

## Overview of the 2007 USDA GIPSA / RTI Livestock and Meat Marketing Study

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### General Study Conclusions

- *“Alternative Marketing Agreements” not “Captive Supplies.”*
- *AMA use for 10/02-3/05 was 38% for cattle, 89% for hogs, and 44% for lambs.*
- *Packer-owned <5% for cattle & lamb but 20-30% for hogs.*
- *Little or no increase in AMA use is expected for cattle and hogs.*
- *Cash market is important – outlet for small producers and packers and reported cash prices are used by AMAs.*
- *AMA use is associated with lower cash market prices – larger association for hogs than cattle.*
- *Packers and producers benefit from AMA use – lower costs, risk management, and quality control.*
- *Restrictions on AMA use will have a negative economic impact on producers, packers, and consumers.*

USDA Livestock, Meat & Poultry Administration  
Grain Inspection, Packers & Stockyards Administration

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## Livestock, Meat & Poultry

**Livestock and Meat Marketing Study**

In fiscal year 2003, GIPSA received \$4.5 million in appropriations for a broad study of marketing practices in the entire livestock and red meat industries from farmers to retailers, food service firms, and exporters. In June 2004, at the culmination of a competitive bidding process, GIPSA awarded a \$4.3 million contract to the RTI International (RTI) to conduct the study. RTI delivered an interim report in July 2005 describing alternative marketing arrangements and their terms, and reasons that industry participants give for using alternative arrangements. In February 2007, GIPSA released the final report with the results of the analysis of extent of use, price relationships, and costs and benefits of alternative marketing arrangements.

**REPORTS**

**GIPSA Livestock and Meat Marketing Study Final Reports (February 2007)**

- Volume 1: Executive Summary and Overview
- Volume 2: Data Collection Methods and Results and (D, E, F - Transactions Data Collection)
- Volume 3: Fed Cattle and Beef Industries
- Volume 4: Hog and Pork Industries
- Volume 5: Lamb and Lamb Meat Industries
- Volume 6: Meat Distribution and Sales
- Glossary of Terms

**Interim Report**

- **Spot and Alternative Marketing Arrangements in the Livestock and Meat Industries: Interim Report (August 2005)**

**ADDITIONAL INFORMATION**

- Frequently Asked Questions
- Review Peer Reviews, Data Collection Plans, Interim Report, Final Report
- Overview, including review of Transactions Data Collection (February 2006) and Survey of Alternative Marketing Arrangements in the Livestock and Meat Industries-December 2005
- Information Collection Notice Comment Extension
- Notice of Request for More Information Collection
- Request for Proposals - As amended through February 4, 2004
- Request for Proposals - Amendment 4 (February 4, 2004)
- Request for Proposals - Amendment 3 (January 16, 2004)
- Request for Proposals - Amendment 2 (December 22, 2003)
- Request for Proposals - Amendment 1 (December 16, 2003)
- Pre-Solicitation Conference Program Announcement
- Request for Proposals
- Comments on Federal Register Notice
- Federal Register Notice and Request for Comments

Last updated 07/13/2007

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**Final Report (February 2007)**

**Interim Report (August 2005)**

**The Process:**  
Peer Reviews  
Request for Proposals  
Announcement  
Comments to Notice  
Notice

## LMMS Project Structure

- *RTI International*
  - *Cattle & Beef Team – Downstream Team*
    - *AERC & Wharton School of Business at Univ. of Penn.*
      - *Econsult*
      - *Colorado State University*
      - *Iowa State University*
      - *Montana State University*
  - *Hogs & Pork Team*
    - *North Carolina State University*
  - *Lamb Team*
    - *Montana State University*
- *30 personnel, 3 years, & \$4.3 million.*

## **Background**

- *BS in 1983 & MS 1985 from Virginia Tech.*
- *PhD in 1991 from University of Illinois.*
- *Faculty at Oklahoma State University (1989-1995), Michigan State University (1996-1997), and Colorado State University (1998-present).*
- *100% research emphasis on commodity markets and 90% of that is on cattle & beef markets.*
- *80% of research efforts involve supply and demand modeling – explaining & forecasting – 20% involves agribusiness decision making.*
- *Major emphasis on concentration issues.*
- *1996 USDA Concentration Study*

