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GARDINER

June 24, 2021

The Honorable Debbie Stabenow, Chairwoman  
The Honorable John Boozman, Ranking Member  
Senate Committee on Agriculture, Nutrition & Forestry  
328A Russell Senate Office Building  
Washington, DC 20510

RE: Examining Markets, Transparency, and Prices from Cattle Producer to Consumer

Dear Chairman Stabenow and Ranking Member Boozman  
and members of the committee:

Thank you for providing me the opportunity to testify before your committee today. The issues we are currently addressing are of utmost importance to the U.S. beef industry and certainly our family operation based in southwest Kansas. I am honored to be asked to represent beef producers who have committed their livelihood to producing the safest, highest quality beef available anywhere in the world.

Please consider this paragraph closely as I will follow with some background about myself, my family and industry history. I believe the crux of this discussion boils down to the fact this is a very complicated issue. What caused the most recent turmoil in our marketplace is not complicated. A processing plant fire, a pandemic and a ransomware attack caused an unusual and extraordinary disruption in the processing system resulting in a drop in processed beef supply and a bulging over supply of live cattle. The result was an unprecedented drop in cattle prices relative to an equally unprecedented rise in beef prices, all driven by pure economic market principles. We have a volatile marketplace created by outside, unavoidable factors, not any one market player. We are seeing similar market disruptions in lumber, automobiles, etc. Now, the solution is very complicated. The processing industry is adjusting by adding capacity. Processors are adding this capacity due to market demand for more high-quality beef. This additional capacity will take time, but mark my words, history tells us we will likely reach a point where there is ample processing capacity for a limited supply of cattle, and the marketplace will shift once more where the producer will garner increased price leverage. The question for us, in the meantime, is how much damage will regulations do to the marketplace by artificially manipulating the pricing mechanisms? History again tells us the unintended consequences of the actions taken here can create longer lasting havoc and even greater volatility in our industry.

I would like to begin by stating I am a fifth-generation rancher whose family is actively engaged in the production of high-quality beef cattle. Gardiner Angus Ranch is a multi-generational member of the National Cattlemen's Beef Association and the Kansas Livestock Association. Our family was one of five families that traveled in a caravan of covered wagons to the Ashland, Kansas, area in the spring of 1885. My ancestors lived in a dugout for nine years on their 160 acres of homesteaded land where my grandfather, Ralph Gardiner, was born in 1889. Ralph Gardiner began putting together the present Gardiner Angus Ranch in the 1920s. His son, Henry, is my father. Today, the ranch is operated and called home by twelve Gardiner family members.

As a purebred and commercial cattle operation, Gardiner Angus Ranch (GAR) is dedicated to the production of quality beef from gate to plate. We use our experience in beef cattle breeding, state-of-the-art technology and data management to produce Angus cattle that make quantifiable, quality-based contributions to the beef cattle industry. As diversified

beef producers, the opportunity to make quality improvements and be rewarded has never been greater.

