INDUSTRY

Beef Business

►A look at **current issues** affecting the **cattle industry**

President signs American Taxpayer Relief Act into law

The U.S. House of Representatives and the U.S. Senate Passed the American Taxpayer Relief Act of 2012 (H.R. 8) prior to the president signing the legislation into law on Wednesday, Jan 2, 2013. The legislation has direct implications on farm and ranch families, according to Missouri Cattlemen's Association (MCA) Executive Vice President Mike Deering.

"It was essential that something was passed so farmers and ranchers may know what the year to come will hold," said Deering. "Many agriculturists were waiting on the outcome of this bill so they could plan their next move."

H.R. 8 will permanently extend the 2001 and 2003 tax rates for individuals with income below $400,000 for an individual or $450,000 per couple. Rates for incomes over these thresholds will increase from 35% to 39.6%. Dividends and capital gains will rise from 15% to 20% for those over these thresholds.

Most critically for small businesses, such as farmers and ranchers, is the estate tax. The estate tax exemption remains at $5 million or $10 million per couple at a rate of 35%. However, anyone exceeding this exemption threshold will be taxed at 40%. These rates are tied to inflation, which means they will increase over time.

"This is not perfect, but it is now permanent and we won't have to spend as much time protecting these levels," said Deering. "We would prefer complete elimination of this nonsensical and ludicrous tax, but that was not an option with this Congress. The good news is producers now have a level of certainty when planning the future of their estates. This takes a lot of guessing out of the equation."

This legislation also extended the 2008 Farm Bill to Sept. 30, 2013, due to Congress not passing the 2012 Farm Bill. According to Colin Woodall, National Cattlemen's Beef Association (NCBA) vice president of government affairs, the failure to pass the 2012 Farm Bill has serious consequences for U.S. agriculture.

"The great strides we made in achieving our policy priorities came through strategic action, and in some cases, stealth. Our playbook is now open and it will be much harder to replicate some of our wins," said Woodall. "We will need to rally all of our members to help us when the Senate and House Agriculture committees start all over on the 2013 Farm Bill."

— Release by the Missouri Cattlemen's Association.

NCBA Environmental Stewardship Award call for entries

The 23rd annual Environmental Stewardship Award Program (ESAP) has officially opened its nomination season for 2013. Established in 1991 by the National Cattlemen's Beef Association (NCBA), the program has recognized the outstanding stewardship practices and conservation achievements of U.S. cattle producers for more than two decades. Regional and national award winners are honored for their commitment to protecting the environment and improving fish and wildlife habitat while operating profitable cattle businesses.

Seven regional winners and one national winner are selected annually by a committee of representatives from universities, conservation organizations, and federal and state agencies. The nominees compete for regional awards based on their state of residency, and these seven regional winners then compete for the national award. Candidates are judged on management of water, wildlife, vegetation and soil, as well as the nominee's leadership and the sustainability of his or her business as a whole.

"Environmental stewardship and conservation have long been the focus of farmers and ranchers, who are America's foremost land stewards," said NCBA President J.D. Alexander. "Responsible use of land and resources is a priority for cattlemen and women. The ESAP award highlights efforts by producers who are committed to conservation and sustainability efforts."

Any individual, group or organization is eligible to nominate one individual or business who raises or feeds cattle. Past nominees are eligible and encouraged to resubmit their application; previous winners may not reapply. Along with a completed application, the applicant must submit one nomination letter and three letters of recommendation highlighting the nominee's leadership in conservation.

The program is sponsored by Dow AgroSciences, the USDA's Natural Resource Conservation Service (NRCS), the U.S. Fish and Wildlife Service, the National Cattlemen's Foundation (NCF) and NCBA. Applications for the 2013 ESAP award are due March 1, 2013. For more information and a complete application packet, visit *www.environmentalstewardship.org.*

— Release by the National Cattlemen's Beef Association.

Merial to acquire animal health division of Dosch

Merial, the Animal Health division of Sanofi, announced in late December that Sanofi has entered into a binding agreement to acquire the animal health division of the Indian company Dosch Pharmaceuticals Private Limited, creating a market entry for Merial in that country's strategically important and growing animal health sector. The agreement is subject to regulatory approval and is expected to finalize sometime in the first half of 2013. Financial details were not disclosed.