## **Scientific Methods Used**

- *Review of Scientific Literature*
- *Face-to-Face Interviews*
- *Industry Surveys*
- *Analysis of Cattle Procurement Transactions Data*
- *Analysis of Beef Sales Transactions Data*
- *Analysis of Packer Plant-Level Profit & Loss Data*
- *Analysis and Economic Modeling of Publicly Available Data on the Livestock and Meat Sectors*
- *Simulation of Changes in Market-Wide Economic Welfare Based on Discovered Costs and Benefits and under Different Policy Alternatives*
- *Peer review, peer review, and more peer review...*

**OTHER VOICES**

**A flawed study**

The latest Livestock and Meat Marketing Study released by the Grain Inspection Packers and Stockyards Administration presented no surprises. It was just a new verse in the same song. The study has been presented in the form of academic exercise, but it hardly meets academic standards.

The study determines that the Marketing Administration's study of the benefits of alternative marketing arrangements for the supply of quality cattle. This conclusion was reached without taking advantage of the great quantity of data that study contractors collected. The study is based on the opinions of the study contractors.

No study that relies on the opinions of study contractors can be taken seriously in the face of data that prove that the opposite is true. Using weekly data from the Mandatory Price Reporting (MPR) from 2002 through 2007, captive suppliers, and other sources, the study shows that the benefits of AMAs are less than the costs.

In any court where the "Rule of Reason" is applied, the benefit to one participant must be weighed against harm to other participants or the market as a whole. The study only presented the benefit side.

The study also ignored any correlations versus causation problems. No econometric analysis shows any causal relationship between show-fat size and price. The conclusion reached was that a larger show fat caused higher prices instead of higher prices causing larger show lists. Any conclusion should be supported by proper econometric analysis.

It seems that because the study came to no conclusions not seen before—in the Sparks Study of 2002 or in the interim report for this study, neither of which offered analyzed data as evidence—that this study has conveniently omitted data analysis that would have contradicted preconceived notions.

Were this study to be presented in court as a witness, its credibility and reliability would be dubious. Therefore, it should be rejected outright.

by Randy Stevenson  
Vice president and marketing chairman, R-CALF

The project report is receiving some attention. For example, this is from Farm Journal's Beef Today the Early Spring 2007 issue.

"...they did not look at the MPR data..." Not correct.

"...they did not look at the data they collected... conclusions are based on opinions and not data analysis." I'll let you decide.

"...packers saving \$0.40 per head is miniscule..." Quoted the smallest number – from the Interim Report which was based on interview results and not anything from analyses in the Final Report.

"...they only looked at benefits and not costs of AMAs..." Entire sections of report devoted to costs and benefits.

"...it hardly meets academic standards." I disagree. The proof is the peer-review, the presentation at academic meetings, and publication in academic journals after more peer-review.

The 2007 LMMS is not a packer study, not an NCBA study, not an industry-funded study, and this is not a political or legal study...

The important thing to do is, regardless of the conclusions, answer the questions what is good science and does this study measure up?

Farm Journal's BEEF TODAY 12, 10th Spring 2007



**The Debilitating Effects of Concentration In Markets Affecting Agriculture**

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Released in June 2009.

The email that accompanied this working paper states that the paper is a "publication."

This work is not subject to peer-review or criticism. So it is not science. It is an opinion piece.

It does not even refer to the large volume of research on the concentration issue. For example, no discussion of the 2007 or 1996 studies...

1 (1) to require a firm base price in forward contracts and marketing agreements; and

2  
3 (2) to require that forward contracts be traded in open, public markets.

