

# Industry Fussing

**Producers stress importance of setting emotions aside to sort fact from fiction and put the industry on a path to credibility, cohesion.**

by **Troy Smith**

Judging by media coverage, the biggest story to come from the Cattle Industry Summer Conference was the discontent among participating industry organizations. During the Denver, Colo., meetings July 28-Aug. 1, disagreement over the beef checkoff generated more headlines than any other topic addressed by the National Cattlemen's Beef Association (NCBA) and the Cattlemen's Beef Promotion and Research Board (CBB). The resulting fracas provided ample fodder for reporters covering the event.

Controversy over administration of the checkoff and implementation of checkoff-funded programs has existed for years. The purpose of this story is not to speculate about personal biases or organization loyalties that might contribute to chronic controversy, or may have fueled what one wag has called "the Denver donnybrook." We'll leave that to the columnists and commentators who make a living by stirring the political pot, and to the bloggers, whose accounts may be based on knowledge gained firsthand or merely hearsay.

Instead, we will share comments from several Angus producers — people involved in seedstock, commercial cow-calf and stocker operations who also make time to become advocates for the beef industry. This writer will editorialize only insofar as to suggest that many producers really don't know what the fuss is about. They don't understand the structure of the various industry organizations, nor their respective responsibilities. It is complicated and even some people with a long history of involvement have said as much. Hopefully, the accompanying sidebar

(page 221) offers very general descriptions of some key elements that will help readers understand our featured producers' roles and their comments.

Let's also preface our producers' comments by reviewing events that preceded the Summer Conference. The first, occurring in June, was the CBB Executive Committee's unanimous recommendation that the Federation of State Beef Councils be separated from NCBA. The recommendation was sent to NCBA and USDA, and a news release was distributed to the media.

The recommendation stated: "The Federation should be a strong, independent, checkoff entity. The Federation should be separate from any policy organization, since all funds for the checkoff come from mandatory assessments of producers and importers. The checkoff is owned by, and responsible to, all producers and importers, and no specific organization. It is not the intent of the Executive Committee that this motion has any effect on the structure of state beef councils."

When the recommendation was announced, NCBA was proceeding toward changes in its governance structure. Other organizations, such as the American Farm Bureau Federation (AFBF) and the National Farmers Union (NFU), had voiced concern over potential effects on the Federation's role and the ability to maintain separate accounting for NCBA dues-funded lobbying efforts and checkoff-funded beef promotion. USDA Secretary Tom Vilsack also questioned parts of the proposed restructuring.

Following the CBB Executive Committee's recommendation, NCBA halted plans to vote on the issue

during the summer conference in Denver.

Then, two days prior to the conference, CBB released results of a routine "compliance review" of NCBA. All contractors that carry out checkoff-funded programs for beef promotion, research, consumer information and industry information are subject to compliance review or audit to assure that expenses for which they are reimbursed by CBB are allowable under the law.

In a media statement, Georgia cattleman and CBB Secretary-Treasurer Robert Fountain Jr. said, "An independent accounting firm tested charges from NCBA to the beef checkoff in five areas and found many expenses that were either improperly charged to the checkoff or insufficiently documented." Fountain called the findings "extremely troubling to the CBB Executive Committee" and said a more comprehensive compliance review would be conducted.

In response, NCBA President Steve Foglesong of Illinois said if mistakes were made, they would be corrected. He noted that a compliance review had been conducted every year of NCBA's 14-year existence and there had been a transparent and full reconciliation of expenses when warranted. Foglesong said NCBA strives for accuracy and will continue to seek clarity on CBB guidelines to ensure compliance.

When members of NCBA and CBB came together in Denver, discussions became heated. At the end, members of both groups cited shock and dismay that speakers were, at times, interrupted by shout outs, boos and hisses from individuals with opposing views. After the fur stopped flying, democratic processes were allowed to work.

When the full complement of CBB members met, some chided the Executive Committee for recommending separation of the Federation from NCBA and releasing that recommendation to the media without first discussing it with the full board. Ultimately, CBB members voted (62 to 30) to refuse approval of the Executive Committee's recommendation.

In response to the recommended severing of ties to NCBA, a straw poll of Federation directors showed that a majority (59 to 3) favored remaining as the checkoff arm of NCBA, but with some measure

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of independence. That was confirmed by an official joint vote of directors from the Federation and NCBA's Policy Division. The Federation has sent a letter to USDA, stating its desire to remain under the NCBA umbrella.

