STATEMENT OF
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Chairwoman Stabenow, Ranking Member Roberts, and members of the Committee, thank you for the invitation to discuss current issues and developments in the livestock industry.

Economic Forecast

As we enter the second half of 2011, livestock prices are generally higher supported by strong U.S. agricultural exports and very modest increases in production. However, livestock margins remain under pressure as weather events and strong demand have pushed prices for feed and other inputs to record levels. Economic growth, especially in less developed countries, and the reduced value of the dollar continue to support global demand and U.S. prices for livestock and dairy products.

U.S. agricultural exports setting records. USDA's forecast for U.S. agricultural exports for FY 2011 is a record high $137 billion, up from $108.7 billion in FY 2010 and the previous record of $114.9 billion in FY 2008. U.S. exports of livestock, poultry and dairy products are forecast to reach a record $26.5 billion in FY 2011, up $5 billion from the previous year.

U.S. **beef** exports for 2011 are forecast at 2.59 billion pounds, 13-percent growth above 2010. Much of this year's export growth stems from U.S. beef export markets in Asia. First-quarter exports to South Korea and Japan were 194 and 63 percent higher than in 2010, respectively, and exports to Hong Kong were 64 percent higher.

U.S. beef exports for 2012 are forecast at 2.52 billion pounds, only fractionally lower than the current year's forecast. Although total U.S. beef supplies will be about 4 percent lower in 2012, strong international demand for beef is expected to help maintain U.S. beef exports at near 2011 levels.

First-quarter beef imports were 19 percent below year earlier levels. For all of 2011, beef imports are forecast at 2.18 billion pounds, down 5 percent from 2010. In 2012, beef imports are forecast to increase to 2.48 billion pounds.

Through March, imports of Mexican cattle were 35 percent higher year-over-year, but imports of Canadian cattle were just over 35 percent below year-earlier levels for the quarter. The spread between U.S. and Mexican feeder cattle prices has continued to widen, a trend beginning in January 2010, but noticeably increasing since the fall of 2010. In addition, almost the entire region of Northern Mexico is experiencing extreme to severe drought causing Mexican cattle to be placed directly into U.S. feedlots.

U.S. **pork** exports are forecast to increase to 4.9 billion pounds in 2011, an increase of 15 percent from the previous year. U.S. exports to South Korea, up 195 percent during the first quarter, are expected to abate later this year as domestic production begins to rebound from recent Foot and Mouth Disease outbreaks. U.S. pork exports in 2012 are expected to decline

slightly to 4.8 billion pounds as exports to South Korea decline as pork production recovers in that country.

The United States imported 1.452 million head of swine in the first quarter of this year, about the same as last year. For all of 2011, U.S. swine imports are forecast at 5.85 million head, up from 5.78 million head in 2010. Swine imports from Canada are expected to register another slight increase in 2012. The modest increase reflects indications that the Canadian swine sector's deep contraction might be bottoming out.

For all of 2011, **broiler** exports are forecast to decline from 6.77 billion pounds in 2010 to 6.48 billion pounds due primarily to lower exports to Russia and China. Broiler exports in 2012 are expected to total 6.7 billion pounds, up 3.4 percent from the 2011 forecast. Broiler exports are expected to benefit from strong prices for beef and pork products as consumers look for the lowest priced sources of protein.

Major crops: global supplies tight. For the 2011/12 marketing year, global demand is forecast to exceed global production causing global stocks of grains and oilseeds as a percent of use to fall and crop prices to rise.

Corn plantings affected by weather. Planting delays through early June in the eastern Corn Belt and northern Plains due to excessive moisture and flooding are expected to reduce corn planted area for 2011 by 1.5 million acres from March intentions to 90.7 million acres. Despite the decline, corn planted area is currently projected to be the highest since 2007 and the second highest since 1944.

In June, USDA lowered corn harvested area for 2011 by 1.9 million acres to 83.2 million, reflecting early information about May flooding in the lower Ohio and Mississippi River valleys and June flooding along the Missouri River valley. Corn production for 2011 is projected at 13.2 billion bushels, a record and up 753 million bushels from 2010.

