

University of Nebraska - Lincoln

DigitalCommons@University of Nebraska - Lincoln

Range Beef Cow Symposium

Animal Science Department

December 1995

Government Decisions and Policy: Impact on the Cattle Industry

Roy Frederick

University of Nebraska - Lincoln

Follow this and additional works at: <https://digitalcommons.unl.edu/rangebeefcowsymp>



Part of the [Animal Sciences Commons](#)

Frederick, Roy, "Government Decisions and Policy: Impact on the Cattle Industry" (1995). *Range Beef Cow Symposium*. 171.

<https://digitalcommons.unl.edu/rangebeefcowsymp/171>

This Article is brought to you for free and open access by the Animal Science Department at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Range Beef Cow Symposium by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

**GOVERNMENT DECISIONS AND POLICY:
IMPACT ON THE CATTLE INDUSTRY**

Roy Frederick

Department of Agricultural Economics
University of Nebraska-Lincoln

Unlike much of the rest of agriculture, almost all public policy that impacts the beef cow industry comes through the back door. You have never asked for price supports, income supplements or production limits like you neighbors who produce wheat, corn, sugar beets or milk. What you have asked for is a chance to compete fairly in the market place.

Some government policies help move toward the objective of good, fair markets for your product. Others don't. It's often a mixed bag, a situation I see being repeated as policymaking winds down for 1995 and we prepare for a new year.

I will touch on five areas of federal government policy of potential interest to your industry in 1996 and beyond:

- The 1995 farm bill.
- Trade opportunities and obstacles.
- Environmental policy.
- Tax policy.
- Packer concentration.

My intent is to flag potential significant changes that may be in the offing in each of these areas.

The 1995 farm bill. As I write this in late October, 1995, important details of the 1995 farm bill had not been determined. However, several matters in the bill could be of interest.

Let's begin with the conservation reserve program (CRP). This has been one of the most popular farm bill provisions ever. At the present time, about 36 million acres are enrolled in the program nationally. The new farm bill may authorize keeping the same number of acres in the CRP; however, whether the money will be available to actually fund the current level of participation is an open question. (Some observers think we may have closer to 15 million acres in the CRP by 2000 or 2002.)

Moreover, either through law or regulation, the CRP emphasis in the future may be on "environmentally sensitive" land. Generally this has been defined in the past to mean land that is susceptible to water erosion or contributes to surface water quality problems. For the most part, it is not land in the Great Plains that is mostly sensitive to wind erosion.

Bottom line: I expect some CRP land to return either to crop (wheat) production or livestock grazing in the Great Plains region. To the extent additional grazing land means more beef cattle, it will impact on your business. Moreover, much of this land could go back to grazing in the next couple of years, a time when cattle numbers are expected to be plentiful.

Under another proposal, the 1995 farm bill could eliminate or significantly reduce emergency livestock feed assistance programs. USDA administrators for this program tell me these programs have been especially beneficial in range country where feed grains are not grown. It's simply easier to show need, i.e., qualify, for these programs if you don't have feed grains production on your ranch that counts against that need. These programs, for example, have worked well in Sioux and Dawes counties but not as well in Scotts Bluff county.

One possibility is to replace emergency livestock feed assistance programs with an insurance-substitute program that would apply to range or pasture losses. The federal government currently provides such a program for hay losses but nothing is available for grazing losses.

A third result of the new farm bill is that you would expect corn and other feed grains prices to be somewhat more volatile as the government's commodity safety net is lowered. Although I don't expect this to be a significant factor in feeder cattle price determination over the next few years, it probably would be a good idea to remember that there is the potential for higher highs and lower lows in corn prices. It could affect feeder cattle prices marginally.

Trade. Exports of beef continue to expand. During the first half of 1995, shipments were up 9 percent from a year earlier. Perhaps just as importantly, U.S. beef exports are forecast to reach 80 percent of import volume this year, compared with 43 percent in 1990.

Japan remains the primary destination for U.S. beef, taking over 55 percent in the first half of 1995, followed by Canada with 18 percent and South Korea with 15 percent. Although shipments to Mexico were down more than 50 percent from a year earlier, Mexico remains the fourth largest destination at 5 percent.

Two major trade agreements of significance to the United States have been phased in during the past two years. The North American Free Trade Agreement (NAFTA) is a regional trade agreement that links Mexico and Canada with the United States. It became effective on January 1, 1994.

We expected that NAFTA would cause more U.S. beef to be shipped into Mexico, and perhaps more Mexican feeder cattle to come into the United States. However, two things happened in the past year to alter expectations, at least temporarily. In December, 1994, Mexico undertook a major (40 percent) devaluation of the peso. This effectively made U.S. beef 40 percent more expensive for the Mexicans. No wonder they have been reluctant buyers since the devaluation!

In addition, a severe drought in northern Mexico in 1995 has caused their producers to sell animals for domestic slaughter or for export to the United States. This has not only increased immediate availability of beef in Mexico but expanded our imports much beyond expectations.

Counting cull cows and feeder calves, we imported nearly 1.1 million head in the first six months of 1995, up from 600,000 head the previous year.