However, several other organizations have sent a letter to USDA and the U.S. Attorney General requesting swift action to protect against alleged misuse of checkoff funds by NCBA. A news release from R-CALF USA cites "concern that NCBA's lobbying influence is facilitated by, and greatly enhanced by, its receipt of checkoff dollars that are being used unlawfully to defeat public policy initiatives viewed as critically important to many, if not most, U.S. cattle producers, and to advance public policy initiatives that are viewed by many, if not most, U.S. cattle producers as detrimental to their financial interests."

The release says R-CALF USA and co-signors of the letter have called for suspension of any contracts between NCBA and CBB, and audit of NCBA management of checkoff funds during at least the last five years, as well as action to redress any violations, non-compliance, and fraud that may be discovered, and return of any monies found to have been misappropriated.

Now, here are comments from some producers who were present in Denver and their perceptions of the events that have occurred:

## **Hank Maxey, Chatham, Va. Cow-calf producer, member of CBB Executive Committee**

According to Maxey, the governance task force charged with developing a plan for restructuring NCBA asked for input from CBB members. In response, CBB recommended more independence for the Federation.

"We had received input from other industry organizations and producers that wanted the same thing. [USDA] Secretary Vilsack had made a similar recommendation, and we felt our concerns were being ignored [by NCBA]," says Maxey. "The Executive Committee then made its recommendation for a definitive split between the Federation and NCBA."

Regarding the compliance review of NCBA, Maxey says it was conducted

differently from previous reviews in that, in accordance with NCBA's request, it was performed by an independent firm rather than in-house. When the results were returned to CBB, they immediately become public information.

"I've only been on the board for a year and a half, but I believe there probably is some power struggle at work. I believe both sides have strong enough leaders to do things right," says Maxey. "NCBA has been a great contractor over the years. But when 1% of transactions were reviewed, discrepancies were found in 40% of those transactions. That calls for further review."

With regard to the request by some industry groups that NCBA be suspended as a contractor, Maxey says, "I'm not sure that is necessary. We do need further review, and until that is done, any further comment would be premature."

## **Bob Drake, Davis, Okla. Former seedstock producer, current stocker operator and CBB member**

"Compliance reviews are held every year. What was different this time was the unprecedented release, to the press, of results and a statement from the Executive Committee, even before the full CBB membership and NCBA were given a chance to review and respond," claims Drake.

"NCBA made mistakes. I'm not excusing that. It must be made right. This isn't the first time mistakes have been found and fixed. In the past, CBB has underpaid NCBA and had to make that right."

Drake says the manner in which results of the review went public were "unconscionable" if the parties involved want to work for a more cohesive beef industry. Too much time is being wasted, he says, fighting like fifth graders trying to see who will be top dog on the playground. Drake also fears industry infighting could prompt USDA to call for a referendum on whether to continue the checkoff.

"If that happens, it will not pass," Drake predicts. "I saw the successful vote on the checkoff in 1988, but I also saw the early failures because of silly disagreements among industry factions. I think a vote now would fail because of confusion and mistrust."

Drake says he offered the motion, during the Denver meeting of CBB, which rescinded

the Executive Committee's recommendation to separate the Federation from NCBA.

"The Federation is a part of NCBA, but it cannot vote on policy issues. The Policy Division cannot vote on checkoff issues. But there is a partnership that works," states Drake. "To break it up would be counterproductive."

## **Mary Lou Bradley-Henderson, Memphis, Tex. Seedstock breeder and CBB member**

With so many challenges facing the industry, including attacks on the ways beef producers do business, their culture and their product, Bradley-Henderson calls it a poor time to fight among themselves. She believes the controversy is fanned by emotion, and acrimony displayed in Denver was evidence of that. It's not helped by news releases and editorials telling only one side of the story.

"I did feel totally blindsided by the way the Executive Committee released results of the compliance review. I didn't like it, and there were other CBB members that didn't appreciate how it was done. I guess they did it to make a point, but it was unfortunate," states Bradley-Henderson.

"And this isn't a one-sided issue. Somebody on the CBB side signs off on every invoice NCBA submits for reimbursement," adds Bradley-Henderson. "We do annual reviews because it's just good business. There were discrepancies, and now we're going to have a more thorough audit. I'm all for getting to the bottom line. Let's just do it, settle accounts and get on with promoting our good product."

She also worries that feuding within the industry could result in USDA calling for a checkoff referendum.

"I believe the checkoff is beneficial to the industry as a whole," she says. "We're already faced with the challenge of cutting programs because the checkoff dollar doesn't go as far as it once did. I'd hate to lose it entirely."