Dosch Pharmaceuticals, headquartered in Mumbai, India, was incorporated in 1992 and is a diversified pharmaceutical company, primarily operating through two divisions, animal health and exports. The animal health division being acquired by Merial has more than 86 products under 50 brands for ruminants, poultry and companion animals. Products include an extensive range of animal health therapeutics and nutritional feed supplements. Within the animal health division, Dosch has a 279-member sales force, covering 18 Indian states.

"The acquisition of Dosch's Animal Health Division will be a significant milestone for Merial and give us a strategic platform for our development in the Indian market," said Jose Barella, Merial CEO. "We are convinced that the combination of Dosch's animal health brands and distribution strength, along with the robust new product pipelines from both Merial and Dosch, will strongly position Merial to become rapidly a major animal health player in India."

"The strong nationwide sales, marketing and distribution network of Dosch, along with established products and people will be an ideal platform for Merial to enter the fast-developing animal health market of India," said Dosch Chairman and Managing Director Sanjay Doshi. "Merial's entry will further strengthen the existing offering of Dosch's animal health business and provide a larger canvas for the market and the Dosch team."

Dosch CEO Sharat Tugnait and his management team will manage the future

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combined operations of Dosch and Merial in India under the supervision of Mayank Parekh, Merial.

The animal health market in India is estimated at more than €350 million in 2012, and is experiencing annual double-digit growth. India is home to the world's largest herd of cattle and buffalo, second-largest herd of sheep and goats, and has the world's fifth-largest population of poultry. India is also the world's largest milk producer.

— Release by Merial.

Feral Hog Approved Holding Facility Guidelines in Texas now available

Texas A&M AgriLife Extension Service's new publication, *Feral Hog Approved Holding Facility Guidelines in Texas,* SP-488, is now available, said one of its authors.

"With feral hog numbers on the rise and potential profits possible, the need for the proper facilities, also known as buyer stations, to hold and maintain them until such time as they can be marketed, also rises," said Jared Timmons, an AgriLife Extension associate headquartered in San Marcos with Texas A&M University's Department of Wildlife and Fisheries Sciences.

"These facilities are needed because they provide a way for landowners to make money from hogs, hopefully offsetting some of the damage costs. This fact sheet explains the guidelines involved in operating such an approved holding facility."

Timmons said the publication explains the Texas Animal Health Commission (TAHC) mandates that must be met and maintained before a facility can become and remain an approved holding facility. These rules include such guidelines as maintaining a double hog-proof fence around the facility, how and what records must be kept on the animals and deadlines that must be met in order to be re-authorized as an approved holding facility.

"There is no fee for operating an approved holding facility, but because these animals have become such a nuisance and health threat in some instances, there is a fair amount of recordkeeping that must be maintained," Timmons said.

Timmons said well-run facilities do offer a much-needed service as they provide a market to landowners trying to recoup some of the monetary losses incurred from the damage the hogs cause.

"Approved holding facilities are regulated by the Texas Animal Health Commission, but the commission does not get involved with any of the pricing associated with the animals," he said. "Depending on where and how the hogs are marketed, the prices now range around 10¢-20¢ a pound (lb.) live weight for hogs weighing up to 100 pounds, around 30¢ per pound for 100-150 pounders and 60¢ for those 150 pounds or more."

Timmons said approved holding facilities hold feral hogs, which he added are the only type of animals approved for the facilities, until a full load can be collected. These are usually trucked to authorized hunting preserves (males only) or to one of the two feral hog processing facilities in Texas who market most of the meat overseas.

Support for this publication came from the Plum Creek Watershed Feral Hog program, which is provided through the Clean Water Act 319(h) nonpoint source funding from the Texas State Soil and Water Conservation Board and the U.S. Environmental Protection Agency (EPA). This publication, along with 15 others dealing with feral hogs, is available at *http://agrilifebookstore.org/publications.*

— Adapted from a release by Steve Byrns for the Texas AgriLife Extension Service.

NFU, Coalition: Proposed beef merger harmful

National Farmers Union (NFU) and more

than 40 farming, rural and agricultural organizations sent a letter to the U.S. Department of Justice (DOJ) in December asking for an expanded investigation into a proposal made by food-processing company JBS USA to acquire two U.S.-based beef packing plants owned by Canadian-based XL Four Star Beef.