Fortunately, I do not believe we should use the past year as a model for the future. The peso devaluation has begun to stabilize and strengthen the Mexican economy. We expect sales of our grain-fed beef to Mexico to gradually increase as their economy strengthens. Moreover, the past year's "drought dispersal" of Mexican cattle will give us additional market opportunities there over the next 3-4 years.

The General Agreement on Tariffs and Trade (GATT) became partially effective on January 1, 1995; the remaining provisions became effective on July 1, 1995. Over 100 countries signed the agreement, which for the first time contained extensive provisions on agricultural products. (There have been eight GATT agreements since 1947.)

It's a bit early to evaluate all the implications of this latest GATT agreement on the beef industry. However, I call your attention to three positive provisions: the European Union (15 countries in western Europe) will reduce the quantity of subsidized beef exports by about 40 percent by 2000; Japan will reduce its beef tariff from 50 percent to 38.5 percent; and South Korea will gradually expand its minimum import quota for beef from a 1994 level of 106,000 tons to 225,000 tons in 2000.

The United States will be required to replace its Meat Import Law (which has been based on quotas) with tariff provisions, which, in turn, will gradually be reduced between now and 2000.

Overall, I believe the U.S. beef industry gains by the GATT provisions, particularly in a world that wants more high-value food products. Both fed cattle and feeder cattle markets should benefit. I recognize that they may be a bit more competition in the cull cow and bull markets from non-fed imports.

Environmental policy. Basic legislative authority for a number of major federal environmental laws has expired. However, these laws continue to operate through annual extensions. Included in this category are the Clean Water Act, the Safe Drinking Water Act, and the Endangered Species Act. In addition, Congress has made noises during the past year about revising the major pesticide laws (FIFRA and FFDCA), the Superfund Act and even taking a big whack out of the Environmental Protection Agency's budget.

Generally speaking, the Congress is much more anti-regulation than any Congress we've experienced in a generation or more. The House passed a major anti-regulation bill last March as part of its Contract with America. However, the Senate has struggled to pass companion legislation.

A common theme in all the proposed revisions of environmental laws and the anti-regulation bills is to protect private property rights. The Clean Water Act and the Endangered Species Act have been the lightning rods, because these laws have specified that neither wetlands

nor key wildlife habitat can be disturbed, even on private property.

The House, in its proposed revision, has said that private property owners should be compensated whenever federal laws/regulations devalue any portion of private property by at least 20 percent. (If the devaluation is 50 percent or more, the federal government would be required to buy that portion of the property.) Any bill that passes the Senate probably would not be as stringent, although I would still expect some level of compensation.

In addition to a specific focus on private property rights, an overarching idea in environmental policy debates is that such policy must be more carefully balanced with private citizens' need to earn a living. Specifically, it's being proposed that environmental laws/regulations could not be approved without an economic impact statement.

Opponents of private property compensation and economic impact statements argue that both would be too expensive. Moreover, they say that what's good for the general public should supersede private business opportunities.

Taxes. Reductions in federal capital gains and estate taxes were included in the budget reconciliation bills passed in Congress earlier this year. While these provisions apply to all taxpayers, they have special relevance to cattlemen.

As you know, it takes a substantial investment to earn a living in the cattle business. That investment is made and maintained over an extended time period, during which the nominal--but perhaps not the real--value of the investment can be affected greatly by inflation. Cattlemen should not be penalized because they make a living from a long-term investment and not a weekly wage. Ensuring a viable industry as leadership passes from one generation to the next also depends on equitable capital gain and estate tax rates.

In Nebraska, there appears to be at least an even chance for major property tax relief in 1996. It's still too early to know what form it will take or its magnitude, but since property taxes are not based on either the ability to pay or benefits received, many citizens will support change. Reductions in property taxes will not come without heated debate over reducing the size of government, finding alternative revenue sources and considering again the importance of local control of governmental services.

Packer concentration. For many years, cattlemen have had periodic concerns about concentration in the packing industry, specifically its impact on producer-level profits. Concern has heightened in recent months with lower cattle prices and reports of increased captive supplies by packers.

Research by Dr. Azzeddine Azzam at the University of Nebraska-Lincoln generally indicates that cost efficiencies in the (concentrated) beef packing industry have more than offset the anticompetitive (market power) effects of consolidation. Additional research results from an Azzam/USDA contract are scheduled to be released in early November.

Meanwhile, legislation has been proposed in Congress to create a commission to further study concentration in the meat packing industry. It has support on both sides of the political aisle. The work of this commission apparently would go beyond the USDA-supported research. But as this is written, the American Meat Institute was urging that a commission study be postponed until the results of the USDA study are published and carefully considered.

Concluding Comments

Some of the provisions of the 1995 farm bill almost certainly will impact on your business. So will developments in the trade sector. Beyond these initiatives, it seems to me that an unusually large number of federal policy issues that could impact on your industry await resolution. With the exception of packer concentration, these issues do not impact on your industry alone. However, that makes them no less important.

I close by urging you to become as informed as possible on issues of importance to your livelihood. Talk them over with your neighbors. Participate in industry organizations. Share your views with policymakers. It's been said many times before, but if you don't become involved, I'm not sure you can expect anyone else to do so on your behalf.