## **Linda Gilbert, Buffalo, SD Cow-calf producer and CBB member**

"It was within the Executive Committee's power to recommend separation of the Federation from NCBA. I understand

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committee members' concerns over governance restructuring," says Gilbert. "The full board voted on whether to approve that recommendation and did not approve it. I voted for separation of the Federation. It probably needs more independence."

Gilbert says she was not surprised that the compliance review revealed some discrepancies. In fact, she would have been surprised if there were none. As a producer contributing to the checkoff, she's glad routine reviews are held. She also appreciates that it was performed by an independent firm. In light of the review's results, Gilbert also supports a more complete audit.

"As a contractor, NCBA has done a very good job, but I don't understand why they have been so defensive. Let's just get on with the process and let it work," states Gilbert. "It's important that our first loyalty is to the checkoff and all producers that pay into it."

Gilbert cautions producers that some information circulating on these issues is not accurate and has caused confusion. It's interesting and unfortunate, she says, that 70% of producers have no affiliation with any industry organization. Regardless, she urges producers to contact representatives of CBB, the Federation or their state beef council to become informed and also to voice their opinions. Every individual who pays into the checkoff has representation through those boards.

"It's important to make their feelings known. I want to know their concerns, but they should gather the facts, too," advises Gilbert.

### **Rod Gray, Harrison, Neb. Seedstock producer and Federation of State Beef Councils director**

Gray agrees that too few producers seek industry involvement, and even many members of cattle organizations don't try to become better informed about efforts to promote beef or improve their business climate. His own involvement with his state beef council and the Federation has confirmed his belief in the checkoff's value. But he thinks this summer's bickering is an embarrassment to the industry.

"It seems the CBB Executive Committee thought their concerns weren't being addressed (by NCBA), but I was surprised by their recommendation to split off the Federation. If they wanted to get NCBA's attention, it worked," says Gray.

When the Federation pondered the issue of separation and polled directors, Gray says he was one of three who voted against

remaining part of NCBA. But while there has been plenty of innuendo suggesting NCBA has intentionally misused checkoff funds, he doubts that it is true.

"But I'll admit that I'm not sure I understand how the bookkeeping is done, to keep non-checkoff expenses separate from expenses charged to the checkoff. It makes me a little uncomfortable," Gray explains. "If the Federation were a separate entity, there couldn't even be any perception of a breeched firewall."

Gray doesn't know why results of the NCBA compliance review were released like they were, and he hopes it wasn't purposely done to give NCBA a black eye. He, too, wants to see the new audit completed to find any problems that exist. Gray is hesitant, though, about halting all checkoff-funded programs currently managed by NCBA, as some industry groups have recommended.

"I hate to see good programs stopped," states Gray. "I don't know if there are other contractors, or potential contractors that could take over. Maybe that's something that should be explored first."

### **Bill Rishel, North Platte, Neb. Seedstock producer, president of Nebraska Cattlemen and NCBA director; former CBB director**

Based on involvement with CBB and NCBA, Rishel says working relationships between CBB and its contractors, including NCBA, have been good. He is elated by the Federation's desire to remain a part of the NCBA structure and function in a coordinated way. He is also pleased by CBB's decision to deny its executive committee's recommendation to split the Federation away from NCBA.

Rishel is puzzled, however, by the way the CBB Executive Committee announced that recommendation, calling the Committee's letter to USDA "inappropriate."

On the matter of NCBA's compliance review, Rishel says, "I'm frustrated by some individuals' and some organizations' statements implying NCBA tried to use checkoff funds in an illegal way; that it was done on purpose. I'm certain there was no intentional misuse of checkoff dollars – nothing of the kind."

"The review did find errors in accounting that must be corrected. That's happened before. It's why you have audits. This time NCBA was reimbursed for too much, but there have been times when CBB owed NCBA more money. We need to settle accounts as we've done before and get on

with the business of building demand for beef," he adds.

Rishel suspects recent strife is rooted, at least in part, to philosophical differences between NCBA and some other industry organizations — groups that have taken positions different from NCBA on a variety of policy issues and not just matters related to the checkoff. Plus, NCBA has this long-term relationship as one of CBB's primary contractors. Rishel says he thinks some other organizations envy that relationship.

"I think old grudges, personal agendas and egos have influenced the current situation, and it's become a power struggle of sorts," says Rishel. "NCBA is totally separate from the CBB, but the CBB contracts with NCBA — takes advantage of NCBA's staff and expertise to carry out checkoff-funded programs. NCBA is the largest contractor. Some people and, I think, some other organizations resent that."

Rishel points to the "Act and Order" requirement that CBB contract with organizations that were in existence when the checkoff was established. Over 100 industry organizations are eligible. Others, R-CALF USA for example, did not exist at that time and do not qualify. But NCBA has possessed the resources to handle many checkoff-funded programs, adds Rishel, including sufficient funds to carry out those programs and be reimbursed afterward.