Despite the increase in corn production, total corn supplies for 2011/12 are down 230 million bushels from 2010/11 as lower beginning stocks more than offset the projected increase in corn production. Feed and residual use is forecast to fall by 150 million bushels from 2010/11, reflecting lower red meat and poultry production, increased wheat feeding and a slight increase in production of ethanol feed byproducts. Food, seed and industrial use is forecast to increase by 55 million bushels, with nearly all of the increase attributable to higher corn use for ethanol production. Exports are forecast to decline by 100 million bushels in 2011/12, as higher international prices provide an incentive to increase production abroad and substitute wheat and other feed ingredients for corn in livestock rations. Corn ending stocks are projected at 695 million bushels, or 35 million bushels lower than beginning stocks. The 2011/12 season-average farm price for corn is projected at a record $6.00 to $7.00 per bushel, up from last year's record of $5.20-$5.50.

Ethanol growth expected to slow. In 2010/11, 5.0 billion bushels of corn are expected to be used to produce ethanol. USDA projects 5.05 billion bushels of corn will be converted into ethanol in 2011/12, accounting for 38 percent of total use and 38 percent of corn production. Each bushel of ethanol produced from corn yields byproducts, such as distiller dried grains, which substitute for corn and other feed ingredients in livestock rations.

The Energy Independence and Security Act of 2007 (EISA) calls for a Renewable Fuel Standard (RFS2), which mandates that the United States increase the volume of biofuel that is blended into transportation fuel from 12.95 billion gallons in 2010 to 36 billion gallons by 2022. Under RFS2, the volume of corn-based ethanol required to be blended in transportation fuel is capped at 15 billion gallons by 2015. Ethanol production exceeded 13 billion gallons in 2010 and could reach nearly 14 billion gallons in 2011. Therefore, RFS2 is expected to lead to only modest increases in ethanol production over the next several years.

Soybean production projected to decline slightly in 2011/12. In the March Prospective Plantings report, growers indicated that they intend to plant 76.6 million acres of soybeans in 2011, down 1 percent from last year. Although adverse weather has slowed planting progress, USDA has not reduced soybean planted area awaiting release of the Acreage report on June 30th.

Soybean production is currently projected at 3.285 billion bushels for 2011/12, down 1.3 percent from last year. U.S. soybean supplies are projected at 3.48 billion bushels, down slightly from last year as higher beginning stocks about offset the decline in production. Soybean exports are projected to decline about 1 percent from last year's record, reflecting increased competition from South America. Carryover stocks are forecast at 190 million bushels, up 10 million bushels from last year's estimate. The farm price of soybeans is forecast to average a record $13-$15 per bushel for the 2011/12 marketing year, compared with last year's record high of $11.40. The price of soybean meal for 2011/12 is projected at $375 to $405 per ton, up from $350 in 2010/11 and $311 in 2009/10.

Wheat feeding higher, price up in 2011/12. At 57.7 million acres, wheat acreage is expected to rebound in 2011/12 from last year's 53.6 million acres, the lowest since 1970. Flooding and persistent wet soils have delayed planting of spring wheat in North Dakota and Montana well beyond the normal planting window.

U.S. wheat production for 2011/12 is forecast at 2.058 billion bushels, down 150 million bushels from year last year as slightly higher harvested acreage is more than offset by a lower national average yield per acre. In 2010/11, favorable weather pushed the average yield per harvested acre to a new record high of 46.4 bushels per acre. Drought in the Southern Plains is forecast to reduce this year's average yield to 43.1 bushels per acre.

Total wheat supplies for 2011/12 are estimated at 3.0 billion bushels, down from nearly 3.3 billion bushels in 2010/11. Feed and residual use is forecast to increase 50 million bushels from last year, as higher corn prices and a rebound in soft red wheat production encourage more summer quarter wheat feeding. U.S. wheat exports are projected to fall by 245 million bushels from 2010/11. Export prospects are sharply diminished with reduced hard red wheat production and increasing competition as Black Sea production and exports rebound following last year's weather-reduced harvest. U.S. ending stocks are projected to decline 15 percent to 0.7 billion bushels.

The farm price of wheat is forecast to average a record $7.00-$8.40 per bushel in 2011/12, compared with $5.70 per bushel for the 2010/11 crop and the previous record high of $6.78 in 2008/09.

Livestock & livestock products: U.S. production and prices stable. Total U.S. production of meat and poultry is forecast to register a slight decline in calendar year 2012, with slight growth forecast in supplies of pork and poultry offset by reduced supplies of beef. Slightly lower production, increased exports and some recovery in domestic demand should help maintain livestock prices near historic highs.

