

International Perspectives

Packers and producers talk about challenges and opportunities facing the U.S. beef business.

by Eric Grant

Tremendous opportunities await the U.S. beef industry if it is willing to compete aggressively in export markets and deliver safe, high-quality products to U.S. consumers.

That was the message delivered by a panel of packers at the recent meeting of the International Livestock Congress (ILC), which convened in Denver, Colo., during the National Western Stock Show (NWSS).

Packers agreed that producers, feeders and packers must align themselves through information sharing to add value to beef and to improve consumer eating satisfaction.

“Clearly we’re in the business of producing a product that provides emotional and enjoyment benefits with consumers,” said panelist Norman Bessac, vice president for marketing and key account management for Cargill Meat Solutions. “We need a greater understanding of consumers so that we can deliver and grow demand for our products.”

Central to the industry’s ability to build market share will be its efforts to assure the safety and wholesomeness of its products, said packers.

Last year’s *E. coli* outbreak in spinach dealt a serious blow to that industry — and offered a lesson to cattle producers on how seriously they should take food safety.

“We need to try to get ahead of the game instead of reacting to it,” Bessac said. “Consumers want to know more information about our products. They want to know why their beef is safe and wholesome. They vote with their pocketbooks. They pay the bills. I realize that the things they’re asking us to do [are] almost like trying to change a tire as you run down the road at 70 miles per hour. But we have to do them.”

An important part of ensuring food safety is widespread usage of individual animal identification (ID), which allows information to be exchanged from one industry segment to others.

Panelist Mel Coleman Jr., chairman of Coleman Natural Meats, believes animal ID is an investment in the industry’s future simply because it bolsters consumer

confidence in beef — even if there aren’t many economic rewards right now for producers who use permanent ID systems.

“This is one of the areas where we’re behind in the export market,” Coleman said.

“We need a greater understanding of consumers so that we can deliver and grow demand for our products.”

— Norman Bessac

“Consequently, our competitors, like our friends down under, are marketing their products much more effectively than we are.

Animal ID is an investment that we need to make, especially as we align ourselves into building new brands. As we build consumer loyalty, we will get more of the margin that we’re due.”

A key opportunity created by effective food safety efforts is the stabilization of markets overseas for U.S. beef.

“Right now, we’re losing \$80 to \$100 a head that we enjoyed four or five years ago before our markets were closed down because of BSE,” said panelist Dean Danilson, vice president for food safety and quality assurance for Tyson Foods. “We all did the high fives when we opened up the markets in Japan and other countries, but they’re not coming back very fast. At one time, that \$80 went a long way in helping us develop new products and new markets, but we don’t have that margin right now, so we can’t go out and spend that money on new investments.”

Producers, population, packers

U.S. producers are fortunate they have access to the world’s greatest economy and wealthiest consumers at home, but 95% of the planet’s population is outside of U.S. borders.

One billion people entered the middle class around the world last year, said panelist Kevin Yost, Swift & Co.’s executive vice president for customers and supply chain.

Reaching these people with quality, safe products will be key to the industry future, he said.

“These people have the resources to

Export effects

Before the U.S. beef industry had its first confirmed case of bovine spongiform encephalopathy (BSE) in 2003, American producers were exporting product to 133 countries around the world.

After the disease was discovered, 82 countries immediately closed their borders to U.S. beef, said panelist Phil Seng, president and chief executive officer (CEO) of the U.S. Meat Export Federation (USMEF). Seng was part of a panel asked to provide an industry response to the earlier packer panel during the Jan. 9 International Livestock Congress (ILC) in Denver, Colo.

“It was a shock to the worldwide beef industry,” he said of the 2003 BSE incident.

Back then, export markets added about \$165 to \$190 for every head produced by U.S. producers. Thanks to the reopening of many export markets, that value is currently about \$100 per head.

“We were exporting about 1.2 million metric tons of product before BSE,” Seng said. “Today, we’re back to about 650,000 metric tons. We’re looking at 2009 before we restore our levels to those of 2003.”

Despite the challenges, the future looks bright for U.S. producers in the international marketplace.

“We’re seeing the world change from being a major consumer of cereals to becoming major consumers of protein,” Seng said. “About 85% of the protein produced in the world is now consumed outside of the United States. The growth for our industry is in the international marketplace. Yet the secret to our future is how well we cooperate with each other. This will determine how well we can compete in the years ahead.”

CONTINUED ON PAGE 212

consume protein that they didn't have before," Yost said. "They want to know that what they buy is healthy and wholesome, that it will eat well and that it will meet the needs that they have."

A key component to the export market is understanding the proliferation of consumer segments within the meat marketplace.

Some consumers want natural. Others want organic. Some want well-marbled, high-quality meat.

