Fed Cattle Set-Aside Program

Introduction

The U.S. beef cattle industry is complex with multiple production and processing sectors – all contributing to the overall flow and function of the industry. To operate efficiently, all segments must be fully operational. The COVID-19 pandemic has significantly disrupted this supply chain, with ongoing and severe processing capacity reductions and some complete plant shutdowns. Total weekly processing capacity in the United States has declined by between 20 and 40 percent beginning in late March and continuing through April.

The immediate result is cattle feeders are unable to market all or a portion of their animals in a timely manner, with that backlog of market-ready cattle increasing each week. A backlog of market-ready cattle will have negative economic ramifications back through the beef cattle supply chain, eventually hitting the cow-calf rancher. The cattle industry has experienced three significant losses in packing capacity prior to this event. In each instance, they pale in comparison to recent losses. The current situation has escalated to a capacity loss of 36 percent and fed cattle price declines of $20 per hundredweight compared to market expectations. The trend suggests that each 10 percent decline in fed cattle packing capacity results in a $4.50 per hundredweight decline in sales prices each week of reduced capacity (Chart 1).

The backlog of market-ready cattle is challenging a beef processing system that under optimal operating circumstances, operates under tight total processing capacity. Due to COVID-19, beef processors are being forced to curtail operating hours and output with individual plants reducing capacity between 10 percent and 100 percent because of labor force issues. For the month of April, it is projected that the United States will under harvest approximately 600,000 head of market-ready cattle, according to CattleFax and based on USDA data as of April 30 (Chart 2).
This backlog is occurring as the beef cattle industry is approaching the normal seasonal peak in fed cattle marketings. In the beef cattle industry, the largest slaughter occurs from May through July. In 2020, due to COVID-19, it is expected that the beef cattle industry will carry an additional approximate 1 million head or more cattle into the peak months for cattle harvest (Chart 3). This growing backlog is further exacerbating a dire imbalance of market-ready animals and processing capacity.

The recent “Economic Damages to the U.S. Beef Cattle Industry Report Due to COVID-19” report led by Dr. Derrell Peel indicates there will be an estimated loss of $13.6 billion in total economic damages.
The inability to harvest market-ready cattle and thus the rapidly building backlog of market ready fed cattle and feeder cattle in the system was not accounted for in the Economic Damages report. It could result in catastrophic economic losses for beef cattle farmers and ranchers far above and beyond $13.6 billion. In addition, the disruption in the beef supply chain is causing concern about the food supply among consumers as meat supply shortages are being reported and beef prices are at record high levels.

Objective of Set-Aside Program

The objective of a Fed Cattle Set-Aside Program is to alleviate the risk of massive economic collapse in the beef cattle industry. Simply, because packing plants cannot run at capacity due to labor force safety and health issues, there is not enough harvest capacity to process the market ready supply of fed cattle on a weekly basis. This program will give the industry a voluntary tool that will reduce the immediate pressure to harvest fed cattle until beef processors are operating at sufficient capacities to harvest them. It will also ensure food security – namely high-quality protein – for consumers. While the concept is simple, the impact will be significant. The Fed Cattle Set-Aside Program will prevent enormous downward pressure on the entire beef supply chain.

USDA has established a National Incident Coordination Center to provide support to producers by helping them identify alternative markets as the many plants are operating at a limited capacity or not at all. This center does not address the bigger issue of oversupply and reduced packing capacity.

Backlogs of market ready animals is not a unique challenge for the beef industry. Other proteins are experiencing the same reduced processing capacity situation. In the beef cattle industry, however, cattle can be placed on a maintenance diet, holding them back from slaughter, without impacting the animal’s health or well-being. The proposed voluntary set-aside program can be a tool to incentivize cattle feeders to place cattle on a maintenance diet and hold cattle back from slaughter, eventually fixing the imbalance in the marketplace. Processing thresholds would be established to trigger the program to “kick in” during times of processing capacity reductions and to cease operations as processing capacity comes back online. This should help prevent the backlog crisis situation we are facing today.

