Beltway Beef

National Cattlemen's Beef Association

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Beltway Beef is a weekly report from Washington, D.C., giving an up-to-date summary of top policy initiatives concerning the cattle industry; direct from the National Cattlemen's Beef Association (NCBA). Please feel free to reprint in full or in part. If you would like to include NCBA's logo, contact us at 303-694-0305.

Cattlemen's Capitol Concerns

NCBA Supports Efforts to Block Funding of EPA Regulations

The National Cattlemen's Beef Association (NCBA) President Bill Donald said it is encouraging that there is a growing chorus of opposition to the regulations being proposed by the Environmental Protection Agency (EPA) that would have harmful effects on U.S. cattlemen and women. Specifically, Donald said members of the U.S. House of Representatives offered amendments to H.R. 1, legislation to fund the federal government through the end of this fiscal year that would block funding for many of the onerous regulatory proposals at EPA.

"This EPA does not seem to have any understanding of production agriculture and our way of life. Sometimes it seems they are trying to turn all of our nation's farm and ranch lands into one vast national park," Donald said. "It is disappointing we are in this situation, but it is reassuring that members of the House of Representatives have listened to cattle producers' concerns and are working to rein in the EPA."

NCBA President Bill Donald on his ranch in Melville, Mont.

Donald said U.S. Representative Kristi Noem (R-SD) offered an amendment to H.R. 1 to block funding to the EPA regulate dust. He said if EPA moves forward with a proposed rule to regulate coarse particulate matter (dust) at levels twice as stringent as the current standard, or as low as 65-85 μg/m^3, farmers and ranchers could be fined for driving down a dirt road, moving cattle, tilling a field or planting and harvesting crops.

NCBA also supports amendments offered by Representatives Bob Goodlatte (R-Va.) and Tom Rooney (R-Fla.) to block funding to EPA to implement its Total Maximum Daily Load (TMDL) rule for the Chesapeake Bay and its numeric nutrient criteria rule for the State of Florida.

"The EPA has gone on a regulatory rampage over the past year, and it's time they were stopped," Donald said. "Many of the regulations the agency has proposed are not based on science and would negatively affect farmers and ranchers without providing benefit to the environment. We are glad these elected officials have stood up for farmers and ranchers. We just wish EPA would follow suit."

NCBA Supports Changes to CME Feeder Index

The National Cattlemen's Beef Association (NCBA) passed new policy at the organization's convention, supporting changes in the Chicago Mercantile Exchange (CME) Feeder Cattle Index. This policy comes as the CME announced that it may increase cattle weights used to compute the Feeder Cattle Index to reflect that steers are entering the feedlot at heavier weights. Specifically, the membership of NCBA wants to see the removal of steer cattle weighing 650 pounds to 699 pounds from the calculation of the CME Feeder Cattle Index. At the same time, the producer members of NCBA supports the inclusion of steers weighing 850 pounds to 899 pounds in the calculation. NCBA Chief Economist Gregg Doud said the logic behind recommending these changes to the CME Feeder Cattle Index is relatively simple.

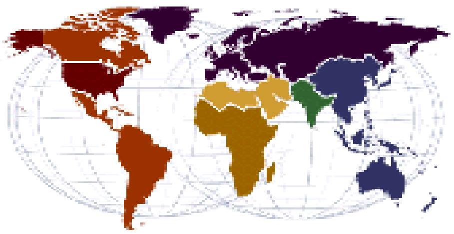
"We are in an environment where corn prices are near a record high, partially fueled by the ethanol mandates and subsidies," said Doud. "As a result, weight placements in feedlots have increased because steers are staying on grass or wheat pasture for longer periods of time."

Doud said the way the feeder index is currently calculated misses heavier weighing cattle in the index, which is used to settle CME's futures contracts at the end of each month. He said with the maximum index weight ending at 849 pounds, cattle weighing right at 850 pounds or higher are missed entirely.

Doud said these adjustments will better reflect the reality of the marketplace.

NCBA Tells President it's Time to Finalize Panama, Colombia Trade Agreements

The National Cattlemen's Beef Association (NCBA) joined with nearly 50 other organizations representing U.S. agricultural producers to urge President Obama to finalize the pending trade agreements with Panama and Colombia as quickly as possible. According to the letter, many of the groups, including NCBA, have supported these agreements for more than four years. However, the letter says that trade benefits for U.S. farmers, ranchers and food processors have been forfeited by our inaction on these agreements and that our trade competitors have taken advantage of this lapse to grab U.S. market shares.



According to the letter, "each agreement will provide important new market access benefits to U.S. food and agricultural exports that will in turn create U.S. jobs and strengthen rural economies."

The U.S.-Colombia Free Trade Agreement is one of the best negotiated free trade agreements to date. Currently, prime and choice cuts of U.S. beef and beef products face a massive 80-percent tariff. Upon ratification of this agreement, that tariff would be immediately eliminated and tariffs on all other beef and beef products would be eliminated over 15 years. Additionally, Colombia has committed to recognize the U.S. meat inspection systems as "equivalent" to its own, thereby allowing imports from facilities approved by USDA.