4  
5 **SEC. 3. LIMITATION ON USE OF ANTI-COMPETITIVE FORWARD CONTRACTS.**

6  
7 (a) IN GENERAL.—Section 202 of the Packers and Stockyards Act, 1921 (7 U.S.C. 192), is amended—

8 (1) by striking “Sec. 202. It shall be” and inserting the following:

9  
10  
11 **“SEC. 202. UNLAWFUL PRACTICES.**

12 (a) IN GENERAL.—It shall be”;

13 (2) by striking “to;” and inserting “to—”;

14 (3) by redesignating subsections (a), (b), (c),

15 (d), (e), (f), and (g) as paragraphs (1), (2), (3), (4),

16 (5), (7), and (8), respectively, and indenting appropriately;

17 (4) in paragraph (7) (as redesignated by paragraph (3)), by designating paragraphs (1), (2), and

18 (3) as subparagraphs (A), (B), and (C), respectively, and indenting appropriately;

19 (5) in paragraph (8) (as redesignated by paragraph (3)), by striking “subdivision (a), (b), (c), (d),

20 or (e)” and inserting “paragraph (1), (2), (3), (4),

21 (5), or (6)”;

22

23

24

25

•• 1086 IS

The Johnson Amendment to the 2000 Farm Bill was a long time ago but the Johnson Amendment lives...

The most recent version is Senate Bill 1086: Livestock Marketing Fairness Act.

My opinion is that this is an in-effect prohibition of AMAs.

**USDA NEWS RELEASE**

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DOI Office of Public Affairs (202) 514-2007

**USDA AND JUSTICE DEPARTMENT TO HOLD PUBLIC WORKSHOPS TO EXPLORE COMPETITION ISSUES IN THE AGRICULTURE INDUSTRY**  
*Workshops Will Promote Open Dialogue on Legal and Economic Issues in the Agriculture Industry*

WASHINGTON, August 5, 2009 - Agriculture Secretary Tom Vilsack and Attorney General Eric Holder announced today that the U.S. Department of Agriculture (USDA) and the Department of Justice will hold joint public workshops to explore competition issues affecting the agriculture industry in the 21st century and the appropriate role for antitrust and regulatory enforcement in that industry. These are the first joint USDA/Department of Justice workshops ever to be held to discuss competition and regulatory issues in the agriculture industry.

The joint USDA/Department of Justice workshops will address the dynamics of competition in agriculture markets including, among other issues, buyer power (also known as monopsony) and vertical integration. They will examine legal doctrines and jurisprudence and current economic learning, and will provide an opportunity for farmers, ranchers, consumer groups, processors, the agribusinesses, and other interested parties to provide examples of potentially anticompetitive conduct. The workshops will also provide an opportunity for discussion for any concerns about the application of the antitrust laws to the agricultural industry.

The goals of the workshops are to promote dialogue among interested parties and foster learning with respect to the appropriate legal and economic analyses of these issues as well as to listen to and learn from parties with real-world experience in the agriculture sector.

"It is important to have a fair and competitive marketplace that benefits agriculture, rural economies and American consumers," said Agriculture Secretary Vilsack. "The joint workshops between the Department of Justice and USDA will allow a dialogue on very important issues facing agriculture today."

"Maintaining a robust agricultural sector is crucial to the strength of the American economy and to who we are as a nation," said Attorney General Holder. "Through the dialogue established in these workshops and, ultimately through our actions, we are committed to ensuring that competition and regulatory actions benefit all American consumers and businesses."

The first workshop will be held in early 2010. While some of the workshops may be held in Washington, D.C., others will be held regionally. The Department of Justice and USDA are soliciting public comments from lawyers, economists, agribusinesses, consumer groups, academics, agricultural producers, agricultural cooperatives, and other interested parties.

"For the first time ever, farmers, ranchers, consumer groups, agribusinesses and the federal government will openly discuss legal and economic issues associated with competition in the agriculture industry," said Christine A. Varney, Assistant Attorney General in charge of the Department of Justice's Antitrust Division. "This is an important step forward in determining the best course of action to address the unique competition issues in agriculture."

USDA & Department of Justice will hold "Competition Workshops" in 2010 – some in WDC and some at regional locations.

My opinion is that it would be good to impact the who are the speakers and discussants.

My opinion is that it would be good to hear summaries of concentration & competition research & science. It would also be good to hear summaries of case law & legal realities.