This program is not intended to allow producers to recoup all economic damages. It will prevent massive economic loss throughout the entire beef cattle industry caused by a total breakdown in a system that has oversupply due to removal of production capacity. The proposed set-aside program will also provide certainty and confidence in the food supply.

It is worth noting this proposal is modeled after a set-aside program used in Canada after the BSE crisis in 2004 and is being considered again today.

Proposed Fed Cattle Set-Aside Program Overview

Overview

- An advisory committee makes a weekly recommendation to the program administrator on the number of fed cattle to take into the 75-day program, and the number of cattle which may be released from the program earlier than 75 days
  - For the first enrollment period, the total carryover will be available for enrollment. Through April 30, that is 600,000 head.
• Fed cattle placed in the program may not be offered for slaughter until after 75 program days
• Any decision by the advisory committee regarding number of cattle to take into the program will be based on the weekly backlog of market-ready cattle, and any decision by the advisory committee to release early will be based on a return to 95 percent processing capacity based on the daily harvest total capacity (pre-COVID-19 was approximately 98,000 head per day).
• Cattle released early from the program are exited on a “first-in, first-out” basis on a prorated basis per region – cattle in the program for the longest time will be released before cattle in the program with fewer days.
• Additional feed and operating costs incurred are roughly offset by program payments

**Program Set-Up**

• This program is not intended to be permanently active but rather to serve as a means to balance the availability of market-ready cattle and packing capacity in emergency situations.
  o In the event of two consecutive non-holiday weeks of packing capacity being at 85 percent of the daily harvest total capacity (pre-COVID-19 was approximately 98,000 head per day), the program administrator will publish a notice that the program is open
  o The program will stop accepting nominations for program cattle upon two consecutive weeks at processing at 95 percent daily non-holiday total harvest capacity (pre-COVID-19 was approximately 98,000 head per day) or when the program has been accepting cattle for 12 months.
• Each week is a separate program week
• The advisory committee indicates the number of cattle to be accepted into the program each week based on the weekly number of cattle unable to be marketed. The advisory committee may use such resources as USDA slaughter reports and other industry resources to establish the weekly backlog number and calculate the number of program slots per region per week.
  o The advisory committee will establish timelines and protocols to inform cattle feeders of weekly program numbers and for accepting cattle nominations.
  o If a region does not fill its weekly allotment, those spots would be made available for a second round of bids for producers in any region on a regional prorated basis.
  o If in any given week, regional demand exceeds regional allotment of program spots, the spots will be distributed to cattle feeding entities on a pro-rated basis based on capacity of entities within the region.
• The United States will be divided into six regions based on the USDA AMS-reported regions and USDA Cattle on Feed data.
  o For the purpose of the Fed Cattle Set-Aside program, 1 percent was moved from the Others region to the Texas, Oklahoma region in order to include New Mexico in that region as it is in the USDA-AMS reported regions.
• Total program allotments will be based divided proportionally among the regions (Chart 3).
  Regions include:
  o Texas, Oklahoma (28 percent)
  o Nebraska (21 percent)
  o Kansas (20 percent)
  o Colorado (9 percent)
  o Iowa, Minnesota (7 percent)
  o Others (15 percent)
Cattle feeders may submit to the program the number of market-ready cattle to enroll. Before the beginning of any program week, cattle feeders will receive notification if animals have been accepted into the program. Following release from the program, fed cattle are eligible for sale. A producer may submit a petition to remove cattle from the program in the event of an emergency situation that severely restricts or prohibits the ability to continue feeding cattle.

**Advisory Committee**

- An objective advisory committee of 3 to 5 industry stakeholders will provide oversight/guidance to the program by
  - (1) determining the number of cattle to enter the program each week,
  - (2) determining whether cattle already in the program should be released for immediate slaughter on a FIFO basis, and
  - (3) ensuring program integrity by receiving and reviewing records prior to approving payment.
- Advisory committee should at least 1 representative from academia.
- The advisory committee members should represent the various components of the cattle feeding sector but should not include active industry participants to ensure objectivity.