With regard to Panama, immediately after ratification of the agreement, the 30-percent tariff on high-quality cuts of beef would be eliminated and duties on all other cuts would be phased out over 15 years.

The letter states that Colombia is on the verge of implementing trade agreements with Canada and the European Union. It also points out that other major agricultural exporting countries, including Argentina and Brazil, have preferential access to that market.

"How can the President say he wants to double exports in five years yet not take any real action on Panama and Colombia?" Kent Bacus, NCBA manager of legislative affairs said. "The clock is ticking. We can't afford to continue sitting on the sidelines while our competitors negotiate trade agreements. Once again, we urge the administration to finalize these agreements and implement them as soon as possible."

Legislative Update

S. 228 – Defending America's Affordable Energy and Jobs Act
Prevents the Environmental Protection Agency (EPA) from regulating greenhouse gases (GHGs) without first obtaining specific congressional authorization; precludes legal action against sources of GHGs based only on the possibility of contributing to climate change; and doesn't preempt states from enacting GHG emission regulations.
NCBA urges a **YES** vote on S. 228.
Key Sponsor: Sen. John Barrasso (R-Wyo.)

U.S.-South Korea Free Trade Agreement (KORUS FTA)
Passage of the KORUS FTA would phase out South Korea's 40 percent tariff on beef imports, one of the highest in the world, with $15 million in tariff benefits for beef in the first year of the agreement alone and about $325 million in tariff reductions annually once fully implemented.
NCBA urges a **YES** vote on the KORUS FTA.

H.R. 509 / S. 249 – To amend the Endangered Species Act of 1973 to provide that Act shall not apply to any gray wolf
Summary: The gray wolf has been on the ESA since 1972. Since then, wolf populations have not only recovered, but grown to such considerable sizes that they are threatening wildlife and livestock. In order to give states the authority to manage wolf populations, this legislation removes Endangered Species Act (ESA) protections for gray wolves.
NCBA urges a **YES** vote on H.R. 509 / S. 249
Sponsors: Rep. Denny Rehberg (R-Mont.), Sen. Orrin Hatch (R-Utah)

New on the Web

Check out the Beltway Beef blog for inside perspectives on issues affecting U.S. cattlemen and women. This week's features include information on the Environmental Protection Agency's ongoing effort to regulate dust; the estate tax; cattle markets and more. You can also follow us on Twitter, be a fan of us on Facebook, check out our latest photos on Flickr or watch video updates on our YouTube page. For audio, visit and subscribe to the Beltway Beef Podcast. You can also subscribe to our podcast on iTunes.

Hang On for a Wild Ride in Cattle Markets

Just one year ago few could've imagined a cattle market like the one we're seeing today. Live cattle futures are trading at an all-time high of $120/cwt; feeder cattle futures are above $130; $7 corn; bred heifers trading from anywhere from $1500-$2000; and cull bulls fetching a buck a pound. Everywhere I turn, from cattlemen, to bankers and even other commodity analysts - folks are all wondering what all this means and what we're going to see next.

Gregg Doud is NCBA Chief Economist.

This confusion is being driven by a multitude of variables driving commodity markets so far in 2011, all of which seem to be pulling markets higher. Before this crop year ends, we're likely to see the tightest stocks-to-use ratios in history for both corn and soybeans. A miserable Black Sea region wheat crop last year coupled with China's seemingly insatiable need for U.S. soybeans; a looming disaster with the Chinese wheat crop and flooding in Australia are all working in conjunction with booming Asian economies and a weak dollar to drive prices higher.

In cattle, the February 2011 live cattle futures contract has experienced an unprecedented appreciation of $20/cwt since June. Exports have been the driving force behind the rally in cattle prices. Wholesale prices for chucks driven by Asian demand and rounds driven by Russian demand along with a drop credit and lean trim prices have wholesale beef cutout values hitting on nearly every cylinder. The only missing piece is domestic demand for middle meats (steaks), which can't seem to get a foothold due to high U.S. unemployment. Despite the fact that we're still missing roughly $1 billion in exports to China and Japan due to BSE related market access restrictions, the U.S. exported a record $4.08 billion in beef and beef variety meats in 2010. The most remarkable part of the export scene is that beef exports to Asia are significantly stronger at the beginning of 2011 than they were at this time last year. The reason for this was explained in the CME's Daily Livestock report of Feb.4, 2011, which pointed out that U.S. beef priced in Japanese Yen is actually 27 percent cheaper than it was in 2007.

This point holds true for all U.S. produced commodities, corn in particular. Futures prices are essentially GLOBAL prices for these commodities. The days of the wheat, corn, soybean hog and cattle prices being solely a reflection of the U.S. marketplace are long gone. U.S. end users need to be mindful of the fact that in Japanese Yen, U.S. corn is still relatively "cheap."

