House Agriculture Committee Hearing:
An Examination of Price Discrepancies, Transparency, and Alleged Unfair Practices in Cattle Markets
April 27, 2022

Testimony of Gilles Stockton
Northern Plains Resource Council
Western Organization of Resource Councils
Montana Cattlemen's Association

Mr. Chairman and members of the Committee, thank you for the opportunity to address you today on the urgent issue of price discrepancies, transparency, and unfair practices in our cattle markets.

My name is Gilles Stockton. I raise sheep and cattle near Grass Range Montana. Today, I am representing the Northern Plains Resource Council, the Western Organization of Resource Councils, and the Montana Cattlemen's Association, organizations that work to preserve family agriculture and the rural communities upon which we depend. I took over the family ranch from my parents in 1975, the same year that I graduated from Montana State University with a Masters Degree in Animal Science.

When my wife and I started ranching in 1975 we had no assets except for our degrees. We were fortunate to have support from my parents and a loan from the Farmers Home Administration. It was not easy but we were able to make it work. In 2022, a young couple starting with the situation that we had would find it impossible to make a living in production agriculture. The economic reality simply does not allow it. We are losing an entire generation of farmers and ranchers, the people upon which many of our Montana communities are built.

In 1975, 25% of the beef packing industry was controlled by four firms. Today, approximately 85% of the beef packing industry is controlled by four firms. This corporate concentration is underlying and shaping the economic reality that prevents farmers and ranchers from thriving. Monopoly power extracts wealth from rural communities and takes a larger share of the retail dollar away from producers like me. From 2012-2017, in Fergus County, Montana, where I am from and the number one cattle-producing county in the state, we have seen devastating losses. In these five years, our county reported a 14% decline in market value of products sold per farm, and a 54% decline of net cash farm income per farm. In my community of Grass Range, I've seen this play out as a main street which now has only one functional business.

[1] https://www.r-calfusa.com/wp-content/uploads/2022/03/220331-cattlemarkets.pdf
[2] https://www.card.iastate.edu/products/publications/pdf/21wp630.pdf

In 1975, the farm to retail price spread for beef was 71.3%. That means for each $1 spent on beef at the grocery store, 71.3 cents made it back into the pockets of ranchers and cattle feeders. We spent that money in our communities, at truck dealers and farm suppliers, restaurants and grocery stores. In 2021, that spread is just 36.5%. This means that ranchers and feeders have lost half of the value of the beef that we raise, to the packing and retail cartels that have come to dominate the beef industry over the course of my lifetime as a rancher. Our profit share declined, and consumers pay higher prices for beef.

I carry with me in my own experience over five decades. For example, in 1979, I purchased a one-ton four-wheel drive truck with the proceeds of selling 18 steer calves. The equivalent truck today would cost me 59 steer calves. No wonder our local businesses have not survived.

That share of the beef dollar we've lost does not come back to me and my fellow ranchers, or my community. Marginal rises in prices for cattle, if appearing at all, are seasonal and volatile at best, and cannot be relied upon for feeders and ranchers who struggle to make ends meet and cannot be guaranteed a fair shake at date of sale.

I do not want you to get the impression that I am looking for sympathy, far from it. I have had a wonderful life, working in an occupation that I love. I have had experiences as a routine part of my day, that many people can just dream of. I have been blessed, to have two wonderful women, willing to put up with me. My first wife passed away in 2003. Between us, we have three sons, one of whom has volunteered to look after my sheep, which are currently having their lambs. Without his help, I could not be here today.

My concern is for my community, the future of agriculture, and the future of food security for this nation. My community of Grass Range has over the course of my life as a rancher dried up and blown away like a tumble weed.

There is no part of the U.S. agricultural system that is not harmed by monopoly corporate power, but the beef sector and its experience during the pandemic may be the example of this that is most visible today. The disruptions during the pandemic revealed how vulnerable of beef and pork supply chain is. The lack of basic protections for workers that contributed to rampant illness in the packing plants slowed the processing of cattle with the result of empty shelves in the meat counter. Ranchers like myself and my neighbors were suddenly unable to sell our cattle, and were left desperately scrambling to find a buyer. Many could only find a "take it or leave it" price that was far below our cost. Prices to consumers skyrocketed, when they could find beef on the shelf at all. And the big four packers profited from buying cattle for less and selling beef for more.