For livestock and dairy producers, increasing feed costs will continue to be an important component of producer production decisions in the upcoming year. While livestock and milk prices are expected to remain strong, higher feed costs could lead to below average margins for livestock and dairy producers during the second half of 2011 and in 2012.

Cattle prices forecast record high. The inventory of cattle and calves as of January 1, 2011, totaled 92.6 million head. This is the lowest January 1 inventory of cattle and calves since 1958. Large cattle placements and large cow slaughter due in part to drought in the Southern Plains is expected to maintain beef production in 2011 near last year's level, despite the decline in cattle inventories.

Beef production is forecast to decrease by 4.8 percent in 2012. The decline in cattle inventory is expected to diminish the pool of cattle available for placement in feedlots during 2012 which in turn will reduce the number of fed cattle available for slaughter and beef production. In addition, higher feed prices are expected to slow feedlot placements as producers keep cattle on forage longer.

During the first 5 months of 2011, fed cattle margins averaged lower than year ago levels but remained positive, despite much higher feed costs. Some weakening in steer prices and higher feed costs could push margins lower during the remainder of 2011 but higher beef prices could lead to some improvement in returns in 2012. Steer prices are expected to average a record $111-$120 per cwt. in 2012, compared with $110-$114 in 2011 and $95 in 2010.

Pork production to increase slightly. Pork production in 2011 is estimated to increase by 0.8 percent after falling by 2.4 percent in 2010. While hog prices were up 34 percent in 2010 and are expected to average higher in 2011, increases in feed costs are expected to temper expansion over the next several months. The *Quarterly Hogs and Pigs* report released by USDA on March 25, 2010, indicates that producers intend to farrow 3 percent fewer sows during March-May and June-August than during the same period in 2010.

While smaller breeding animal inventories and lower farrowing intentions often translate into lower pig crops, continued gains in sow productivity are expected to largely offset lower farrowing numbers in 2011. Moreover, enhanced nutrition management practices are expected to continue to move average dressed weights slightly higher, despite increasing feed costs. Pork production is forecast to increase by 1.3 percent in 2012. Hog prices are forecast to average $61-$66 per cwt. in 2012, compared with $62-$65 in 2011 and $55 in 2010.

In 2010, hog prices posted a strong increase while feed costs moderated leading to improved returns for hog producers. During the first five months of 2011, feed costs have generally increased faster than hog prices reducing the margins of hog producers. For the remainder of 2011 and into 2012, continued high feed costs and limited increases in hog prices could continue to pressure the returns of hog producers.

Broiler meat production to increase. Broiler meat production for first-quarter 2011 was reported at 9.3 billion pounds, up 6.4 percent from the same period in 2010. For the remainder of 2011, broiler meat production is forecast to average slightly below last year's level, as increasing feed costs constrain expansion.

U.S. broiler meat production is expected to total 38.0 billion pounds in 2012, up 1.7 percent from 2011, with the expansion concentrated mostly in the second half of the year. Gains in broiler meat production are expected to come from a combination of more birds slaughtered and continuing increases in average bird weights at slaughter.

During the first five months of 2011, the returns of broiler producers are down sharply as feed costs moved higher and broiler prices fell below year ago levels. Over the next several months, modest gains in broiler prices combined with continued high feed costs are expected to lead to little improvement in the returns of broiler producers. Broiler prices are expected to average 82-88 cents per pound in 2012, compared with 82-85 in 2011 and 83 in 2010.

Retail food prices. In 2010, the Consumer Price Index (CPI) for all food increased by 0.8 percent, the lowest annual food inflation rate since 1962. Higher commodity and energy prices are expected to lead to a much stronger increase in retail food prices in 2011. For 2011, the CPI for food is currently forecast to increase by 3 to 4 percent, with the CPI for food at home increasing by 3.5 to 4.5 percent and the CPI for food away from home increasing by 3 to 4 percent. Higher levels of price inflation are expected across all major food categories in 2011, with most of the largest year-over-year increases in price inflation projected for livestock and dairy products. In 2011, the retail prices for beef, pork and dairy products are all expected to increase by 5 percent or more. In contrast, the CPI for dairy products went up by just 1 percent and the CPI for beef increased by 3 percent in 2010. The CPI for pork increased by slightly less than 5 percent in 2010 and is forecast to increase by 6.5 to 7.5 percent in 2011.

Issues and Opportunities for Livestock Producers

USDA works with the livestock industry in many different ways.