This "cheap" U.S. dollar also means that the U.S. is the market of last resort for Australian, New Zealand and Uruguay beef that mainly goes into the production of fast food hamburgers in the U.S.. This is why U.S. beef imports fell during the last half of 2010 to a point where we were a net beef exporter for the first time in history. It needs be noted that this lean "grinding" beef mainly comes from cull cows and bulls, of which there is a limited supply globally. In fact, we may already be seeing the next move up in these prices as cull cow slaughter has declined by 30 percent in 2011, in reaction to the market signaling potential for improved profitability for the cow-calf sector.

Such significant fundamental signals across a broad spectrum of commodities suggest that these cattle prices are not a bubble. Worldwide events in recent weeks all share a common thread – the demand for food and fuel. After cattle feeders lost $7 billion in equity during the previous jump in corn prices, it appears that the marketplace has figured out that cattle will not be placed into feedlots unless deferred live cattle futures provide the opportunity for profitability.

A well worn axiom often repeated by well known grain analyst, Bob Kohlmeyer of World Perspectives, is "the cure for high prices is high prices." Translation: farmers are amazingly good at producing more and they will do so when the market gives them the signal. As was the case three years ago, the market is signaling that it is time to push the production of food on this planet to its outer limits. Markets are doing what they should be doing at this time, signaling to producers that they want more.

Unfortunately, some prefer instead to suggest that the marketplace is somehow being distorted by market participants. My question to them is how else should this signal be sent? Will somehow controlling the price of food or speculators in the marketplace result in the production of more food?

The other role of the market, besides stimulation supply, is to ration demand when necessary. Right now, it appears that this could be its role in the months ahead of 2011 harvests in the northern hemisphere. I recall asking Bob Kohlmeyer once what price does it take to ration demand. His answer is one of my fondest memories of working with him: "A helluva lot higher price than you think it is!"

This answer foreshadows that margins and volatility are now of paramount importance. Suddenly "picking the high" has taken a backseat to managing the margin. A "cheaper" dollar also means more expensive fuel and fertilizer.

Arguably the most important person in this conversation is the banker. It is critical that bankers and bank regulators understand not only that increased risk and volatility has been injected into the system but also that when commodity and input prices rise 20 percent or more it also means that 20 percent more money is necessary just to do the same thing as the year before.

Amid all this current exuberance about price, the next obvious question is whether there are any "Black Swans" out there that could have the potential to alter the equation. Any response should include a discussion about pending state budget shortfalls in several key U.S. states. At the federal level, the critical nature of this nation's deficit cannot be overstated. We MUST get a handle on it. Fortunately, we finally appear to have a Congress that seems to be willing to run head long into this quagmire.

These are certainly exhilarating times for farmers, ranchers, and even us ag economists /commodity analyst types. No question about it. We're all going to need to hang on for the ride.

CattleFax Update

The fed cattle market was primarily sideways to softer to this week in the North as cattle went for mostly $106 live and $169-$171 on a dressed basis. Trade volumes there were moderate. Kansas traded at steady to $.50 better with prices there at $106 to $106.50. Boxed beef moved lower on the week as demand on middle meats remains sluggish. Trimming demand, on the other hand, remains stout. Feeder cattle and calf prices were even to as much as $2 in spite of adverse weather and higher corn prices. Slaughter cows were sharply higher, quoted up $5 to $8. Trade volumes were light because of the cold, wet weather gripping much of the country this week. Corn prices were sharply higher as the USDA issued an ending stocks report indicating there was less corn left in bins than earlier expected due in large part to more ethanol usage.

For recent market news and analysis, visit **www.CattleFax.com**.

Don't Miss Out on *NCBA's Cattlemen to Cattlemen!*

Don't miss *NCBA's Cattlemen to Cattlemen*, Feb. 22-26. Viewers will hear from experts at Boehringer Ingelheim Vetmedica, Inc. for tips on preventing clostridial disease. Additionally, Colorado Governor John Hickenlooper shares his thoughts with cattlemen at the 2011 Cattle Industry Convention and NCBA Trade Show.

NCBA's *Cattlemen to Cattlemen* debuts each Tuesday at 8:30 p.m. The show also airs Wednesday at 10:30 a.m. and on Saturday at 9 a.m. (all times are Eastern). Don't forget that you can also watch NCBA's Cattlemen to Cattlemen online anytime by visiting our website. Follow us on Twitter and become a fan on Facebook.

Your NCBA

Nominations are being accepted for the Beef Improvement Federation Commercial and Seedstock Producer of the Year Awards. Nominations are due on April 1, 2011. Each year the Beef Improvement Federation recognizes the top commercial and seedstock producers of the year at their annual convention. Nominations are accepted from BIF membership organizations only. If you know of an outstanding commercial or seedstock producer, contact your local Beef Cattle Improvement Association or Breed Association.

Visit www.beefimprovement.org for more information regarding this opportunity.

BEEF USA®

National Cattlemen's Beef Association

*The National Cattlemen's Beef Association (NCBA) has represented America's cattle producers since 1898, preserving the heritage and strength of the industry through education and public policy. As the largest association of cattle producers, NCBA works to create new markets and increase demand for beef. Efforts are made possible through membership contributions. To join, contact NCBA at 1-866-BEEF-USA or **membership@beef.org**.*