Presentation to the U.S. Department of Justice, Antitrust  
Division, Washington, D.C.

*Market Failure in the U.S. Cattle Industry: An Overview of the  
Effect of Ongoing Antitrust Activities and Anticompetitive  
Practices*

Presented by

Bill Bullard, CEO, R-CALF USA

July 30, 2009

1

Excerpts from the accompanying email:

"... a disconnect between cattle prices and beef price."

"... an increasing spread between ranch gate prices and wholesale prices, as well as ranch gate prices and retail prices."

Also, not science...

## Summary of Cattle Volume of RTI – GIPSA LMMS Study

## **(1) Interviews –**

- *Producers including cow/calf, stocker, and cattle feeding, trade associations and groups, alliances, packers, wholesalers/distributors, retailers, and food service*
- *Small number of interviews permitted but major players and “interesting” players within each segment*
- *Mostly very cooperative contacts*
  
- *Description of Company/Organization?*
- *Description of Procurement Methods Used?*
- *Characteristics of Procurement Methods?*
- *Description of Sales Methods Used?*
- *Characteristics of Sales Methods?*
- *Effect of Restrictions on Alternative Marketing Methods?*

## **Beef Producers and Packers Communicated**

- *AMAs helped them manage their operations more efficiently, reduced risk, and improved beef quality.*
  - *Cow/calf & stocker producers used for risk management – forward contracts to spread sales.*
  - *Feedlots identified cost savings of \$1 to \$17 per head from improved capacity utilization (>90% v <80%), personnel utilization, standardized feeding programs, and reduced financial requirements.*
  - *Packers identified, for example, a cost savings of \$0.40 per head in reduced procurement costs.*
  - *All agreed that without AMAs, higher returns would be needed to attract other investors and that beef quality would suffer in an all-commodity market place.*

## **(2) Surveys –**

- *Cow/Calf Producers, Stocker Producers, Cattle Feeders, Packers, Wholesalers/Distributors/Exporters, Retailers & Food Service*
- *Number of surveys? 10% of each segment within the industry stratified into large & small – careful to represent small producers, packers, etc.*
- *Response rate? 8-40% with 25-33% being average. Large more responsive than small.*
- *Time period? 2004 base and 2005-06 administered.*
- *What are you doing? In the past, now, and in the future.*
- *Why are you doing it? What are the perceived benefits and costs to you and to the industry?*

## **Surveys – Reasons for AMA Use**

- *Producers surveyed*
  - *The ability to buy/sell higher quality cattle,*
  - *Improve supply management, and*
  - *Obtain better prices.*
- *Packers surveyed*
  - *Improve week-to-week supply management,*
  - *Secure higher quality cattle, and*
  - *Allow for product branding in retail stores.*

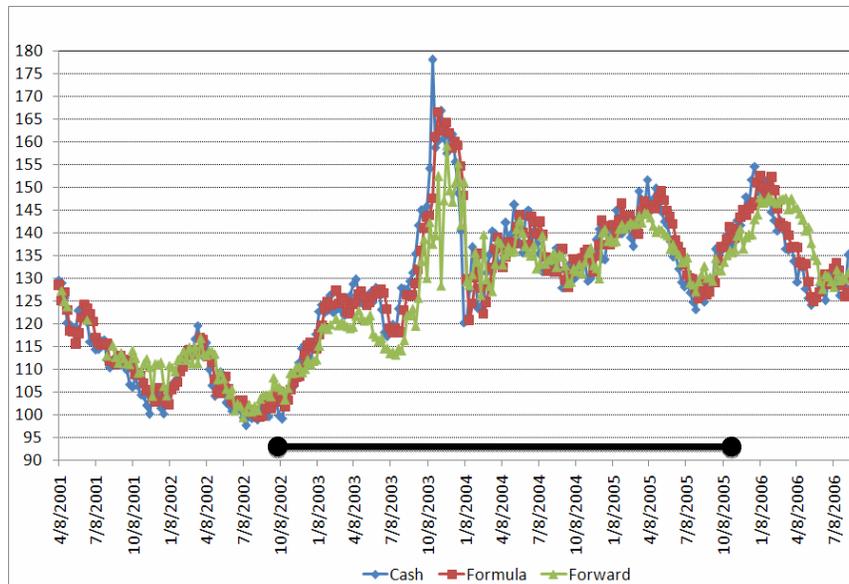
### **Surveys – Reasons for Cash Market Only**