Conservation

Conservation programs and systems play an important role for the Nation's livestock producers as they work to achieve their production and environmental objectives. While conservation is often looked upon only for environmental benefits, it is clear that there are also economic benefits – for example, resulting from forage improvements, clean water, pest or disease control, and greater resilience to weather disturbances. Investment in new conservation tools and technologies are increasing the options for producers in choosing a workable path to meet environmental and production objectives. New information on the condition of our grazing land resources and the effects of current conservation practices will be advancing improvements in the suite of tools and practices for operators and conservationists.

The conservation portfolio provides a suite of tools to help the Nation's livestock producers achieve their production and environmental objectives in a balanced and sustainable fashion. Technical and financial assistance are available to help producers undertake any number of measures to manage environmental concerns, minimize risk, deliver improved environmental

benefits, and ensure that their lands remain a valued component of the agricultural landscape. In addition to conservation technical assistance, which provides direct planning and implementation assistance to growers and operators, USDA delivers a number of important Farm Bill programs, including:

The Environmental Quality Incentives Program (EQIP) is the lynchpin of USDA's support for animal agriculture. In FY 2010, nearly $509 million was obligated in 19,744 contracts with livestock producers to undertake conservation measures. EQIP provides financial and technical assistance on working lands to help producers address environmental challenges. Sixty percent of EQIP funds are required by statute to be directed to livestock related natural resource concerns.

A significant element of the program is assisting operators to implement needed nutrient management measures. If an EQIP contract includes an animal waste storage or treatment facility, the participant must develop and implement a comprehensive nutrient management plan (CNMP). EQIP also supports many statutory and landscape-based initiatives that are also critical to animal agriculture, such as: the Agricultural Water Enhancement Program, the Conservation Innovation Grants, the Cooperative Conservation Partnership Initiative, the Chesapeake Bay Watershed Initiative, the Great Lakes Restoration Initiative, and the Sage-Grouse Initiative.

EQIP authority and flexibility makes it possible to address a wide range of issues facing animal agriculture. For example, the Natural Resources Conservation Service (NRCS) in Michigan recently began to use EQIP to help prevent the spread of bovine tuberculosis. It is believed that bovine tuberculosis is spread to livestock by deer through direct contact or from contaminated food or water shared with livestock. Producers are using EQIP assistance to establish conservation practices such as fencing, access control, improved drinking water facilities and other resource improvements that help manage deer in areas used by livestock. In cooperation with the Michigan Department of Agriculture, NRCS is helping operators voluntarily address this serious disease issue while implementing best management practices which also help sustain natural resources.

Other important programs available to help agricultural and forestry producers create and maintain conservation activities include the Conservation Reserve Program, the Conservation Stewardship Program, the Grasslands Reserve Program, the Farm and Ranch Lands Protection Program, and the Wetlands Reserve Program. These land protection efforts help producers preserve habitat and restore, protect, and enhance their lands while sustaining viable, productive agricultural operations.

Innovation of conservation technology is also a critical component of NRCS activities supporting animal agriculture. Through our work in conservation innovation, USDA is promoting development of new conservation technologies and approaches that will provide additional opportunities for livestock and poultry growers to balance environmental and production objectives.

Animal Health and Traceability

One of USDA's most important missions is its efforts to safeguard animal health. Foreign animal diseases can have a devastating impact on livestock and the livelihood of producers, and while prevention is our priority, we must be ready when an outbreak occurs. Animal disease traceability will serve as the cornerstone of USDA's efforts in controlling diseases that may threaten our country.

A traceability system is the primary tool we would use when disease strikes. Under a traceability system, USDA could trace an infected animal back to where it may have been exposed to the disease, as well as find any animals with which may have come into contact. It would allow us to find disease, quickly address it, and minimize the harm to producers.

We learned a lot from our initial efforts from several years ago in developing an effective system. We held a series of listening sessions around the country to solicit feedback on the prior system. We reflected on what we heard, and used that to form a broad outline of what a system could look like.

A little over a year ago, USDA presented that framework, a new approach for animal disease traceability. The Secretary proposed a comprehensive, flexible approach that builds on the strengths and resources of the previous system, addressing gaps, and improving this nation's ability to track and identify animals exposed or potentially exposed to disease.

