Tyson Foods, Inc.

Statement By

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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 FY 13 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 five 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 FY 13 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 Diarrhoea (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 cattle growing 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 nontariff 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.