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Chairman Costa, Ranking Member Johnson, and Members of the Subcommittee, thank you for this opportunity to testify regarding the potential for producer-ownership in the U.S. beef supply chain. I am an agricultural economist at the University of Missouri. As an extension specialist, I have spent 10 years working closely with producers and the cooperatives of which they are member-owners. My extension work supports the governance roles and financial acumen of cooperative directors and educates producers, students, and the public about cooperatives. My research considers the evolving agribusiness landscape as it relates to consolidation in Midwest agriculture, the challenges facing agricultural cooperatives and producers, the role and value of cooperation, and the benefits to producers as they participate more fully along their supply chains.

As an economist, I believe in the power and elegance of capitalism. The pursuit of profitability through private ownership, private control, and private returns fuels innovation and efficiency. I also believe that sustainable capitalism must take a holistic view of markets, and this requires competitive markets — where no single entity has undue control or influence on the pricing or availability of a product or service that disadvantages others in the supply chain. An equally important feature of capitalism is market efficiency — where coordination of market activities minimizes costs; permits free exchange of information; and leads to an appropriate allocation of resources, goods, and services. Although my testimony today is not about pricing, concentration, market power, information exchange, or efficiency in the beef supply chain, these are all dimensions that can be improved and sustained through producer-ownership. Cooperatives bring discipline to a supply chain, and this discipline is critical to efficient and competitive markets.

Cooperatives are a special type of corporation. They are distinguished from traditional corporations by their ownership structure, who makes the decisions and how, and who benefits from their activities. Traditional corporations are investor-owned. Investors contribute equity capital privately or buy shares of a company's stock. The value of that investment depends on the corporation's profitability. Investors benefit when the shares of their stock increase in value and when the corporation pays dividends on those shares. The more you invest, the more voting power you have and the more you benefit from the business' success. Investors expect a return on their investment, and management's job is to ensure that. No requirements stipulate that these investors are otherwise linked to the business, and most often they are not. Furthermore, the board of directors — the corporation's governing body — has no requirements to be actively involved otherwise in the supply chain. This creates a situation where the corporation makes decisions in the best interest of its investors by looking at its bottom line. Beyond ensuring that it meets the needs of suppliers and buyers, the business has little incentive to share the benefits of its activities upstream or downstream.

A supply chain — or part of a supply chain — dominated by a few very large, investor-owned firms that pay most attention to their immediate economic needs can become undisciplined and lack sustainability from a holistic market viewpoint. This was precisely the situation our nation, producers and consumers faced in the early 1900s. Producers trying to market and distribute their products were outsized and subject to unfair trade terms and pricing. Congress recognized that the supply chains in grain, dairy, and other critical sectors left producers with too little control, subjected producers to predatory pricing, and distorted the prices that consumers paid. In 1922, in response to the growing imbalances, Congress authorized producers to form associations, or cooperatives, through the law titled "An Act to Authorize Association of Producers of Agricultural Products" — more commonly known as the Capper-Volstead Act. By permitting producers to form associations to collectively process, prepare for market, handle, and market their products, Congress provided a mechanism for producers to have equal footing with the big companies with which they did business. The law did include several requirements. Those requirements, which state statutes governing cooperatives and producer associations subsequently reinforced and enumerated, are embodied in the Principles of Cooperation. Among these are the following:

1. Open and Voluntary Membership: There is no requirement to become a member. Producers participate voluntarily so long as they can use a cooperative's services and accept the

responsibilities of membership, regardless of race, age, religion, gender, and economic circumstances.

2. Democratic Member Control: Members actively participate in setting policies and making decisions through a democratic process that is independent of their equity contribution. The cooperative is governed by a board of directors elected by and from among the membership. The board is accountable to those members.
3. Economic Participation: Members contribute capital equitably, and the association operates for the benefit of its members. Profitability is shared with the membership proportional to members' use, and the cooperative can allocate surpluses for growth; reserves; and other activities, including investments in their communities, approved by the membership.

Capper-Volstead created a vehicle for a nearly inextricable link between producers and their supply chains — however far into it they choose to organize vis-à-vis cooperation. This structure and its requirements are precisely why we say that a cooperative brings discipline to a market. Instead of focusing on short-run profits, the cooperative seeks to aggregate and transfer the value further along the supply chain back to its producer-members. In contrast to a traditional investor-owned corporation, a cooperative's incentives are aligned with the interests of those who do business with it because they are the ones who provide equity capital, make decisions, oversee its operations, and benefit from its activities. Furthermore, those owning, controlling, and benefitting from the business live in the communities in which the cooperative operates. Producer-members have an incentive to ensure that the business acts responsibly in the community.

According to the USDA's 2019 Agricultural Cooperative Statistics Report, more than 1,700 U.S. producer-owned agricultural cooperatives operate more than 9,000 locations in the U.S. and have nearly 1.9 million voting producer-members. You may recognize cooperatives such as Land O'Lakes, Dairy Farmers of America, and Organic Valley — dairy marketing and processing cooperatives that each uniquely provide their producer-members with access to supply chains for dairy and its products. Blue Diamond Growers; Florida's Natural Growers; the Ocean Spray Cooperative; and the National Grape Cooperative Association, which owns the Welch's brand, are composed of independent growers who control and own their respective supply chains from production to product branding to retailing. Hundreds of local and federated grain marketing and input supply cooperatives including Ag Processing (AGP), CHS, GROWMARK, MFA Inc., and Southern States give grain producers sufficient scale to collectively purchase inputs, market their grain, and expand into value-added markets. Producers even participate in financing their own operations and their cooperatives through ownership, governance, and risk- and profit-sharing in financial cooperatives such as the Farm Credit System and CoBank. Each of these cooperatives has succeeded in improving producers' control in the marketplace, facilitating greater coordination, adding value to producers' operations and income through profit- and risk-sharing, and improving their rural communities.