USDA has worked hard to ensure that this is a collaborative and transparent approach, and our outreach to those affected by the proposal did not end there. We held more public meetings around the country to discuss the proposal, and solicit ideas on the approach. We reconvened the Secretary's Advisory Committee on Animal Health to help generate ideas and suggestions. We have heard from thousands of stakeholders, including States, Tribal Nations, and both large and small producers over the course of the last year.

The bottom line is that we know that we need an approach that is flexible enough to account for hundreds of different situations in thousands of locations. What may work best in Montana may not work in Wisconsin. The chief criticism we heard of the previous approach was that it was controlled from the top-down and inflexible. This new approach fixes that, letting each State or Tribal Nation decide what meets its particular needs. We are vested in having a system that works, which means a system that producers and our partners buy into.

The approach we now have focuses on results, not on prescribed methods. So there can be many different routes to the common goal of improving this nation's ability to trace animal diseases. Some states may choose to use higher levels of technology within their state, but they are also free to use the low-cost, low burden "brite" ear tag, which APHIS would provide at no cost to producers. With a focus on results, States and Tribal Nations have the flexibility to pursue options that work best for them.

While we have focused on fixing the previous system's weaknesses, it does not mean that we are entirely throwing out that system. The new proposal that we are developing builds on the successes of the previous approach, using what worked.

With a strong animal disease traceability system in place, USDA will be better able to respond to any outbreaks of foreign animal disease. It will give confidence to markets that we can trace and confront disease outbreaks, thereby improving the overall health of U.S. agriculture.

Brucellosis and Bovine Tuberculosis

Today's agricultural producers constantly face new challenges that USDA strives everyday to address--from new foreign animal diseases and pests, to changes in technology, to disagreements in the trade arena. And like those producers, we regularly look at how we can evolve to meet today's challenges while also looking ahead to tomorrow.

One area in which we have tried to find a new way of operating is with our bovine brucellosis and bovine tuberculosis (TB) programs. These programs have been very successful. In collaboration with State animal health partners, producers, and other stakeholders, we have made great strides in reducing the incidence of both diseases in U.S. livestock. But, we also see that in today's animal health landscape, new approaches are in order--and as a result, we have reached out to stakeholders to help update these programs.

To kick off these efforts, APHIS, in October 2009, published two concept papers proposing new directions for our brucellosis and bovine TB programs. We followed this with a series of meetings with industry and state officials, because we believed that stakeholder input and transparency should play important roles in the process.

With respect to our national brucellosis program, in December 2010, we published an interim rule with a goal to transition the national brucellosis program from one based on geopolitical boundaries to one based on boundaries determined through sound science, epidemiology, and risk assessment. Our goal is to direct our focus and our resources to high-risk areas. Currently, that means the Greater Yellowstone Area (GYA), where the disease is endemic in wild bison and elk, presenting a significant threat to livestock in the area.

We are also updating the bovine TB program. We are making changes based in part on what we have learned about the pathways for the introduction and spread of bovine TB in today's agricultural landscape. In April 2010, we took a first major step toward updating the bovine TB program with the publication of a Federal Order which removes certain movement restrictions and testing requirements in States that have TB-affected herds. There is no longer a good reason to place certain movement restrictions on animals unaffected by the disease, just because TB has been found elsewhere in a state. The Federal Order allows producers who do not have affected animals to move animals interstate, minimizing negative impacts until the current TB program regulations are amended. The Order also ends the automatic downgrade of an accredited free state or zone to a modified accredited advanced state or zone when TB-affected herds are found, as long as the state meets certain criteria for preventing the spread of the disease.

Because we are planning changes to both the national brucellosis and bovine TB programs, we assembled a joint working group of our Federal, State, and Tribal partners to discuss the overarching regulatory concepts for both programs, and we are considering a combined rule for both programs. Ultimately, we plan on proposing regulations that will update both our brucellosis and bovine TB programs to reflect the current world we live in and the challenges that USDA and producers face.

USDA Animal Health and Animal Production Research

USDA's Research, Education, and Economics (REE) mission area conducts and funds research to detect, prevent, and control domestic and foreign animal diseases and improve the efficiency of animal production. The Agricultural Research Service (ARS) conducted critical research in 2009 on the pandemic H1N1 influenza virus which showed how pork could be safely eaten. This timely research minimized the financial losses incurred by the U.S. pork industry. ARS also supports regulatory agencies like APHIS with Brucellosis and Bovine Tuberculosis research. The National Institute for Food and Agriculture has provided funding to scientists from multiple universities to develop vaccines and diagnostic tests to control Avian Influenza and Porcine Reproductive and Respiratory Syndrome Disease and provides funding in support of the National Animal Health Laboratory Network (NAHLN). The NAHLN is jointly led by the APHIS National Veterinary Services Laboratory and the National Institute of Food and Agriculture. Supported through the Food and Agriculture Defense Initiative, it includes a network of state and university diagnostic laboratories to rapidly detect animal diseases in the United States.