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The packers have said that this is all about supply and demand, but it is also about having our entire meat production system funneled through a very narrow bottle neck, where a few big packers can exploit both producers and consumers.

The big four packers exercise their concentrated market power to maximize their profits through the use of captive supplies: cattle that packers either own outright or have a commitment for delivery through formula contracts which are also called Alternative Marketing Arrangements or AMAs. Most of the remaining purchases are made on the cash market, referred to as the negotiated spot market.

These captive supplies, which at times amount to three-quarters of the market, allow for packer price manipulation. When cattle are sold in an open, public market with multiple buyers on a level playing field, the competitive bidding results in "price discovery" that reaches a sale price that reflects the true value. Even smaller buyers will bid on many more cattle than they ultimately purchase, and are therefore important competitors to even the largest packers. Use of captive supplies also allows packers to offer sweetheart deals to select ranchers and feeders. Prices to these operators have declined over time as well, but they make incrementally more than independent ranchers and feeders, who often face uncertainty over whether they will be able to sell their cattle at all.

As increasing amounts of cattle are sold outside of an open market, prices decline. For every 1% increase in the level of captive supply, there is a 5.9% decrease in the price of cattle according to a study by Nathan Miller et al of Georgetown University[1]. With captive supply levels now approaching 80% of all fed cattle, you can readily see how much ranchers and feeders are losing in this rigged market system. Another study, this case from Iowa State University shows that the big four packers are leveraging their power across multiple plants, further eroding true price discovery in the cattle market[2].

The effect of captive supplies on U.S. cattle markets was demonstrated in 2003, when mad cow disease was detected in Canada, and imports of Canadian live cattle to the U.S. were banned. Canadian imports made up less than five percent of the U.S. slaughter at the time, and were all captive supplies. Within months of the Canadian border closure, U.S. fed cattle prices jumped an unprecedented $26 per cwt, or about $325 per head.

Last summer in a Senate Ag Committee hearing, Senator Grassley of Iowa revealed that packers were making over $1000 per head profits, for owning the cattle for just a few days. Ranchers and feeders were losing money on each head raised, and consumers were paying more.

What to do? Actually, it is not that complicated, and the solutions can be executed through this committee.

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The first solution is mandatory Country of Origin Labelling. Meatpackers oppose COOL because they don't think consumers should have the right to know where their beef comes from, and they want to be able to use international livestock trade to help keep the prices they pay producers low. With other markets food and manufactured items, consumers are able to exercise choice on where purchases are sourced, except for beef and pork. Consumers overwhelmingly support mandatory Country of Origin Labeling or COOL, and demonstrated that they are willing to pay more for U.S. beef and pork when COOL was fully in effect between 2013 and 2016. Consumer demand for U.S. beef and cattle prices increased. Unfortunately, after an adverse WTO ruling, Congress repealed COOL in 2015, before the dispute process had been completed, but it is still possible to negotiate a settlement that will allow mandatory COOL to be reinstated by passing the American Beef Labeling Act. We thank Rep. Gooden (TX-5) and Rep. Khanna for sponsoring this bill.H.R. 7291 will once again give consumers the ability to know where their beef comes from, which is a prerequisite in order to reignite competition at the retail level, and for cattle producers to have a fair and transparent market.

The second policy that's needed is require that the beef packers purchase their cattle in a competitive and transparent marketplace that they neither own nor control. USDA can do this through rules under the Packers and Stockyards Act, or Congress can do so by strengthening amendments to the Act to require this free enterprise approach to anti-trust enforcement. In fact, your colleagues from a century ago used this method to restore competition to the cattle industry. It is really just that simple. In order to have a market that works for producers, packers, and consumers you need to pass the two following provisions, as included in the Captive Supply Reform Act of 2007, which was sponsored by Senators Enzi and Tester:

1. That all forward contracts and alternative marketing agreements for slaughter livestock be offered or bid in an open, public market and contain a fixed base price (one that can be equated with a specific dollar amount on the day the contract is entered).

2. That all livestock owned and fed by packers more than 14 days before slaughter be sold through an open, public market.

The Cattle Price Discovery and Transparency Act, currently being considered in the Senate, is a step forward to increase the percentage of cattle purchased on the cash market, but falls short in restoring competition to cattle markets.