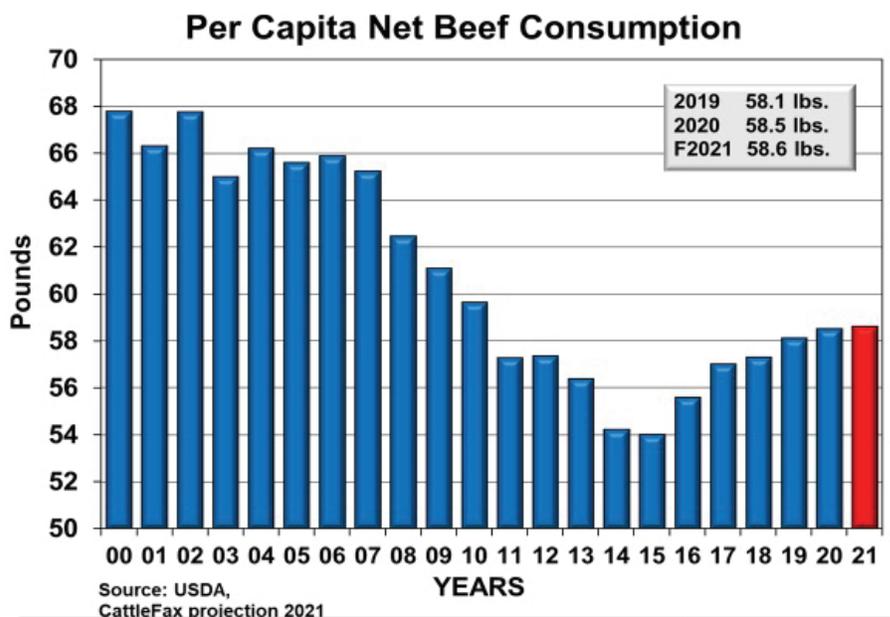
Allow me to fast forward from our early days at GAR to the mid 1990s. As indicated in the Annual U.S. Retail Beef Demand Index graph (right), the market for finished cattle was broken and in desperate need of repair. This graph is a demand index, taking into consideration data such as per capita consumption and price points of various beef products. From 1980 to the mid 1990s, this is a picture of an industry in trouble. The National Cattlemen’s Beef Association (NCBA) conducted field studies indicating consumers were not satisfied with the quality of beef. One out of four steaks were determined to be unsatisfactory for a variety of reasons. Most of the consumer’s dissatisfaction was rooted in the production sector. In other words, the resolution of our quality problems had to be addressed by those of us at the beginning of the supply chain.

As a family-owned beef operation, it was up to us to take more control of our destiny. However, it was also up to us to accept responsibility for the quality and inconsistency problems, as well as challenge an antiquated marketing system. We live by a “failure is not an option” mentality. We had to get better to survive. My father, Henry Gardiner, spent his life searching for and implementing the limited science and technology that was available at the time to predictably improve beef. We knew we did not have enough information to make all the genetic improvements necessary to consistently produce high quality beef. Even with the tools to make our cattle better, the live cattle pricing system did not incentivize or reward for producing higher quality beef. All finished cattle, regardless of quality, sold for the same (or very near) average price per pound. In other words, it was “one price fits all,” regardless of the quality of the cattle.

This was the definition of a true commodity market, where low-cost production was the primary means of achieving profitability.

Domestically and worldwide, beef was losing market share. As indicated in the “Per Capita Net Beef Consumption” graph, from 2000 to 2015, consumption was down at an alarming rate.

The segmented nature of the beef business, from production to processing, made for virtually no information transfer between the many sectors—cow-calf, stocker, feed yard and the packers. Producers needed, but had very limited to no access to, economic signals on the beef products they were producing.



Such data is necessary to enable beef production consumers recognized as more than satisfactory in quality and affordability.

The method of pricing all finished cattle on a live, cash basis was antiquated and needed to change. We felt strongly in the need to price cattle on a value-base system which paid for quality, instead of pricing all cattle on the “average.” We needed to have a seat at the table designing a system that valued each animal and rewarded superior cattle that produced beef preferred by consumers and was more profitable to producers.

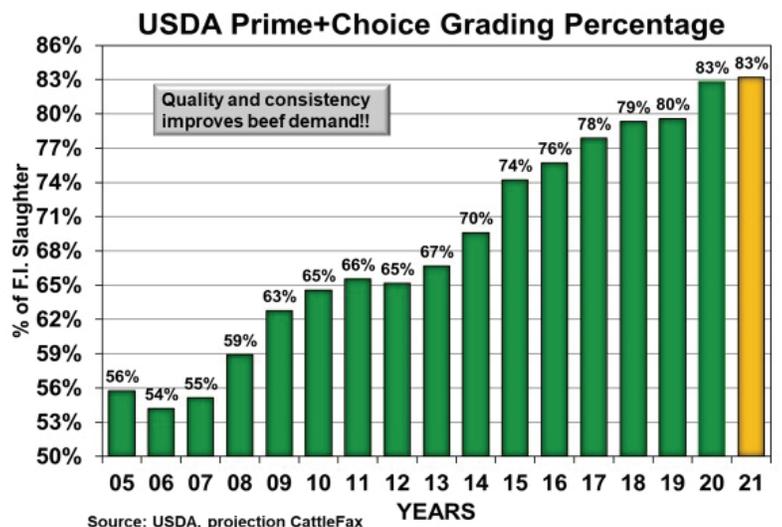
For all these reasons, GAR made the decision to invest in and become involved with U.S. Premium Beef, LLC (USPB) at its inception in 1997. USPB is a group of beef producers with an ownership position in National Beef Packing Company, LLC (National Beef), one of the nation’s largest beef processing companies. As USPB stakeholders, we were able to negotiate and implement a value-based system that changed from simply selling cattle, to marketing specific meat and meals desired by, and in higher demand, by consumers. USPB, through its ownership position in National Beef, provided unprecedented opportunity to grass roots producers such as GAR to be compensated for producing higher quality beef products. I stress that this opportunity has been for ALL SIZES of producers. The families and operations earning the highest value per head are often considered “small family producers.” In a value-based system, the very family operation who never had market access due to limited cattle numbers can reap the largest financial benefit on a per head basis.