Additionally, REE conducts food safety research in support of the Food Safety Inspection Service to detect and reduce the prevalence of food safety pathogens. USDA and collaborating universities have developed a process to dramatically improve genetic selection in dairy cattle with the use of genetic marker information, saving the dairy industry considerable cost in identifying the genetically superior animals. ARS and university scientists have worked with the dairy industry to measure greenhouse gas production from the entire production system and are identifying opportunities for reducing greenhouse gas production.

Grain Inspection, Packers and Stockyards Administration (GIPSA)

The economic viability and quality of life in rural America also requires a fair and competitive agricultural system. The Department and this Administration have made it a priority to examine and take steps to create and maintain a fair and transparent marketplace in agriculture and especially the livestock and poultry sectors. GIPSA published a final rule to establish basic fairness for poultry contracts, and in particular, to ensure that producers no longer have their contracts arbitrarily cancelled without notice. In addition, the President's FY 2012 budget includes a request for an increase in appropriations for GIPSA to improve enforcement of the Packers and Stockyards Act.

Both USDA under the Packers and Stockyards Act of 1921 and the Department of Justice (DOJ) under the antitrust laws have authorities to ensure producers are treated properly. An important part of our efforts has been to work together and eliminate any stove-piping where it existed

between the agencies. USDA and DOJ in 2010 held five joint workshops to listen and learn from farmers, ranchers, cooperatives, processors, retailers and others to better understand the state of competition in agriculture. These workshops have solidified our working relationship with DOJ and furthered our understanding of what producers and others are concerned about.

In June 2010, GIPSA published a proposed rule that has become commonly known as "the GIPSA rule." The purpose of the rule was to improve fairness and transparency in the livestock marketplace based on provisions contained in the 2008 Farm Bill and areas the agency identified for further consideration. The rule has sparked considerable interest and discussion and GIPSA received 61,000 comments that are being analyzed to complete the rulemaking process. At this stage, GIPSA has consolidated and summarized all of the comments and is working on modifying the rule based on them. An economic team headed by USDA Chief Economist Joe Glauber is studying the rule and preparing the necessary cost benefit analysis. His analysis will reflect the comments and especially the cost-related comments that were received by the agency. We have no preset timeline for completing this rulemaking. Our focus is on getting the rule done right and making sure that outstanding issues or concerns are addressed properly.

GIPSA has also worked to improve its enforcement processes under the Packers and Stockyards Act and take action when appropriate. In negotiating settlements, one of GIPSA's priorities is to seek restitution for the producers or other parties that are harmed. For example, two recent settlements included civil penalties of over $125,000 for violations of the Packers and Stockyards Act and payment to producers who were underpaid. The underpaid hog farmers have already received over $1,000,000 in restitution and more is expected as additional transactions are reviewed.

Food Safety

The Food Safety and Inspection Service (FSIS) is the public health regulatory agency responsible for ensuring that our Nation's domestic and imported commercial supply of meat, poultry, and processed egg products is safe, secure, wholesome, and accurately labeled and packaged. FSIS is charged with enforcing the Federal Meat Inspection Act, the Poultry Products Inspection Act, the Egg Products Inspection Act, and the regulations promulgated under these laws. In addition, FSIS also enforces the Humane Methods of Slaughter Act, which requires that all livestock be handled and slaughtered in a humane manner.

USDA inspection is one of the Department's most powerful tools in protecting public health. Consumers rely on the Federal mark of inspection as an indication that the product is safe to eat, and the industries we regulate understand this consumer confidence is vital to the market viability of their products.

FSIS' mission is to protect public health through science-based policies. We partner with industry and consumers as we look to implement policies, explore important research, and develop scientifically-proven strategies to manage the risks posed by foodborne pathogens.

USDA is building upon our existing efforts in three important ways: focusing on preventing and minimizing foodborne illness outbreaks, developing the right tools to protect public health, and focusing on people.

