



March 22, 2010

The Honorable Tom Vilsack
Secretary
U.S. Department of Agriculture
1400 Independence Ave., S.W.
Washington, D.C. 20250

Dear Mr. Secretary:

We understand you have received a letter regarding the governance structure of the National Cattlemen's Beef Association (NCBA). We are writing you to correct several errors in that letter.

We want you and your staff to have a clear understanding of NCBA, our role in the Beef Checkoff Program and the goal of enhancing our governance structure. We welcome the opportunity to review these details with you and answer any questions you may have.

Producer Approval of a National Beef Checkoff

The American National Cattlemen Association (ANCA) and National Cattlemen Association (NCA) – predecessor organizations to NCBA – led three attempts to pass federal beef checkoff legislation in 1977, 1980 and 1988. The 1977 and 1980 referenda failed. For perspective, the 1980 referendum failed with only 37 percent voting yes.

Enabling legislation which created the beef checkoff was passed by Congress as part of the 1985 Farm Bill. This legislation provided for a refund until producers could determine the effectiveness of their program.

The final referendum on the mandatory national beef checkoff was held in 1988 and passed with nearly 80% voting yes because the legislation reflected these fundamental cattle producer beliefs:

- **The beef checkoff must be state-based, from the grassroots.** The legislation gave State Beef Councils control of 50-cents of each dollar. The previous bills had the entire checkoff being sent to a national administrative body. The legislation also enabled states to elect 10 members to the Beef Promotion Operating Committee to join USDA's appointments to the Cattlemen's Beef Board.
- **The beef checkoff must be fair.** Everyone, including importers, must pay the dollar per head every time a beef animal is sold.
- **The beef checkoff must be producer-controlled.** Fellow producers nominate national board members.

- **The beef checkoff must be cost effective.** Beef Board administrative expenses are limited to 5 percent of revenues. Producers favored legislation that did not create new bureaucracy or require new bricks and mortar.
- **The beef checkoff must focus on building and protecting beef demand.** Hence, the mandatory beef checkoff has always been aimed at building and protecting beef demand in the United States and international markets through promotion, research and consumer information programs.

Achieving Efficiency and Effectiveness: the Merging of Cattle Organizations

NCA, the National Live Stock and Meat Board/Beef Industry Council (NLSMB/BIC), U.S. Meat Export Federation (USMEF) and CBB spent nearly three years, in the early 1990s, trying to create a more unified, effective and efficient beef industry organization. During these discussions, USMEF opted out, citing their packer, processor and pork constituents.

CBB, NCA and NLSMB/BIC coauthored the first Industry Long Range Plan and the resulting NCBA structure, the relationship between NCBA and CBB, the committee structure, the original policies and procedures, a joint planning process and most important, the accounting procedures that help ensure checkoff dollars are spent on activity as defined in the Act and Order.

In 1996, at the direction of cattle producers, NCA and NLSMB/BIC merged under these principals:

- One long range plan
- One planning and evaluation process that allocates and evaluates all industry resources against the desired outcomes of the plan
- One set of committees that includes policy, checkoff and joint committees
- One annual and summer meeting where cattlemen could hear the discussion in the same room at the same time
- One staff
- One voice for the industry

The efficiencies achieved were many. In 1998 a Big Eight accounting firm reviewed the first two years of the merger and among its findings concluded expenses had been reduced as a result of the merger. This is a direct savings to producers who invest in the program.

As a result, the newly formed and merged NCBA comprises two divisions: the Federation of State Beef Councils and the Membership Divisions. Every year, State Beef Council boards decide whether to invest part of their state checkoff collections into the Federation of State Beef Councils Division of NCBA. This is a voluntary investment and decisions to invest are made annually.

The Results of a National Beef Checkoff and Merged Industry Organization

A recent producer attitude survey indicated 69 percent of producers support the beef checkoff. Research conducted in 2006 found that only about 2 percent of producers were concerned about NCBA's involvement with the beef checkoff. Finally, the beef checkoff was ruled constitutional in a challenge heard by the United States Supreme Court.

The joint process between NCBA and CBB has resulted in a coordinated checkoff effort to build and protect beef demand within the U.S. Dietary Guidelines for Americans.

- While beef demand is currently down, like it is for many industries due to the global economic challenges, the beef industry had been experiencing a 20-year decline in demand prior to the merger. While we don't single-handedly take credit for a shift in beef demand, we do believe it is telling that the decline in beef demand halted and began to rebound in 1998, two years after the 1996 merger as the joint plan began to take root.
- Consumer spending on beef is nearly \$30 billion more today than it was in the mid-1990s.
- Consumer confidence in beef has remained strong despite some of the biggest beef safety issues like BSE and *E. coli* O157:H7 to ever hit the beef industry.
- New product development efforts have increased the value of the chuck and round. Cattle Fax estimates the increase in the value of the chuck as a result of new products has added \$50 to \$70 per head to the price of fed cattle.
- U.S. beef exports are recovering after the drop in December 2003.

So, why is NCBA evolving its governance structure?

In short, to better serve all the cattle ranchers, farmers and feeders of America.