Creating a fair, open, and competitive marketplace for cattle producers is important because our food and economic security depend on it. We must act now for ourselves and future generations. As states across the West, including Montana, are dealing with a megadrought, wildfires, and economic devastation, we don't have time for baby steps and false solutions. We need bold and

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transformative change. Mr Chairman, I urge you and the Committee to pass the American Beef Labeling Act and reintroduce and pass the Captive Supply Reform Act.

Thank you for the opportunity to speak to these issues.

Member, Northern Plains Resource Council
President, Montana Cattlemen's Association

Attachments:

1. *Country of Origin Labeling: Restoring Power to the People*, Northern Plains Resource Council, 2018

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Committee on Agriculture
U.S. House of Representatives
Information Required From Nongovernmental Witnesses

House rules require nongovernmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. **Name:** Gilles Stockton

2. **Organization you represent:** Northern Plains Resource Council and the Montana Cattlemen's Association

3. **Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:** I have owned and operated the Stockton Ranch of Grass Range Montana for the past 47 years. In addition, I have fulfilled consulting contracts for a number of international devolvement agencies in Africa and the Middle East concerning the marketing of livestock and economic development of pastoral peoples.

4. **Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:** I hold a Masters of Science Degree in Animal Science. In addition, I have devoted a considerable amount of time and energy in studying and advocating for a fair, transparent, and competitive market for cattle producers.

5. **If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:** Current President of the Montana Cattlemen's Association. Past Chair of the Northern Plains Resource Council Agricultural Taskforce.

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.

Truth in Testimony Disclosure Form

In accordance with Rule XI, clause 2(g)(5)* of the *Rules of the House of Representatives*, witnesses are asked to disclose the following information. Please complete this form electronically by filling in the provided blanks.

Committee: Agriculture

Subcommittee:

Hearing Date: 04/27/2022

Hearing Subject :

Review of Beef Markets

Witness Name: Gilles Stockton

Position/Title: Pres. Montana Cattlemen's Association, rep. of Northern Plains Resorce Council

Witness Type: ○ Governmental ● Non-governmental

Are you representing yourself or an organization? ○ Self ● Organization

If you are representing an organization, please list what entity or entities you are representing:

Montana Cattlemen's Association, Northern Plains Resource Council, and Western Organization of Resource Councils

FOR WITNESSES APPEARING IN A NON-GOVERNMENTAL CAPACITY

Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.

Are you a fiduciary—including, but not limited to, a director, officer, advisor, or resident agent—of any organization or entity that has an interest in the subject matter of the hearing? If so, please list the name of the organization(s) or entities.

President of Montana Cattlemen's Association

Please list any federal grants or contracts (including subgrants or subcontracts) related to the hearing's subject matter that you, the organization(s) you represent, or entities for which you serve as a fiduciary have received in the past thirty-six months from the date of the hearing. Include the source and amount of each grant or contract.

none

Please list any contracts, grants, or payments originating with a foreign government and related to the hearing's subject that you, the organization(s) you represent, or entities for which you serve as a fiduciary have received in the past thirty-six months from the date of the hearing. Include the amount and country of origin of each contract or payment.

none

Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.

☑ I have attached a written statement of proposed testimony.

☑ I have attached my curriculum vitae or biography.

*Rule XI, clause 2(g)(5), of the U.S. House of Representatives provides:

(5)(A) Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof.

(B) In the case of a witness appearing in a non-governmental capacity, a written statement of proposed testimony shall include— (i) a curriculum vitae; (ii) a disclosure of any Federal grants or contracts, or contracts, grants, or payments originating with a foreign government, received during the past 36 months by the witness or by an entity represented by the witness and related to the subject matter of the hearing; and (iii) a disclosure of whether the witness is a fiduciary (including, but not limited to, a director, officer, advisor, or resident agent) of any organization or entity that has an interest in the subject matter of the hearing.

(C) The disclosure referred to in subdivision (B)(iii) shall include— (i) the amount and source of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) related to the subject matter of the hearing; and (ii) the amount and country of origin of any payment or contract related to the subject matter of the hearing originating with a foreign government.

(D) Such statements, with appropriate redactions to protect the privacy or security of the witness, shall be made publicly available in electronic form 24 hours before the witness appears to the extent practicable, but not later than one day after the witness appears.