- *Producers surveyed*
  - *Independence and flexibility,*
  - *Quick response to changing market conditions, and*
  - *Ability to buy at lower prices and sell at higher prices.*
- *Packers surveyed*
  - *Independence and flexibility,*
  - *Quick response to changing market conditions, and*
  - *Securing higher quality cattle.*

### **(3) Transactions – procurement data analysis**

- *2½ year time period: October 2002 through March 2005.*
- *From the 29 largest plants and included 58 million animals and 590,000 transactions.*
  - *61.7% cash*
  - *28.8% marketing agreement*
  - *4.5% forward contracts*
  - *5.0% packer-owned, other, or missing*
- *Important points:*
  - *Available in electronic format (MPR database),*
  - *Longest time period allowable by law,*
  - *Population versus sample, and*
  - *Plant-by-plant analysis.*

### Cash, Formula, and Forward Prices – Dressed Beef



### What did the analysis of procurement transactions data show?

- *Transactions prices can be well-explained by market-level supply and demand and characteristics associated with the pens in the transaction.*
- *AMAs measured at the plant level – as % plant capacity.*
- *Different types of AMAs examined separately.*
- *Cash, marketing agreement, and packer-owned prices similar.*
- *Auction higher and forward contract lower than cash prices.*
- *AMA cattle are higher quality. Direct trade cash cattle are the lowest quality. Auction cattle are the highest.*
- *AMA cattle have equal or less risk than cash cattle.*

### **What did the analysis of procurement transactions data show?**

- *When AMA use increases cash prices decrease:*
  - *10% increase in AMA use (as % of plant capacity) is associated with a \$0.40/cwt of carcass weight.*
  - *10% increase in AMA use is associated with a 0.3% decrease in cash price.*
- *Impacts are economically small but statistically significant. Average transactions price of \$138/cwt.*
- *AMA use is not strategic – packers pull more from AMAs when more AMA cattle are available and when AMA cattle are cheaper.*
- *If AMAs were restricted to zero then cattle prices would have been higher by 0.5% or \$0.68/cwt of carcass weight.*

### **(4) Packer Plant-Level P&L Data**

- *Data were requested from all packers.*
- *Data request limited to electronic format.*
- *Provided by 4 largest packers for all 21 plants.*
- *Provided by 5 small packers – but most were unusable.*
- *Monthly plant-level P&Ls.*
- *There were no problems securing the data.*
- *4 large packers were 83% of industry volume.*

## What did the packer P&L data show?

<i>Variable</i>	<i>Mean</i>	<i>Standard Deviation</i>	<i>Minimum</i>	<i>Maximum</i>
<i>Average total cost per head (ATC)</i>	\$138.61	10.7476	\$120.32	\$164.21
<i>Average gross margin per head (AGM)</i>	\$140.72	38.8241	\$22.62	\$211.98
<i>Average profit per head (PPH)</i>	-\$2.40	43.8242	-\$137.36	\$73.34