USPB is a group of cattlemen and women that has its roots deeply planted in the cow-calf segment of the beef industry. The founding members were motivated to form a marketing company for their finished cattle aligning grass roots beef producers from conception to consumption. They wanted to build a production/marketing system incentivizing the production of high-quality beef and have an ownership position all the way through value-added processing.

USPB was an answer to a market experiencing intense challenges. Since the beginning, GAR and those who participate in USPB, market their cattle on a value-based pricing system, based on the quality of the beef produced. This is a market with targeted, well defined, repeatable end points directly influenced by consumer demands. Value-based pricing in the beef industry recognizes and pays premiums for the production of beef products in highest demand. This pricing mechanism also uses discounts for the production of undesirable beef which does not hit the defined targets. The data confirms, through economic signals, what we are doing right as well as areas in need of improvement. We have gone from selling a commodity product on a cash market which does not differentiate quality attributes, to marketing on a value-based program which fully recognizes and pays premiums for quality production.

GAR and producers from 38 states have marketed their cattle from over 1,400 feedlots to National Beef’s processing plants in Liberal and Dodge City, Kansas, and Tama, Iowa. The data received back on an individual animal basis teaches me to be a better cattleman and shows how specific changes in genetics, management, nutrition and animal care practices can help me make continual improvements. Producers like our family provide a quality protein product to help feed a global population of approximately 7.7 billion today. We will need to utilize these same parameters for quality improvement, combined with innovation and technology, to feed a growing population anticipated to be 10 billion people by the year 2050. This is a huge undertaking and challenge to the industry.

It is my perspective USPB changed the game for the entire beef industry and certainly GAR. The graph on the right, “USDA Prime+Choice Grading Percentage” shows the improvement in beef quality grades the past 17 years. The top two grades, USDA Choice and Prime, have shown considerable improvement due to the onset of value-based marketing programs such as



USPB. For example, the largest and highest quality Angus branded beef label is *Certified Angus Beef*<sup>®</sup> (CAB). My father was one of the beef producers who helped negotiate this product line in the 1970s to add value to Angus cattle. Today, CAB is the gold standard label for high-quality beef products found in food service and in many of the top restaurants worldwide. I am convinced the increased demand for beef products would not have been possible if the beef industry had not embraced a value-based marketing system that paid for quality. USPB was the catalyst that pushed the industry to pay for value. We would not enjoy the global demand we do today if we had not changed the system of selling on average to paying for value. It should also be noted that demand for beef products (see graph on page two) has recently hit a 30-year high. Increased beef production of a higher grading product (as detailed in graph on page four) has greatly contributed to the increase in demand. The synergism between demand and the increase in a higher quality product cannot be ignored. Seedstock suppliers such as GAR, are directly tied to the value of beef in the commercial sector. Without USPB, our seedstock would not have the same value.

GAR seedstock genetics are sold to beef producers throughout the nation and in several different countries. We market commercial and purebred Angus females, bulls and semen used by producers employing artificial insemination in their herds. We assist many of our customers in the marketing of their finished cattle. We help them review and interpret the data they receive back on their cattle. When armed with this information, they too become better producers. GAR has customers representing herds of all sizes. Many smaller-sized herds are also those that have earned the largest grid premiums on their cattle.