Prevention is our guiding principle. This principle requires a proactive approach and we at USDA collaboratively work every day to protect Americans from foodborne hazards – pathogens like *E. coli* O157:H7, *Salmonella*, *Campylobacter*, and *Listeria monocytogenes*. Our systematic and coordinated strategy to prevent foodborne illnesses includes rigorous inspection, enforcement, product testing, risk analysis, and vulnerability assessments.

Making improvements and enhancements to our existing tools is critical to protect public health. The most important tool we have is the Pathogen Reduction; Hazard Analysis/Critical Control Point regulation, or HACCP. It has been the foundation of USDA inspection since 1996, and is a sound, solid principle and approach to protecting the food supply. Under HACCP, establishments implement their own food safety programs and USDA verifies that these programs are effective. Even after 15 years of HACCP, we strive to ensure every day that this and all of our tools – our regulations and programs – are working to provide the best public health protections. USDA's job is not to make regulations more burdensome; it is to make them clear and work the way they were designed: to ensure that producers make the safest food possible.

Finally, we are dedicated to our mission because we protect people. The Centers for Disease Control and Prevention (CDC) estimates that 48 million people get sick, 128,000 are hospitalized, and 3,000 die each year from foodborne diseases. This is far too many, and we must continue to enhance and strengthen our prevention methods to drive these numbers down. While we have had some successes, we still have a lot of work to do to protect people from preventable, foodborne illness.

The Farm Safety Net and Risk Management Tools

The Risk Management Agency currently offers two types of insurance for livestock producers under Section 508(h) of the Federal Crop Insurance Act, as authorized by Agricultural Risk Protection Act: Livestock Risk Protection (LRP) and Livestock Gross Margin (LGM). Funding for the LRP and LGM is capped at $20 million for all administrative expenses, including premium subsidies and delivery expenses paid to approved insurance providers. In 2011, sales of livestock policies were halted when the statutory cap was reached. This is the first time the funding cap has resulted in a limitation on sales of any livestock insurance product. LRP provides protection against unexpected declines in the price of certain livestock – feeder cattle, fed cattle, lamb, and swine. In 2011, there were 1,522 policies earning premium valued at $256 million for the 196,957 head of cattle, 278,090 head of lamb, and the 56,823 head of swine insured under the LRP plan.

LGM provides protection to livestock producers against unexpected increases in feed costs or unexpected declines in prices for the insured livestock product. Gross margin is the market value of the insured livestock product minus feed costs. In 2011, there were 1,285 policies earning

premium valued at almost $792 million for the 1,480 head of cattle, 46.2 million hundredweight of milk, and 126,410 head of swine insured under the LGM plan.

USDA also provides assistance in times of disaster. The 2008 Farm Bill created several new disaster programs that provide assistance through USDA's Farm Service Agency to producers. The Livestock Forage Disaster Program (LFP) provides financial assistance to producers who suffered grazing losses due to drought or fire, while the Livestock Indemnity Program (LIP) provides benefits to livestock producers for livestock deaths in excess of normal mortality caused by adverse weather. The Emergency Assistance for Livestock, Honeybees and Farm Raised Fish Program (ELAP) provides emergency relief to producers of livestock, honey bees, and farm-raised fish who suffer from adverse weather. As of June 21, 2011, FSA has issued payments to producers totaling $350.5 million for LFP, $108.8 million for LIP, and $28.8 million for ELAP covering losses during calendar years 2008 through 2011.

This disaster package has been an important means of assistance for producers. An example of its importance includes the recent case of Miller County, Arkansas. This county was approved for LFP after meeting the eligibility criteria on December 28, 2010 because of severe to extreme drought in over half the county. The conditions forced several producers out of business and others to take herd reduction measures. For those producers who have chosen to stay in the business, LFP has been of substantial benefit. LFP provided a little over $460,000 to producers ranging from large feeder calf operations to small family-owned cattle herds, and has helped many begin the process of recovery.

Credit Conditions in the Livestock Sector

As profit margins improve, credit availability for livestock producers has improved. However, many livestock farmers, particularly dairy producers, lost a substantial amount of equity over the past few years. Even though the profit situation has improved, high feed prices are keeping margins tighter than usual for livestock producers. In addition, oversight authorities continue to focus on agricultural loans due to concerns over the sustainability of farm real estate values. As a result, many lenders remain cautious in providing credit to livestock producers. USDA continues to work to make sure that producers have access to credit, including working closely with agricultural lenders.

