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Thank you, Mr. Chairman and Mr. Cardoza for the opportunity to speak today about the state of the U.S. beef industry. By way of background, I personally am from a family that is in its third generation of ranching land outside of Brady, Texas that we have owned for more than a century. I have worked at Cargill for 32 years, all of it focused on various segments of the beef sector. I currently oversee the procurement of the cattle for our fed cattle operations.

Background on Packing Industry

Cargill currently operates five fed cattle beef processing operations in the U.S. and two in Canada. In the U.S., we employ about 12,000 people who process about 25,000 head of cattle daily in order to serve consumers around the world.

Our facilities average about 2200 employees -- each responsible for ensuring safe food. We operate three shifts, two for production and one for sanitation and equipment maintenance. Each facility is divided into four parts: animal handling; harvest; fabrication; and shipping. All of our plants are located in small, rural communities.

Beef processing is a capital intensive business. A beef plant that accommodates 4,500 of cattle daily would cost about $300 million to build today, and would require about $75 million in annual working capital to operate. We typically invest approximately $50 million in new capital in our beef business every year, with most going toward food safety innovations, environmental protection, employee safety, product technology, and serving our customers. As you might imagine, the financial barrier to entry is huge, and simply keeping plants operating in a time of increasingly tight cattle supplies only compounds the problem.

This is a complex business. During the last 25 years, we have increased our carcass segregation system from just 4 sorts to today's 32 different grades and brands, and our product offerings have increased from 300 to 3,800, all in an effort to better serve our customers and to maximize the value for each and every part of the animal.

Due to high fixed costs, beef processing margins are tightly linked to our ability to process as many cattle as possible for maximum utilization. Of course this is tied to the supply of cattle available to process. As cattle numbers tighten, as they have been over the last several decades the packing industry often faces an over capacity situation. The negative packing margins from 2004 to 2007 caused two large packing plants to close. With the ensuing "right sizing" of capacity, margins improved until mid-2010. But we're headed back in the same direction. The tightest cattle supply since 1950 now leaves us with about a 7% to 10% over capacity problem that will continue to grow as herds decline.

Additionally, the rising costs to produce beef come from the critical inputs along the beef chain; grain and energy, labor and increased regulatory costs are taking their toll. I am highlighting the costs and the regulatory points because they have huge influences on the structure, evolution, and health of the industry as well as its ability to compete on a global basis.

The beef packing industry is one of the most heavily regulated industries in the world. My colleagues and I deal with USDA's FSIS, GIPSA, AMS, APHIS, FNS; the FDA, EPA, DOJ, and FTC; we also work with the Labor Department's Wage and Hour and OSHA agencies; we work with Homeland Security's ICE and Customs agencies. That's 13 agencies – not including state and local agencies. So naturally with this kind of oversight – as valuable as much of it is – we nonetheless have an environment of additional financial stresses.

Opportunity

There are some real growth opportunities out there for the beef industry, and then I want to talk a little bit about how government policy has us on the verge of squandering it.

First -- the opportunity. It is critical that we focus on three themes: quality and consistency, efficiency, and trade.

All three of these themes have a common link – it is the critical relationship between the rancher, feeder, and the packer. In order to find success, we have to bring the links closer together, not farther apart as some would like to see.

<u>Quality and Consistency:</u> Quality and consistency mean that beef has to taste good and look good on a plate; that it is nutritious; and that consumers can trust that we have been responsible in our food safety mission. In cooperation with ranchers and feeders, Cargill has developed a program called "Ranchers Reserve." The program is all about raising certain kind of cattle in a certain kind of way, on a certain kind of diet, and processing them with a certain kind of technology so that they can fit into a higher value branded beef program with certain kinds of parameters. This program has been very successful, even lauded in two Harvard Business Review studies as an example of increasing efficiency to produce beef while providing

a branded beef solution. This kind of producer partnership has enabled us to serve some major retailers with nearly 100 percent of their beef case. This is the kind of innovation that will deliver future success.

Efficiency: Efficiency is all about having a system that from ranch to consumer is managed in ways that keep beef affordable next to chicken and pork in the meat case. As discussed earlier the cost to produce beef from the ranch through the packer continues to rise. As costs rise it is more important than ever that the segments of the beef industry work together to increase chain efficiencies. As noted earlier – the declining calf herd is maybe the most critical enemy of efficiency we face today.

Trade: Nowhere is trade expansion more critical than with beef. And it always amazes me that some in our industry are against more open trade. We operate essentially a disassembly business. And profitability means finding the best, highest value market for every individual part of the animal. To illustrate the case, last week we pulled together a list of 7 beef products that are not traditionally in high demand in North America – things like tongue and liver. The market prices last week said that all combined, the products were worth $91.65 per head in export markets. The same products were worth $28.39 per head in the North American market. We can show this example over and over.

As global population approaches 8 billion by 2020, and per capita GDP growth accelerates, there will be increased demand for protein including beef. There's no better picture of this than China where meat consumption has grown by 600 percent per capita in the last 30 years. Since 1998 beef consumption has increased 30 percent per capita.

The challenge is for the U.S. to win the business – and that is not at all a certainty. Brazil's herd is now double that of the U.S. But the U.S. has until about 2004 maintained a production edge because of its higher carcass weights, but that is now at par with South America. While Brazil's production numbers are growing, North America is in a flat holding pattern, to slightly declining. While the U.S. was locked out of many of our foreign markets after the BSE situation, Brazil was able to win a lot of new export business – and it is hard to regain lost ground. Our challenge today is whether the beef industry will have the opportunity to capture this growing global demand for protein – and the only way to do it is to grow market access through free trade agreements.

A Critical Challenge

I would like to now turn to what I believe to be the single greatest policy threat to the U.S. livestock and meat sector in my 32 years in the business. You have no doubt by now heard about regulations proposed by USDA that would establish strict new requirements in the marketing of livestock and poultry. One of the most critical is a concept that would make it easier for parties to sue packers for price discrimination and jury-awarded damages in federal courts. This exact proposal has been ruled against by 8 different federal appellate courts, and even considered for hearing by the Supreme Court – and rejected. Any final rule that includes these provisions will be beyond chilling in the marketplace.

This same kind of law passed in the state of Missouri in the spring of 1999. Implemented May 29, 2001, the impact on producers was immediate and severe as packers overnight shifted to purchasing on only the most basic formulas – rather than value-added or premium programs. The law remained in effect for four short months until the legislature repealed it in a special legislative session. Some of the implications of the GIPSA proposal are virtually identical to the provisions of the Missouri law.

We have extrapolated from a study done by Dr. Ron Plain at the University of Missouri, the impact of this law on a U.S. national basis.

Swine: During the implementation of the law in Missouri market hog prices dropped by 4.4%. The total cost to Missouri swine producers for the time the law was in effect was roughly $2.7 million for the five month period. If we use only a 2% impact on a nation-wide basis, the result would be an impact of $424 million annually for pork producers.

Cattle: In Missouri there was a 2% negative impact on cattle prices. When applied to today's cattle supply the 2% discount represents an annual loss for cattle producers of $840 million.

Altogether, total losses for U.S. market hog and cattle producers alone should be expected to be at least $1.264 billion per year. This does not include losses that would be suffered by our brands.

As I said, this is the single greatest policy threat I have seen in my career.

Closing

In summary, these are challenging times in the beef sector. There are avenues to better returns and industry growth – trade being the most important, and there are some policy options that take us in another direction. I hope it will be the former.