Just as in every other cattle or farming organization, decisions about NCBA's governance structure are the purview of its board members. At NCBA's Annual Meeting January 2010, NCBA's Board voted 94 percent to develop an improved governance structure. This structure is based on a model we shared with your Department in December 2009.

The Beef Checkoff is Different from Other Commodity Checkoffs in that There is Greater Producer Involvement

The Beef Checkoff Program reflects cattlemen's desire for greater producer involvement. Cattle producers on State Beef Council Boards, cattle producers appointed by State Beef Councils to the Federation of State Beef Councils and cattle producers appointed by you, Mr. Secretary, all come together to direct their Beef Checkoff Program, making it truly a grassroots effort compared to other checkoffs.

Producer members of State Beef Councils play an integral role in directing their checkoff's strategy, funding and beef demand-building programs both at the state and national level.

The letter you received refers to the structure of state cattlemen's associations and state beef councils. As grassroots organizations, the structure of state organizations is a decision made by the cattlemen and beef producers in the respective states. These structures have existed for many years, are highly effective and, to our knowledge, have been audited by CBB and never challenged by USDA.

NCBA's Improved Governance Structure Increases the Voice of the Cattle Producer

We believe greater producer involvement is a good thing. NCBA's improved governance structure embraces producer involvement and is *more inclusive* than NCBA's current structure.

To correct some of the inaccuracies and outdated information in the letter sent to you:

- Members of the proposed House of Delegates *do not* need to be individual members of NCBA. This improvement makes NCBA *more inclusive* and unique among cattle and farming organizations. We know of no other cattle or farming organization that can say this.
- Likewise, in the improved structure, cattle producers no longer have to be appointed to NCBA Committees. These meetings will be *open to all* individual members of NCBA, members of the Federation of State Beef Councils, Cattlemen Association and Breed Association Affiliates and invited guests like members of the Cattlemen's Beef Board. This will be a 'come-all' meeting where everyone has the opportunity to speak and vote.
- The letter says that at least five members of the nominating committee will be policy representatives. This is incorrect. The structure concept approved by NCBA's Board does not designate any nominating committee members as policy or federation representatives. Furthermore, the nominating committee will only *recommend* candidates for the Federation Chairman, Vice Chairman and the eight other seats on the Beef Promotion Operating Committee. If there is dissatisfaction with the slate of candidates, the governance structure allows for nominations to be made from the floor. *Finally, and most significantly wrong in the letter sent to you,* Federation representatives alone will elect the Chair, Vice Chair and the other eight Operating Committee members.

All Beef Checkoff Funding Decisions Will Continue to Be Made by Producers who have Fiduciary Responsibility to the Checkoff

What seems to be overlooked in the letter you received is that all funding decisions for checkoff dollars will continue to be made, as they should be, by those who have fiduciary responsibility to the checkoff. Those people are:

- State Beef Council Board of Directors, who will continue to determine how to invest their 50-cents.
- The Beef Promotion Operating Committee, who will continue to determine how to invest the 50-cents State Beef Councils send to the Cattlemen's Beef Board, as it is directed in the Beef Promotion and Research Act.

Many State Beef Council Boards *choose to invest* in the Federation of State Beef Council Division of NCBA to execute state-national plans to build and protect beef demand. This is a *voluntary* investment. Every year, NCBA has to earn this investment. So how is this investment earned? It is earned by doing effective beef demand-building and protecting work and delivering the promise of the Beef Checkoff. This is an inherent check and balance and why it will never be in the best interest of NCBA to use checkoff funds in any other way than what the checkoff

was created to do: *Build and Protect Beef Demand.*

In closing:

- **Decision Making.** With these improvements, decision-making will be more inclusive at NCBA. This is a cornerstone of the proposed structure deemed necessary by the NCBA Board because the industry needs to come together to successfully address the complex challenges that threaten American agriculture.
- **Accounting.** Checkoff dollars will always be used the way they were intended and according to the law. If not, NCBA won't earn the right to work with the State Beef Councils nor contract with the Beef Promotion Operating Committee. And, to be sure this is always the case, a system of third-party audits will continue to be in place.

NCBA's current Board of Directors, which is made up of 271 representatives from around the country, voted by a significant majority – again, 94 percent – to move forward and develop an improved governance structure.

The challenges that face U.S. cattle ranchers and farmers and our product, beef, are complex. These challenges require a forward thinking, nimble and strategic plan to ensure we can put a safe, wholesome, high-quality product on American tables and tables around the world.

The U.S. beef industry is the largest sector of American agriculture and an engine that drives economies in rural America. The proposed improvements to NCBA's governance structure will enable our industry to build and protect beef demand so that America's cattle and beef industry and our family businesses can prosper for generations to come.

If you would like to review our progress on these governance improvements, we will leave our farms and ranches and be at your office in a moment's notice. We are convinced these improvements will enable NCBA to better serve the checkoff-paying cattle farmers and ranchers of America.

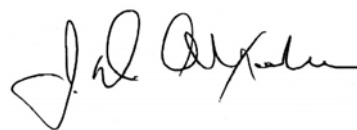
Respectfully,



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