Trade Issues

USDA has also made strides to reduce barriers to U.S. beef exports. In 2011, the value and volume of U.S. beef exports are expected to exceed the pre-BSE levels of 2003. Nearly 100 countries are open to at least some U.S. beef and beef products. This reflects the efforts of USDA and USTR to prevent markets from closing, as well as the re-opening of some 80 markets after the detection of a case of BSE in 2003. Continued expansion of beef trade remains a priority for USDA and USTR.

USDA and USTR are focused on a trade strategy that will increase trade opportunities for livestock, and indeed all of U.S. agriculture. Our strategy includes securing Congressional approval of the trade agreements with South Korea, Colombia, and Panama. Under the Korea

agreement, increased meat and poultry access includes reductions in Korea's tariffs on beef, which will decline from the current 40 percent to zero in 15 equal annual reductions; duty-free entry for more than 90 percent of U.S. pork products by 2016; and tariffs on poultry leg quarters dropping from 20 percent to zero over 10 years. Under the terms of the agreement with Colombia, all prime and choice beef cuts receive immediate duty-free treatment. Tariffs on most key pork products phase-out within five years and chicken leg quarters receive an immediate 27,040 metric ton tariff-rate quota (TRQ) with 4 percent annual growth. Like the Colombia agreement, the Panama agreement will provide immediate duty-free treatment for USDA Prime and Choice beef cuts. Tariffs on pork variety meats will be eliminated immediately and preferential duty-free TRQs will be established and grow over time for fresh and frozen pork cuts, pork fat and bacon, and processed pork. Likewise, a TRQ will be established for chicken leg quarters and, over time, all tariffs on poultry will be eliminated.

Conclusion

USDA is committed to ensuring that we work together with U.S. livestock producers to meet both the challenges and opportunities of the future.

We appreciate the opportunity to testify before this Committee today, and look forward to working with you, Madame Chairwoman, Senator Roberts, and all the members of this Committee as we continue our hard work to ensure that USDA is responsive to the needs of the livestock industry.

We will be happy to answer questions you may have.

Appendix. Farm Economic Indicators

Ag. Trade (Bil. $)	**FY03**	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**	**FY09**	**FY10**	**FY11F**
Total exports	56.0	62.4	62.5	68.6	82.2	114.9	96.3	108.7	137.0
Asia	21.6	24.3	22.5	24.9	29.4	43.2	37.6	45.7	59.5
Canada	9.1	9.5	10.4	11.6	13.3	16.3	15.5	16.6	18.5
Mexico	7.7	8.4	9.3	10.4	12.3	15.2	13.3	13.9	17.0
Total imports	45.7	52.7	57.7	64.0	70.1	79.3	73.4	79.0	93.0
Farm Income (Bil. $)	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010F**	**2011F**
Cash receipts	216.0	237.9	240.9	240.6	288.5	318.3	283.4	312.3	340.7
Gov't payments	16.5	13.0	24.4	15.8	11.9	12.2	12.3	12.2	10.6
Gross cash income	246.8	266.5	279.7	273.2	318.0	352.0	317.6	345.6	372.5
Cash expenses	174.7	182.9	193.1	204.8	240.3	261.6	248.5	254.2	273.9
Net cash income	72.1	83.7	86.7	68.4	77.7	90.4	69.1	91.3	98.6

Commodity Prices 1/	**Unit**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11F**	**2011/12F**
Wheat	$/bu	3.40	3.42	4.26	6.48	6.78	4.87	5.70	7.00-8.40
Corn	$/bu	2.06	2.00	3.04	4.20	4.06	3.55	5.20-5.50	6.00-7.00
Soybean meal	$/ton	183	174	205	335	331	311	350	375-400
		2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011F**	**2012F**
Hogs	$/cwt	50.05	47.26	47.09	47.84	41.24	55.06	62-65	61-66
Steers	$/cwt	87.28	85.41	91.82	92.27	83.25	95.38	110-114	111-120
Broilers	cents/lb	70.8	64.4	76.4	79.7	77.6	82.9	82-85	82-88
Milk	$/cwt	15.19	12.96	19.21	18.45	12.93	16.35	19.65-20.05	17.75-18.75

1/ Agricultural commodity price forecasts are from USDA, World Agricultural Supply and Demand Estimates report, June 9, 2011.
F=forecast.