I want to address a common misunderstanding, too, about cooperatives and collective action by producers — that is, that big cooperatives act just like big corporations and eventually seek to maximize their own profitability. A company, even a monopolist, that is owned by producers and required to be governed by those producers and share profits with those producers will still reflect a competitive outcome. This is because the company will allocate its profits back to those producers. Even if the cooperative earns very high margins, it shares the returns with producers proportional to their business. This effectively increases the net price a producer receives for her or his or her output or decreases the price a producer pays for a product or service. Producer-owners decide how and how much of the profitability to allocate and how much to retain for investments in the cooperative's assets, relationships, and innovation that enhance producers' production, efficiency, or competitiveness in value-added markets. This is, again, what I mean when I say that cooperatives are a disciplining factor in markets. Cooperatives reflect the values and needs of their producer-members, and they do so by prioritizing people, communities, and values over maximizing profits.

We do have successful, large-scale producer-ownership in livestock, specifically in the pork industry. Triumph Foods is a producer-owned LLC, and its operation reflects the features of cooperatives I have described. In its model, each producer commits to deliver a specific number of hogs to the plant each year, and producer-members provide a proportionate share of the plant construction cost. Producers are free to deliver surplus hogs to other processors. Meat produced at the plant is marketed by Seaboard Foods, and the producer-owners are paid based on the dollars generated by these wholesale sales. The producer-owners have a long-term contract to sell hogs and effectively earn wholesale meat prices for their animals.

The question this subcommittee and the beef industry contemplates is whether producer-ownership — through cooperatives or other forms of collective action — can be a way forward for this industry. You have heard testimony about the significant scale economies that exist in beef processing, suggesting that small-scale processing to commodity markets is unlikely to be sustainable in the long term. Country Natural Beef is a cooperative representing more than 90 family-owned ranches in the western U.S. It began in 1986 and is still operating today. The business processes approximately 500 head of cattle per day. The producer-owners collectively engage in custom processing, packaging, and marketing of their beef through local retail stores, and the ranchers capture profits from raising cattle through processing. Every rancher is an owner and serves on the board of directors. Grass Roots Farmers' Cooperative and Buckeye Valley Beef Cooperative are smaller-scale examples of beef processing for niche and value-added markets, and they sell direct to consumers as well. To my knowledge, however, there is currently no large-scale producer-ownership in beef finishing or processing to traditional markets or that can compete with the very large processors. I can only speculate about the reasons for this. Beef processing has significant scale economies due in part to labor intensity and specialization, the enormous upfront capital investment, and the requirement of a predictable daily intake of a consistent feedstock, which I understand has proven problematic due to the diversity in cattle genetics and cattle production's long biological cycle. The sum of these confounding factors is likely why a small, collective-action model has not emerged with long-term success.

There is a path forward that recognizes concentration in beef processing for traditional markets may be inexorable, even preferred, due to the scale economies that exist. Rather than working against scale economies, one option is to support producer-ownership to an efficient scale. A producer-owned supply chain from the cow-calf stage through processing that reaches a profitable minimum efficient scale in terms of per-head margins will have a different outcome in producer profitability than we see today. We need research to understand the minimum scale. Coordination along the supply chain by producers, when done at scale, can smooth variability in producer incomes by capturing income from downstream markets that are less volatile. The income producers and their cooperatives generate will flow to the rural communities where they operate instead of to investors. Importantly, this model places producers closer to consumer markets and allows coordination between consumer preferences and production decisions.

Concentration in the beef industry, particularly at the processing stage, seems inevitable from an economic sustainability lens. Through cooperation, however, producers have an opportunity to flip the script and participate in earning value that this efficiency creates. Beef producers must desire to coordinate and commit production to the effort via contracting. Challenges related to selling byproducts, such as offal and hides, and uniformity of feedstock supply through genetics must be addressed. With this in mind, I encourage Congress to consider five actions that could improve the likelihood of adoption, success, and outcomes of beef producers participating in collective action.

1. USDA invests into research on minimum efficient scale in beef processing and the commitments needed to achieve it.[1]
2. Temporarily subsidize demonstrated or evidence-based scalable capacity.
3. Create a loan guarantee programs that reduce risks to lenders for producer-owned beef finishing, processing, and marketing and that ensure financing is available earlier in the investment period.
4. Preserve niche-market products and investments through labeling laws.
5. Provide technical assistance for producers to form associations or cooperatives, gain traction in the start-up period, and navigate market coordination with downstream partners.

I began my testimony by stating my belief in capitalism. Through my work with cooperatives and the producers who own and control them, I have come to appreciate the cooperative model and collective action by producers as a workhorse of capitalism in agriculture and a way of conducting business that has benefits well beyond private returns to investors. Concentration in the U.S. beef supply chain may be inevitable due to economies of scale. In this case, market discipline is critical. With temporary assistance, producers can work within the parameters of scale and benefit from it by utilizing a coordinating model, such as cooperation. This form of capitalism enables even the little guy to participate and improve her or his economic situation. This form of capitalism can improve economic conditions in rural communities. This form of capitalism pays attention to the whole of the supply chain — from producer to consumer. Through collective action, producers have the ultimate incentive to ensure the safety, security, and sustainability of their supply chains. Their livelihood depends on it.

Mr. Chairman, thank you for the opportunity to discuss the potential of producer-ownership in the beef supply chain. I look forward to your questions.

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[1] A 2013 USDA ERS Economic Research Report (No. 150), "Local Meat and Poultry Processing: The Importance of Business Commitments to Long-Term Viability" by Gwin, Thiboumery, and Stillman is a model for this investigation.