"I also think it's important to recognize what we've accomplished through these coordinated efforts: defending beef's role in a healthy diet, researching and developing convenient beef products and more," states Rishel. "It's all been important to improving demand for beef."

### **Steve Harmon, Lavina, Mont. Seedstock producer and Federation of State Beef Councils director**

Harmon says his experience in helping develop checkoff programs and seeing them put into action has proven the checkoff's worth. He also understands that the number of entities involved, all the acronyms and varied roles is complicated. It might be really confusing for people who aren't involved, but Harmon says some people just don't want to understand.

"Some people and some organizations are convinced that NCBA is taking checkoff money to use for lobbying work. I think those people wish they could do that," says Harmon. "But I've been involved for awhile now, and I've never seen any evidence of purposeful mishandling of checkoff funds."

It's not like NCBA and other contractors are handed checkbooks or can reach into the checkoff kitty at any time, says Harmon.

"No checkoff money is spent until the job is done. Contractors do the work first, then present their invoices to CBB for reimbursement. CBB pays the contractors back the money contractors spent to do the job they were asked to do," he explains. "The (compliance review) showed discrepancies in accounting. I don't believe it was intentional, but there will be further auditing done and it will all shake out in time."

With regard to the CBB Executive Committee's release of compliance review

results and the recommendation for separating the Federation from NCBA, Harmon says both could have been handled more tactfully. Personally, he says he believes the Federation functions well as part of NCBA, and contractual arrangements between NCBA and CBB have been satisfactory for many years.

"This could work out all right, if we don't play the blame game. We can take care of it without any firing squads," states Harmon. "The checkoff works for the good of all beef producers. The important thing is to keep it working."



## Who's who and who does what?

**The Beef Checkoff.** Established as part of the 1985 Farm Bill, the checkoff assesses \$1 per head at sale of live domestic and imported cattle, with comparable assessment on imported beef and beef products. The checkoff became mandatory when approved by 79% of producers in a 1988 national referendum vote. The checkoff "Act and Order" refers to the Beef Promotion and Research Act, the federal law establishing the checkoff and authorizing USDA to develop the Beef Promotion and Research Order defining how resulting funds may be used only for beef promotion, research and education programs. Use of checkoff funds for promotion of particular cattle breeds or to influence government policy is prohibited.

**Cattlemen's Beef Promotion and Research Board.** Known as the Cattlemen's Beef Board (CBB), this organization oversees the National Beef Checkoff Program. It consists of 106 members, including domestic beef, dairy and veal producers, plus importers of beef and beef products. CBB members are appointed by the U.S. Secretary of Agriculture from nominees submitted by certified industry organizations. CBB is responsible for certifying qualified state beef councils (currently, there are 45). State beef councils collect \$1 per head assessments. They must forward 50¢ of each dollar to CBB, but they may retain up to 50¢. State councils have discretionary use of the retained portion, within restrictions of the "Act and Order."

**CBB Executive Committee.** This committee consists of 12 members (three elected CBB officers, eight others elected by and from CBB board, plus the immediate past CBB chairman as a non-voting member). It conducts month-to-month activities between meetings of the full CBB. Its actions are subject to approval of full CBB.

**Beef Promotion Operating Committee.** This committee develops the annual budget for checkoff investment, subject to approval of CBB and USDA. It consists of 10 producers elected by CBB and 10 producers elected by the Federation of State Beef Councils. As required by the "Act and Order," the committee contracts with nonprofit beef industry organizations that implement checkoff-funded programs. Contractors are reimbursed for actual costs associated with implementation. NCBA has been the primary contractor, implementing approximately 90% of checkoff-funded programs.

**National Cattlemen's Beef Association (NCBA).** This organization is the result of the 1996 "merger" of the National Cattlemen's Association (NCA) with the Beef Industry Council of the National Livestock and Meat Board (NLMB). The Beef Industry Council had represented state beef councils collectively. NCBA structure includes a Policy Division, with lobbying activities funded by membership dues. It also includes Checkoff Division, or Federation of State Beef Councils, which directs use of funds state beef councils contribute from their respective 50¢ share of each checkoff \$1 collected. Policy Division and Federation each have a board of directors. Federation directors represent respective state beef councils. Money contributed by a state beef council determines number of Federation board seats. During the last two years, NCBA has considered governance restructure — a subject of controversy regarding the potential effect on the Federation and ability to maintain an accounting "firewall," keeping NCBA policy expenditures separate from checkoff-related expenditures.