"We firmly believe that this proposed merger would reduce competition and seriously harm both cattle producers and consumers," the letter states. "We therefore request that no early termination of the antitrust evaluation regarding the acquisition of the two U.S.-based beef packing plants be granted and that the Justice Department make a second request for information to extend the investigation."

In 2008, the DOJ initiated antitrust enforcement action that prevented JBS USA from acquiring National Beef Packing Co., the fourth-largest beef packer in the United States.

"The Justice Department must not retreat from the historically significant effort it started in 2008 to curb the pervasive erosion of competition in both the U.S. cattle market and the consumers' beef market," the letter notes.

In its letter, the group urges the DOJ to initiate an extension of the merger waiting period to provide additional time for review of the merger, as well as requesting further information including cattle procurement practices, competition levels and the history of JBS's previous acquisitions of closed packing plants.

The letter may be viewed at *www.nfu.org/images/Coalition Letter to DOJ re JBS and XL Merger.pdf.*

— *Release by the National Farmers Union.*

USDA announces funding to help reduce energy costs in remote rural areas

Agriculture Under Secretary for Rural Development Dallas Tonsager announced funding to help reduce energy costs for residents of remote rural areas where the cost of producing electricity is extremely high. The funds are being provided through USDA's High Energy Cost Grant program.

The program is administered by USDA Rural Development's Rural Utilities Service. Recipients use funds to improve energy generation, transmission or distribution facilities that serve communities where the average residential cost for home energy exceeds 275% of the national average. Grants are available to businesses, nonprofit entities, states, local governments and federally recognized Indian tribes.

For example, two neighboring communities in rural Alaska will receive funding to complete an 8-mile electrical connection (intertie). The connection will stabilize power costs for the residents of the predominantly Alaska Native communities of New Stuyahok and Ekwok. In Kamuela, Hawaii, funds will be used to purchase a methane gas-fired generator to provide electricity to a produce processing facility and commercial kitchen.

The funding announced totals more than $9.3 million. Funding for individual recipients is contingent upon their meeting the conditions of the grant agreement.

For information on Rural Development loans and grants to other rural businesses and individuals, visit Rural Development's new interactive web map featuring program funding and success stories for fiscal years 2009-2011. The data can be found at: *http://www.rurdev.usda.gov/RDSuccessStories.html.*

— *Adapted from a release by the USDA.*

EPA retains dust standard

The EPA Dec. 14 announced that it would retain the coarse particulate matter (PM) National Ambient Air Quality Standard (NAAQS), eliciting a positive response from

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the NCBA on behalf of cattle producers across the country.

"NCBA is pleased that EPA has decided to retain the current coarse PM standard and did not make a bad situation worse," said NCBA Deputy Environmental Counsel Ashley McDonald. "Unfortunately, cattle producers did not get the permanent certainty they were seeking in the form of legislation and will again face a review of this standard within five years. But for today, NCBA is relieved that EPA listened to rural America and realized that further tightening the dust standard would have disastrous effects on America's agricultural economy."

The PM standard, commonly known as the dust standard, remains one of the most important environmental issues facing cattle producers. Under the Clean Air Act (CAA), EPA is required to review the dust standard every five years to evaluate its protection of public health. Despite the lack of any scientific evidence finding any harm to human health from rural dust at ambient levels, agricultural operations in arid parts of the country have a difficult time attaining compliance with the dust standard at its current level, and must implement costly practices in order to mitigate dust.

Under the current review of the dust standard, EPA proposed in June of this year to retain the coarse PM standard, and NCBA, state cattlemen's associations and members submitted comments encouraging EPA to make that proposal final. McDonald made it clear that if the PM standard had been tightened, it would have been virtually impossible for current agricultural operations to demonstrate compliance, subjecting them to fines under the CAA of up to $37,500 per day.

"A stricter PM standard would have an impact that would cause most of cattle country, including the entire Midwest, West and Southwest, to be out of compliance or at the brink," McDonald said. "For now, 15 mile-per-hour speed limits on dirt roads, paving dirt and gravel roads and a prohibition on harvesting or tilling during the day are not regulatory requirements in most states, but could easily become a reality if EPA continues to regulate farm dust."

McDonald added that until legislation is passed by Congress giving cattle producers permanent relief from dust regulations, NCBA will continue to fight EPA's dust standard.

— Release by the National Cattlemen's Beef Association.

Just how far will beef output fall over the next two years?