From the inception of USPB through the end of June of 2021, GAR customers have, on average, earned \$92.71 per head in premiums above the live base market on over 122,000 head of cattle totaling approximately \$11.3 million. Cattlemen and women that have marketed through USPB since the start of the program in 1997 and through 2020, have delivered 16.5 million head, earning more than \$605 million in premiums above the cash market. In 2020, the average premium earned was \$50.32 per head above the live cash market. Considering earnings and distributions that have been paid out, along with grid premiums, over \$2.1 billion have been returned to USPB shareholders because of their investment in their company and the production of higher quality beef.

Our efforts have been successful. There have been numerous other efforts by producers, like those of USPB, to successfully move the beef industry from a commodity business to a value-based system, by opening the information transfer between beef industry sectors and establishing pricing mechanisms rewarding producers who delivered beef that consumers preferred.

Getting involved with USPB in the 1990s was GAR's answer to a fed cattle market that was broken. It should be noted it was not packers and processors who developed the concept of value-based marketing in the beef industry. It was beef producers, like our family, who met with others in the industry, including the packers themselves, to identify a way to be compensated for producing beef products which more accurately and consistently responded to consumer demand.

It is important to understand packers did not force cattle feeders into Alternative Marketing Arrangements (AMAs). Producers were the brainchild of such ideas to get paid for the value produced. Value-based marketing systems are the "rising tide that lifts all boats."

There is considerable discussion in the industry now over the level of cash-traded finished cattle, and the effect on price discovery. None among us disagree over the importance of price discovery. If there was an easy answer to a different method of addressing concerns over price discovery of commodity cattle, the industry would have already figured it out. Efforts in the industry to increase negotiated trade and ensure robust price discovery are already underway.

#### **CONCERN OVER UNINTENDED CONSEQUENCES**

I must also point out the potential chilling effect that regulated government mandates, such as those suggested in Senate Bill 3693 and Senate Bill 543, either with a fixed national level of negotiated trade for live cash cattle or minimums divided into regional levels for the purpose of establishing mandatory minimums, would have on the beef industry. I am unaware of

any research or data which indicates a specific threshold or percent of live cash cattle trade, either fixed across the industry or determined regionally would change the price level of cattle going forward. There is considerable discussion regarding “cash trade.” I look at this as the base price, no different than a commodity like wheat. I can call our local elevator and get the base price for wheat in our area. If I can hit the targets of value with my wheat due to protein content or baking quality, I am paid for this additional value. Value-based cattle marketing operates on the same concept of negotiated grids. We know the targets of value for the processor and the consumer. If we achieve these goals, we are compensated for producing a superior beef product. One possibility to help with the thinly traded “cash market” would be to have base prices of formula, grid and alternative marketing arrangements become a part of the mandatory price reporting.

The beef industry has worked diligently the past 25 years to develop and produce a high-quality protein product that meets the demands of today’s consumer, domestically and internationally. Any changes to pricing solutions are much more effective when created and implemented by the industry, as opposed to government mandates. Cattlemen have historically been a rather independent group. All of us and those that went before us are conditioned to dealing with droughts, economic challenges, opportunities and a market that oftentimes is difficult to figure out. We can overcome this obstacle.

Finally, it is my desire to indicate to this group as strongly as I possibly can, please do not create regulations and legislation that have the unintended consequence of harming value-based marketing. Doing so would undo many years of progress for producers such as my family and those of our customers. Onerous legislation has the potential to result in a reversal of quality that is simply unacceptable to consumers. Legislation limiting progress (and ultimately is a detriment to quality beef production) punishes America’s beef producers.

In conclusion, producing cattle and beef is a tough way to make a living, but I personally would not have it any other way. This is an exciting time in our industry, with tremendous opportunities for beef producers. Producers should be applauded and recognized for taking cues from universities, federal and state agencies, but most importantly, consumers. We take great ownership and pride in producing high quality beef products that compete for the center of the plate in the United States and around the world. I would urge this committee to put beef producers in a position to continue to improve our investments in raising safe, high quality beef products which are completely symbiotic with every beef eating consumer around the world. At the same time, please closely scrutinize proposed government regulations that result in unintended consequences of rolling back the vast improvements in quality the industry and consumers have experienced for more than two decades.

Thank you for the opportunity to testify and present to you today.

Sincerely,



Mark Gardiner, President  
Gardiner Angus Ranch