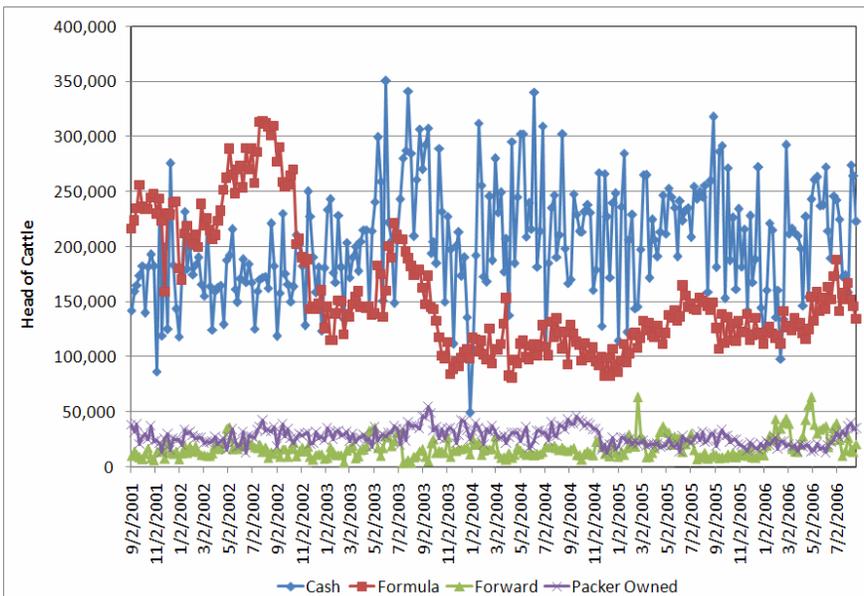
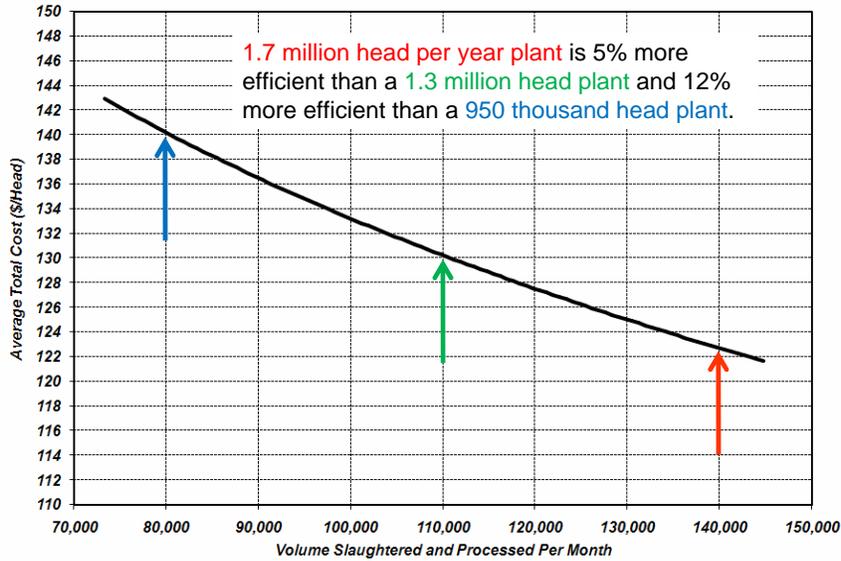
Loss because of irregular expenses relative to irregular revenues. There are very large losses during this 2½ year time period.

Almost every packer has a problem plant or plants. There is excess capacity in the packing industry – it's about 15-17%...

## What did the packer P&L data show?

- *Substantial economies of size (declining average total costs (ATC) of slaughter and processing per head)*
  - *Large plants have lower ATCs than small when both are operating close to capacity.*
  - *For all sized plants, ATCs decline over the whole range of volumes.*
  - *The representative plant operating at 95% of max observed capacity is 5% more efficient than when operating in the middle of the observed range of volumes and 12% more efficient than when operating at the low end of observed volumes.*

## Average Slaughter and Fabrication Costs Per Head for the “Representative Plant”



“...captive supplies are 1.4 times more variable than supply from the cash market.”  
 From R-CALF press releases, Beef Today article, and Congressional testimony by C. Robert Taylor, PhD, Alfa Eminent Scholar & Professor at Auburn University.