That question has been pondered considerably on many fronts since the drought of 2011 developed in the key cow-calf states of Texas and Oklahoma. What started as a serious situation in those two key states has, as most readers know, spread to a far larger portion of the United States and is now affecting a far larger proportion of the cow herd.

Based on USDA's final ratings (released Oct. 28, 2012) for range and pasture conditions for 2012, states with 40% or more of range/pasture lands rated as in poor or very poor condition accounted for 70.5% of the nation's beef cows. That figure was 46.1% Oct. 30, 2011. Only 21.6% of the nation's cow herd resided in states with 40% or more of their range/pasture lands rated in good or excellent condition. That compares to 36.7% one year ago.

The impact has not been felt just in the cow herd. The disruption that has occurred in the timing of feedlot placements over the past couple of years is going to come home to roost (please excuse the chicken analogy) over the next few months.

We commented after last month's *Cattle-on-Feed* report about the relatively large number of lightweight placements being driven by poor wheat pasture conditions. The same will likely be true for December and then look out — there does not appear to be many feeder cattle behind those since a high proportion of those light calves have already moved to feedyards.

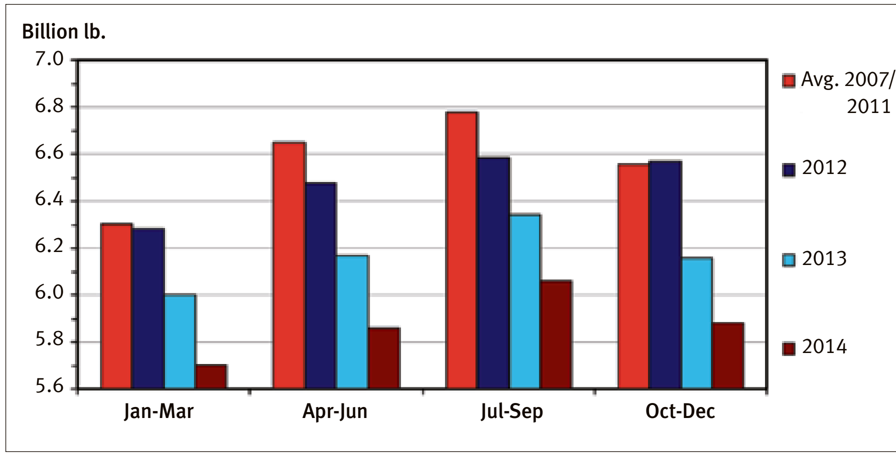
All of this has been discussed — likely *ad nauseum* — over the past two years, but we think it bears reviewing relative to likely beef output levels in 2013 and beyond. The chart at top right shows beef output forecasts from the Livestock Marketing Information Center (LMIC) of Denver and they are, we think, pretty shocking.

The quarterly (Q) year-on-year changes for 2013 are huge — 4.5%, 4.7%, 3.7% and 6.3% for Q1 through Q4, respectively. That 6.3% is the largest quarterly year-on-year decline since Q3-2004 when the industry was adjusting to lower exports following the first BSE case in December 2003. To find a larger year-on-year quarterly decline NOT associated in some way with BSE, we had to go back to Q1-2001 (-7.1%) and then Q2-1987 (-8.1%).

Further, the 2013 changes are just the start. The LMIC forecasts for 2014 predict quarterly production figures that are another 4.9%, 4.8%, 4.4% and 4.4% lower than in 2013. Add those up and you get two-year declines in quarterly beef production of 9.2% in Q1-2014, 9.5% in Q2, 7.9% in Q3 and 10.4% in Q4. Ouch.

— *by Steve Meyer and Len Steiner,* Daily Livestock Report, *Jan. 4, 2013*

Fig. 1: Commercial beef production, quarterly



CAFO Rule

On Dec. 31, 2012, EPA published in the *Federal Register* a notice that the agency was granting NCBA's request to extend the comment period on the Concentrated Animal Feeding Operation (CAFO) Rule review by 60 days, now scheduled to close March 1, 2013. The review is part of a 10-year review of the 2003 CAFO Rule mandated by the Regulatory Flexibility Act. EPA published its review in an Oct. 31, 2012, *Federal Register* notice. The original comment period ended Dec. 31, 2012. Considering the importance of the rule on the cattle industry and that the comment period covered two major holidays, NCBA and other livestock groups requested the agency extend the comment period.

— *Notice published in NCBA* Environmental Steaks *newsletter.*