"There are many more consumer groups and segments out there than ever before,

each with its own individual needs," Bessac said. "We have to position ourselves to understand these markets, and to be able to deliver products to them reliably. This will require more information and more alignment among industry segments."

Part of the challenge of operating in a worldwide beef market will be securing a sufficient labor force to staff ranches, feedlots, packing plants and retail outlets.

"There's not a single person at this table who hasn't felt the effects of trying to find good, qualified people to help us produce

quality products," Bessac said. "We struggle every day to find people to staff our plants. This is the biggest hurdle we face."

The pressures on labor are especially acute today because retailers are pushing more labor demands back on packers, Bessac added. This means packers are more responsible than ever before for further processing carcasses, and preparing case-ready products for retail outlets.

"The retailers don't want to have the labor in their stores," Bessac explained.

Further processing by packers, he added, will make it more imperative producers work to ensure product quality and safety. "There are a lot of people out there who would love to make a story out of what we do wrong," he said. "One percent of us who aren't doing things right will affect all of us. We need to work with each other to grow consumption."

There's pressure not only to find labor, but also to open up new markets around the world that will result in a larger global footprint by the packing industry, Yost said.

"The world's largest cow herd is south of us in Brazil," Yost said. "In order for us to compete globally, we'll need to have operations in multiple countries around the world. Economies of scale will have to increase for us to reduce costs. We will have to be bigger to compete."

Yost predicted that as more consumer markets emerge both within the United States and abroad, there would be a proliferation of supply-chain partnerships that will involve all segments of beef production.

"We must get aligned if we're going to

To ID or not to ID?

One of the contentious issues at the Jan. 9 International Livestock Congress (ILC) in Denver, Colo., was whether the industry should have adopted a mandatory national animal identification (ID) program. In late 2006, the U.S. Department of Agriculture (USDA) opted for a voluntary, producer-driven system.

"A voluntary system is no system," said panelist Jim Warren, who owns 101 Livestock Market Inc. of Aromas, Calif. "We have to look to the consumer. If we want to produce a product that the consumer wants, then we would all be better off with a national ID system."

Warren's auction company became the first western U.S. livestock barn to install a USDA-approved Quality Systems Assessment (QSA) marketing program that verifies the cattle's source and age through animal ID technology.

"We went to the packer and asked them what they could sell best — and it was certified natural with source and age verification," he said. "This spring, about 85% of the cattle through our market will meet those specifications."

Panelist Warren Weibert, owner and operator of Decatur County Feed Yard, Oberlin, Kan., installed the Accu-Trac® system in 1994, which allows him to track the performance of individual cattle through his feedyard — and supply a steady stream of information to producers and packers alike.

"We wanted to align ourselves with a particular packer with specific goals," Weibert said. "A lot of what we've done is to share information that we develop with everyone involved in the system. We commingle a lot of cattle. We've looked at it from an economic-incentive approach, not a regulatory approach. It's built on cooperation and information sharing. If we continue to have adversarial relationships within this industry, then we are going to be forced against our will to do what we need to anyway because of international pressures."

Panelist David Hamilton, a cow-calf producer from Thedford, Neb., said he is relieved USDA decided against a mandatory ID program.

"I was very happy to see the ID system stay voluntary," he said. "Let the market send us the signals. Our ranch will individually identify cattle. And the premiums will tell us that this is what we need to do to compete."

"Change is constant. Growth is required. Misery is optional," he continued. "We're all in this together, and all of us need to communicate to get along."

**"Change is constant.
Growth is required.
Misery is optional."**

— David Hamilton

The effect of ethanol

The jury is still out on what effects recent growth in the ethanol industry will have on the cattle business. But producers can expect higher prices for corn in the short term as increasing amounts of grain are devoted to ethanol production.

"Within 60 miles of my feedlot there are four existing ethanol plants, and three more are scheduled to go in," said Warren Weibert, owner and operator of Decatur County Feed Yard, Oberlin, Kan.

Weibert recently started feeding wet distillers' grains (WDG) to his cattle, but he's having trouble getting the consistency of product that he needs every day.

"I believe the feeding industry will tend to move a little closer to Nebraska," Weibert said. "And, I think we will see some downsizing of our cattle. All of this will change the industry, but we're in the early throes of what will happen."

Added David Hamilton, a cow-calf producer from Thedford, Neb., "We may go back to using more English and less continental cattle. They'll be longer in age when they're finished, so we'll be pushing the 20-month rule (for eligibility to export to Japan). We'll have to learn to deal with those increased costs, too. And I expect we'll see some shift to more cattle feeding to Cornbelt states."

survive,” Yost said. “The boom and bust cycles of the past cannot continue if we’re going to have investments in new value-added beef items and keep pace with chicken. The economic signals to all segments need to be direct and as clear as possible. These signals need to be clear from the retailer to the producer.