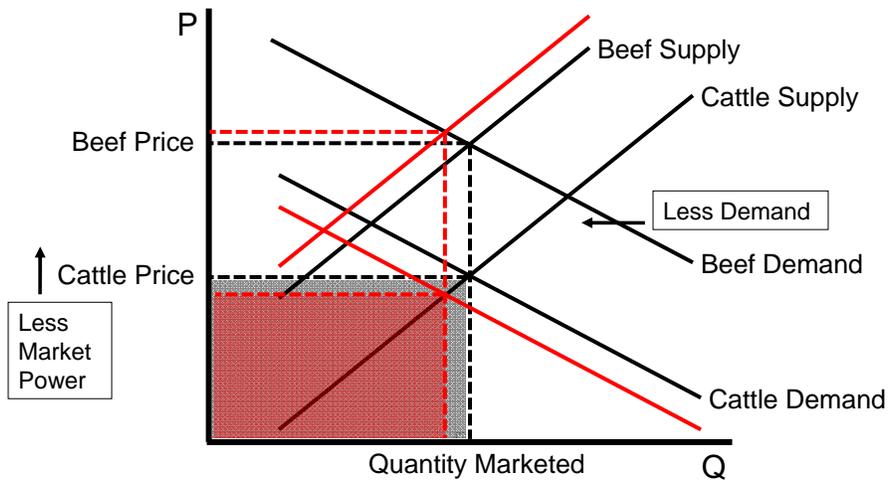
### **What did the packer P&L data show?**

- *Plant costs are statistically significantly lower for those that procure through AMAs.*
  - *Costs are lower – all else constant – 0.9%.*
  - *Costs are lower because of higher volumes – 2.6%.*
  - *Costs are lower because of predictable supplies – 1.2%.*
- *Cost savings are approx 4.7% or \$6.50 per animal.*
- *Related to fixed costs and much less to variable costs.*
- *If AMAs were restricted to zero then cattle prices would decrease \$6.50/head.*

### **So we have...**

1. *Interview results about benefits, costs, quality/demand, risk, etc – producers, packers, downstream.*
2. *Survey results about benefits, costs, quality/demand, risk, etc – producers, packers, downstream.*
3. *Statistical models describing prices and quality – and impacts specific to AMAs. (Market power)*
4. *Models describing packer cost changes – and specific to AMAs.*
  - *Costs and Benefits in different pieces...*
5. *We also have an economic model of the whole cattle and beef marketing system...*

## (5) Market Impacts – Main Economic Ideas



### Market Impacts

- *Benefits of efficiency and quality improvements outweigh the costs associated with market power that AMAs provide packers.*
  - *Even if the complete elimination of AMAs would eliminate market power, the net effect would be reductions in prices, quantities, and producer and consumer surplus in almost all sectors of the industry because of additional processing costs and reductions in beef quality.*
  - *Collectively, this suggests that reducing the use of AMAs would result in economic losses for beef consumers and the beef industry.*

## Market Impacts

- | <i>Impacts (Billion \$2003)</i> | <i>Short-run</i> | <i>Long-run</i> |
|---------------------------------|------------------|-----------------|
| – Consumers                     | -\$1.9           | -\$10.5 (4.4)   |
| – Retail Producer               | -\$0.5           | -\$6.1 (1.9)    |
| – Wholesale Producer            | -\$0.8           | -\$7.0 (5.0)    |
| – Fed Cattle Producer           | -\$2.8           | -\$15.3 (6.8)   |
| – Feeder Cattle Producer        | -\$5.4           | -\$21.2 (13.8)  |
| – Total of All Producers        | -\$9.5           | -\$49.5 (5.9)   |
- *Long-run impacts are cumulative discounted 10-year impacts.*
  - *Producers are “residual claimants...”*

## Further Information

- *Fact Sheets are available at*

***www.lmic.info***

*(Livestock Marketing Information Center)*

- *Stephen.Koontz@ColoState.Edu*

## **Summary, Conclusions, and Questions**

- *The most comprehensive study of the cattle & beef industry to date.*
- *The biggest study in terms of application of perspective, expertise and skills.*
- *There are costs and benefits to use of AMAs – but the benefits far outweigh costs.*
- *What is good science? Does the 2007 LMMS measure up? It does and that's not just opinion.*
- *Proposed legislation persists & USDA-DOJ Competition Workshops are scheduled for next year. Don't miss the opportunity to have an impact.*
- *I am grateful to be asked to speak at this meeting.*