**Payment Considerations**

- The payment rate is fixed at $2.90 per head per day and is meant to offset additional feed and operating costs incurred by holding cattle back from slaughter for 75 days. The fixed per head per day rate was developed by leading PhD nutritionists in the beef cattle industry.
- Each producer nominates for each week the number of animals to enter the program.
• Payments are made when the cattle have been on the program 75 days or when released from the program
• Payments are based on the number of days the cattle are on the program, up to 75 days
• Cattle are accepted into the program following closure of the nomination period for each week as outlined by the advisory committee
• Upon release from the program, cattle are not eligible to be re-enrolled in the program

Fed Cattle Eligibility

• Only cattle that are nearing slaughter weight are eligible to be nominated for the program. Those entering the program are to be fed maintenance rations to enable animals to gain minimal weight while on the program
• Minimum lot size for a producer or group of producers is one semi-truck load of cattle from one pen of cattle at the feedyard
• Market-ready weights for cattle to be accepted into the program are established by region based on a three-year average of live slaughter weight reported by USDA
• The minimum regional weights for steers and heifers account for 4 percent shrink:

<table>
<thead>
<tr>
<th>Region</th>
<th>Steer</th>
<th>Heifer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas, Oklahoma &amp; New Mexico</td>
<td>1,375 pounds</td>
<td>1,225 pounds</td>
</tr>
<tr>
<td>Nebraska</td>
<td>1,450 pounds</td>
<td>1,300 pounds</td>
</tr>
<tr>
<td>Kansas</td>
<td>1,400 pounds</td>
<td>1,250 pounds</td>
</tr>
<tr>
<td>Colorado</td>
<td>1,425 pounds</td>
<td>1,300 pounds</td>
</tr>
<tr>
<td>Iowa, Minnesota</td>
<td>1,475 pounds</td>
<td>1,300 pounds</td>
</tr>
<tr>
<td>Others</td>
<td>1,400 pounds</td>
<td>1,300 pounds</td>
</tr>
</tbody>
</table>

• To be eligible for the program, cattle must be owned by the same entity for at least 100 days before enrolling in the program
• Once entered into the program, these fed cattle may not be traded until the end of the 75-day period or upon early release from the program by the advisory committee

Cattle Feeder Eligibility

• To be eligible to nominate cattle for the Fed Cattle Set-Aside Program:
  o The entity (individual producer or business entity) must have legally owned the livestock for at least 100 days
  o Persons or legal entities must be a U.S. citizen, resident alien, partnership of U.S. citizens, or a legal entity organized under State law
Reporting & Verification

- In order to receive payment after cattle have been released from the program, producers must submit the records to verify accuracy of participation. Records could include, but not be limited to the following:
  - Proof of ownership
  - Name and address of feedyard where cattle are located
  - Number of head enrolled
  - Average out weight
  - Lot number
  - Pen number
  - Number shipped
  - Number harvested & date of harvest
  - Close out

- The advisory committee will establish reporting and verification protocols and inform cattle feeders of these program requirements.

- All submitted information is subject to verification or spot check at any time before payment is issued. Refusal to allow information to be verified will result in forfeiting eligibility for the set-aside program. Providing false information will result in ineligibility and/or repayment of program funds and can also be punishable by imprisonment, fines, and other penalties.

Fed Program Cost Estimate

- Payments of $2.90 per head per day times 75 days for animals enrolled in the program = $217.50 per head
- Estimated number of slaughter cattle to go through the program: According to forecasts by CattleFax based on USDA data, it is expected that the fed steer and heifer slaughter will be down between 600,000 head and 1.5 million head through the end of 2020.
- Estimated cost of the Fed Cattle Set-Aside Program is between $131 million and $326.25 million.