“We need to realize that this business is no longer about selling a commodity,” Yost continued. “We’ve got to get out of the commodity mind-set and work our way to prescriptive cattle that meet consumers’ needs. This will only accelerate in the future. Consumers in Japan want to scan the UPC code on the box; this information tells them where that calf was born, how he was raised, what he was fed and where he was processed. We need to realize that these kinds of linkages are the only way to restore consumer confidence in that market.”

Coleman believes as the industry focuses on delivering value-added products to the marketplace, there will be an emergence of more regional and smaller packing plants around the country to minimize labor issues and deliver brand-specific products to the marketplace.

“As we talk about becoming more aligned with consumers, we have the opportunity to be proactive instead of reactive,” Coleman said. “We’re always having to be defensive about things. It makes me sick. We’ve made giant strides over the last decade to improve many things about our product. We need to continue to build on these things.”

Middle of the road

One of the significant challenges facing the U.S. beef industry today is the fact that carcass weights continue to increase to undesirable levels, agreed packers.

While the packers conceded it’s more efficient for them to process 800- and 900-pound (lb.) carcasses, retailers and restaurateurs are complaining about cuts that are too big.

“We all live in the industry where economies of scale rule,” Yost said. “Larger animals will outweigh all other economic factors. We also live in an industry that runs itself from guard rail to guard rail. We need to stay in the middle of the road. And as we get more efficient, we can pass on those cost savings to producers. We’ll pay a premium for high-quality beef, but it can’t be too far out of whack when it comes to size.”

As information technology improves and

Key competition

As the managing director for Meat & Livestock Australia Ltd., David Palmer sees the international marketplace from a perspective “down under.”

“Our country operates under much more volatile conditions than yours,” he said. “99.7% of the world’s population lives outside our borders, and we are dependent on export markets to sell our product. We have very demanding customers — particularly Japan and South Korea — and we’ve never had an option but to satisfy the needs of those customers.”

Ironically, Australia’s national animal ID program was initiated in the 1960s because of U.S. pressure due to the presence of tuberculosis (TB) and brucellosis (Bang’s disease) in that country’s cow herd.

Today, producers bear the costs of tagging individual animals. These tags can be read at the sale barn and at other places where cattle transactions occur.

“More and more producers are taking on the tag readers at home as they discover the added value of information and the inherent management advantages,” he said.

“The ID program is also an insurance policy,” Palmer said. “It ensures that signals from Japan and other important markets continue to reinforce what we’re doing. Today, you can stand in a market in Japan with a mobile phone in your hand and scan the background information on any container of Australian beef. Fifteen years from now, this issue won’t even be discussed.”

Palmer said Australians have never been hung up on confidentiality issues surrounding animal ID. “We actually struggle to find someone who’s actually interested in our stock numbers,” he quipped.

Australian cattle producers are responsible for each carcass until the packer is satisfied it contains no residues or biological contamination. Once the transfer of ownership has taken place, the packer becomes responsible for ensuring food safety.

“I don’t know of a single case that has been taken up against a farmer,” he said.

Australia faces other challenges similar to that of the U.S. beef industry, particularly when it comes to labor.

“We have a mining boom in the western part of Australia,” Palmer said. “The China market for iron, steel and various goods is on fire for us. A lot of people are moving to the mining camps, which is making it tough on rural communities. There is no one left to work in the meat industry.”

Australia recently introduced a work visa program that allows Chinese meat workers into the country on a guest-worker basis. After four years, they can receive immigrant status.

“It’s a bit under discussion on whether it’s working or not,” Palmer reflected.

greater information sharing takes place between industry segments, Coleman believes the economic signals could be built into beef production systems rewarding production of smaller, more desirable carcasses.

“If our cattle are too big, we can ask the consumer if they’re willing to pay a price for the product they want,” he said. “By looping the retailer and consumer into this process, we can proactively start to talk about the kinds of products consumers need. It will allow us to come to the marketplace to close these information gaps between us so we’re not just reacting. We’re being proactive.”

Added Yost, “We’ve got to focus on quality

and delivering what consumers want. That can be very difficult. They want bigger televisions, but they want them to be flat screens. They want higher-performing cars, but they want better mileage. They want greater eating quality, but they don’t want external fat. They want the same eating quality that they get at Del Frescos, but they want to do it with the microwave.

“It’s a tough market to hit,” he continued. “But it’s about a quality eating experience that’s the right size. Cattle today are too big. We don’t have a plate that’s big enough to handle many of the steaks we’re producing today.”

