. The drought pushed soybean farm prices to record highs in the United States, where they reached $16.30 per bushel in September 2012. Lower production and higher prices saw estimated soybean crush for 2012/13 reduced to 1.6 billion bushels, down three percent from May 2012 projections.

Hay production in 2012 was estimated at 120 million tons, down 8.6 percent from 2011 levels and the lowest yield since 1976. Yields were down across the country except in the South where moisture was more readily available when compared to 2011. Hay stocks as of December 1, 2012, were at their lowest level since 1957.

Those increases were particularly difficult on producers in the Southern Plains due to the persistent drought in that region since 2011, which have degraded pasture conditions and left cattle producers in those areas reliant on purchased livestock feeds. Since the start of 2011, the cattle and calves inventory has declined by almost five million head, with almost 65 percent of those losses occurring in the drought-affected states of Texas and Oklahoma.

The increase of feed prices due to the 2012 drought significantly increased livestock feed costs. That increase in feed costs can be seen in the expenditures on purchased feed expenses in 2012 and 2013 (about $60 billion per year), which were about 20 percent higher than the 2011 and 2014 average (about $48 billion). Data available from USDA (2014).

Question 4. There is obviously concern in the livestock and poultry sectors about the impact of renewable fuels; can you talk about the interaction with dried distillers grains from ethanol production and the livestock/poultry sector as well as the interaction between soybean meal and oil prices and biodiesel?

Answer. Dried distillers grains with soluables (or DDGS) is a co-product in the production of ethanol in a dry-mill facility and a high value animal feed that has seen rapid expansion in use and export as ethanol production has expanded. Dry-mill facilities represent roughly 80–90% of ethanol productive capacity and have been the primary source of growth in the sector over the last decade. For every bushel of corn processed in one of these facilities, roughly ⅓ of the weight is output as DDGS. So while a significant volume of corn is absorbed by the ethanol industry, on the order of 5 billion bushels annually, a significant share of that volume returns as a high value livestock feed, mitigating upward pressure on feed prices.

However, the use and interactions in the feed market are more complex than a simple volume calculation may suggest. After a series of feeding trials and a period of adaptation, U.S. producers have integrated DDGS into domestic livestock, poultry and dairy rations. DDGS may be used to displace more than just corn in rations for some livestock species. For example, a portion of the DDGS displaces higher priced soybean meal in pork and poultry rations. Given their substitutability, prices for corn and DDGS often follow a similar pattern.

Soybean oil represents 50–65% of the vegetable oil and fats used to produce biodiesel in recent years. Therefore expansion of biodiesel increases the demand for soybean oil and increases its price. Soybean crush produces both soybean oil and soybean meal, used in animal rations. Greater demand for soybean oil increases the price crushers are willing to pay for soybeans and has a slight suppressing effect on soybean meal prices as supplies increase. However, the effect on soybean meal prices may be limited by the availability of other feedstocks such as palm oil or animal fats which don't produce a large volume of feed co-product.

Question 5. How much impact does the price of fossil fuels such as oil and natural gas, have on the livestock and poultry sectors?

Answer. Higher energy costs will affect a number of inputs directly (*e.g.,* higher oil and natural gas prices will make heating more expensive) and indirectly (*e.g.,* higher natural gas prices will increase fertilizer and irrigation costs and will lead to higher feed prices). While fuel and electricity costs are typically lower as a percentage of total operating costs on livestock or poultry operations compared to cropping operations, feed costs are a larger part of the overall operating costs for livestock and poultry farms. In general an increase in direct and indirect costs due to higher energy prices will lead to a reduction in net farm income for livestock and poultry farms, but by less than the percent increase in fuel prices. A higher price of energy would affect beef cattle and dairy operations more than hog and poultry operations. For more details see USDA–ERS (2011) "Impacts of Higher Energy Prices on Agriculture and Rural Economies," Economic Research Report No. 123 (August; available online at *http://www.ers.usda.gov/publications/err-economic-research-report/err123.aspx#.U9-YSqP1uVo*).

Question 6. If the RFS was revoked today, what would be the impact on demand for corn over the next 5 years? What do you estimate the price of corn would be?

Answer. In 2008, my office was asked to examine the impact of biofuels on food prices and in testimony before the Senate Energy Committee I reported our findings that increased ethanol production accounted for about 30 percent of the increase in corn prices over 2007 to 2008 accounting for the increased production needed to meet the rise in ethanol production (Glauber, 2008). More recently, the increase in U.S. ethanol production was estimated to account for about 36 percent of the increase in corn prices over the period from 2006 to 2009 (see Babcock and Fabiosa, 2011). They argue that high energy prices accounted for the majority of the impetus behind expanded ethanol production.

Last year I spoke to the House Committee on Energy and Commerce about the RFS (Glauber, 2013). I noted that many analyses of the 2012 waiver petitions found the likely impact of a short-term waiver was found to be small (see Babcock, 2012; and Irwin and Good, 2012; and EPRINC 2012). At the time, researchers cited the need to stockpile production credits as a compliance strategy for the blend wall, the importance of ethanol as octane enhancer, and the current prices of ethanol and gasoline, which favor blending ethanol.

However, the impact of a longer-term waiver, such as suggested by your question, would likely depend on energy prices. So long as ethanol is priced less than gasoline, it is unlikely that there will be much reduction in ethanol usage from current levels. Most studies that examined a longer term waiver on mandates forecasted a larger impact on corn ethanol production than under a short-term waiver (see for example, FAPRI, 2013). That is because ethanol is a much lower cost gasoline volume extender and source of octane than refinery sourced butane, reformante and alkylate.Therefore, most researchers have concluded it is unlikely that at current prices ethanol production and consumption would fall much lower than the amount of ethanol necessary for E10, or about 13.4 billion gallons.

For example, CBO (2014) recently examined a full repeal of the RFS in 2017 and found that ethanol consumption would likely be between 13 and 14 billion gallons. CBO notes that the long-term effects of a full repeal could be greater, depending on oil prices and other factors. BO also found under a full repeal of the RFS relative to full implementation in 2017, corn prices could be about 25¢ lower per bushel. They do not find much difference in corn prices comparing the proposed RFS volumes (from the 2014 proposed rule) to a complete repeal of the RFS. Those findings are consistent with a recent Iowa State study (Babcock and Zhou, 2013) that find that the levels of usage in EPA proposed rule for 2014 would result in corn prices that were about 24¢ lower than under the statutory levels of ethanol usage.

USDA forecasts that corn use for ethanol will remain relatively constant over the next 5 years, settling between 5 and 5.1 billion bushels, or between 13 and 14 billion gallons of ethanol production. When the final rule for 2014 volumes is promulgated, it is unlikely that a resulting level of ethanol consumption that is somewhere between the proposed volumes and the statutory volumes would change USDA's projection much for the short-run. Currently, we project farmgate corn prices to fall between $3.35/bu to $3.75/bu over the next 5 years. Any adjustment in our projected corn prices as a result of the 2014 final rule would likely be minimal relative to any price effects we would expect from normal year-to-year variability in weather. Similarly, based on CBO and Iowa State research we would expect that a full repeal of the RFS to have little effect on our baseline projections of corn prices given the likelihood that ethanol consumption would remain in the 13 to 14 billion gallon range.

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