Competition Issues in the Cattle and Beef Industry

Stephen R. Koontz
Department of Agricultural & Resource Economics
Colorado State University

2010-09-08

Organization & Objectives

- *Competition in the livestock industries and in particular the cattle and beef industry.*
- *Captive supplies – Alternative Marketing Agreements – Contracting and other non-cash market means of trading.*
- *The USDA GIPSA Packers & Stockyards Act Rule Change.*

Department of Justice

FOR IMMEDIATE RELEASE
FRIDAY, AUGUST 27, 2010
WWW.JUSTICE.GOV

AT
(202) 514-2007
TDD (202) 514-1888

DEPARTMENT OF JUSTICE AND USDA HOLD WORKSHOP FOCUSED ON COMPETITION ISSUES IN THE LIVESTOCK INDUSTRY

Fort Collins, Colo., Workshop is the Fourth of Five on Competition Issues in Agriculture

WASHINGTON — The Department of Justice and the U.S. Department of Agriculture (USDA) today held the fourth of five joint public workshops to explore the appropriate role for antitrust and regulatory enforcement in American agriculture. The workshop, led by Agriculture Secretary Tom Vilsack and U.S. Attorney General Eric Holder, examined competition in the livestock industry and featured panel discussions on trends in the livestock industry, market consolidation and market transparency. The workshop also included opportunities for public comments.

Today's meeting was the fourth in a series of workshops intended to promote dialogue among interested parties and foster learning with a diverse group of stakeholders regarding competition and regulatory issues in the agricultural marketplace. These workshops are the first-ever to be held by the Department of Justice and the USDA to discuss competition and regulatory issues in the agriculture industry. Additional information about the workshops can be found at www.justice.gov/atr/public/workshops/ag2010/index.htm#overview.

"Ultimately, today's conversation is about much more than simply last year's trends or this year's challenges. It's about livelihoods, families, this region's economy and our centuries-old American way of life," said Attorney General Holder. "We've made these workshops a cabinet-level priority so that we can most effectively and efficiently determine how to ensure a fairer, more competitive marketplace for producers and consumers alike."

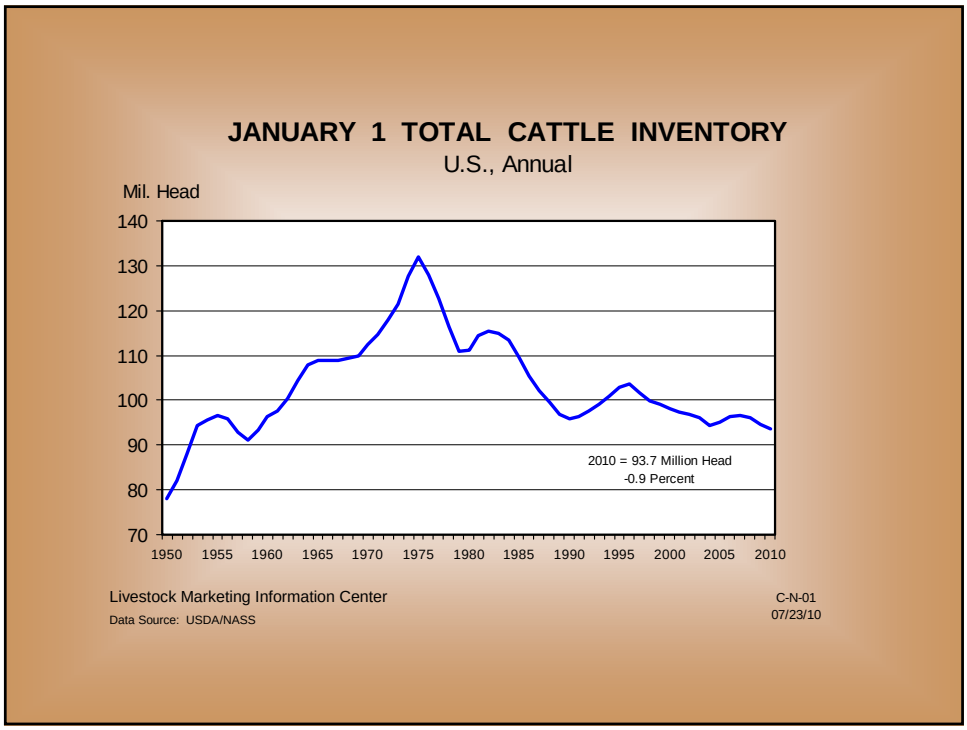
"Given the consolidation that has taken place in the livestock industry over the past decades, it is critical to ensure a fair market still exists to give all players an honest chance at success," said Secretary Vilsack. "A fair and competitive marketplace is important not only for producers, but also for consumers, and today's open and transparent dialogue with ranchers, farmers, academics and other industry stakeholders will provide us with a understanding of the complex issues in this important industry."

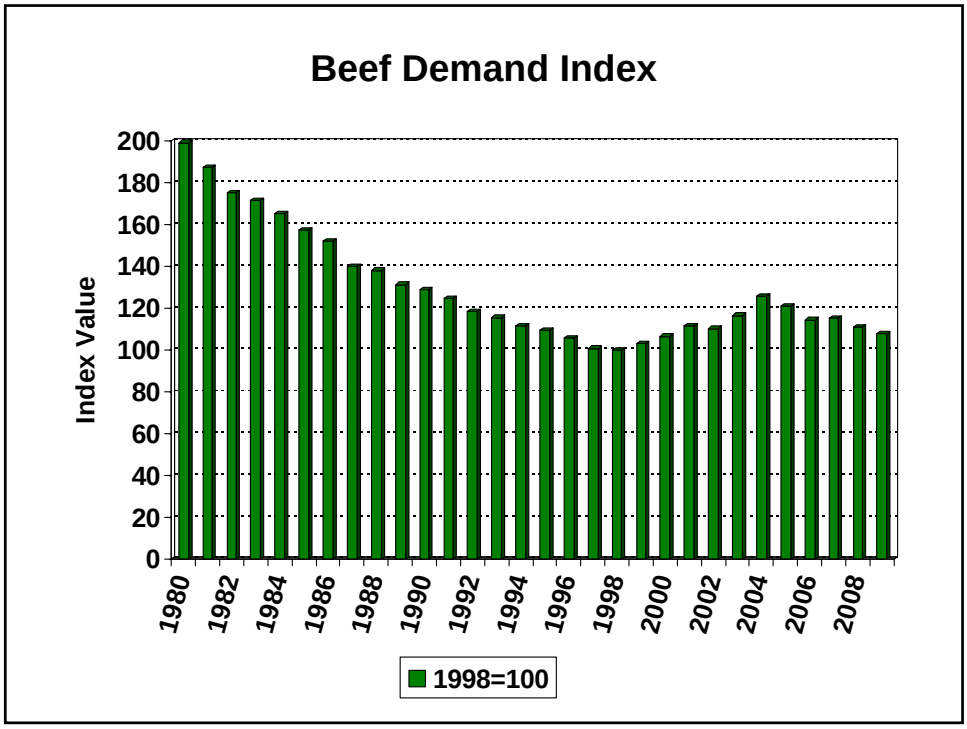
Secretary Vilsack and Attorney General Holder began the workshop with opening remarks before leading a roundtable discussion, in which Christine Varney, Assistant Attorney General for the Antitrust Division, participated with other federal and state officials, on competition issues in agriculture and the livestock industry. After the roundtable discussion, a panel of producers and feeders from throughout the country shared their first-hand experiences and perspectives on the industry. USDA and Justice Department officials then listened to public testimony from audience members.

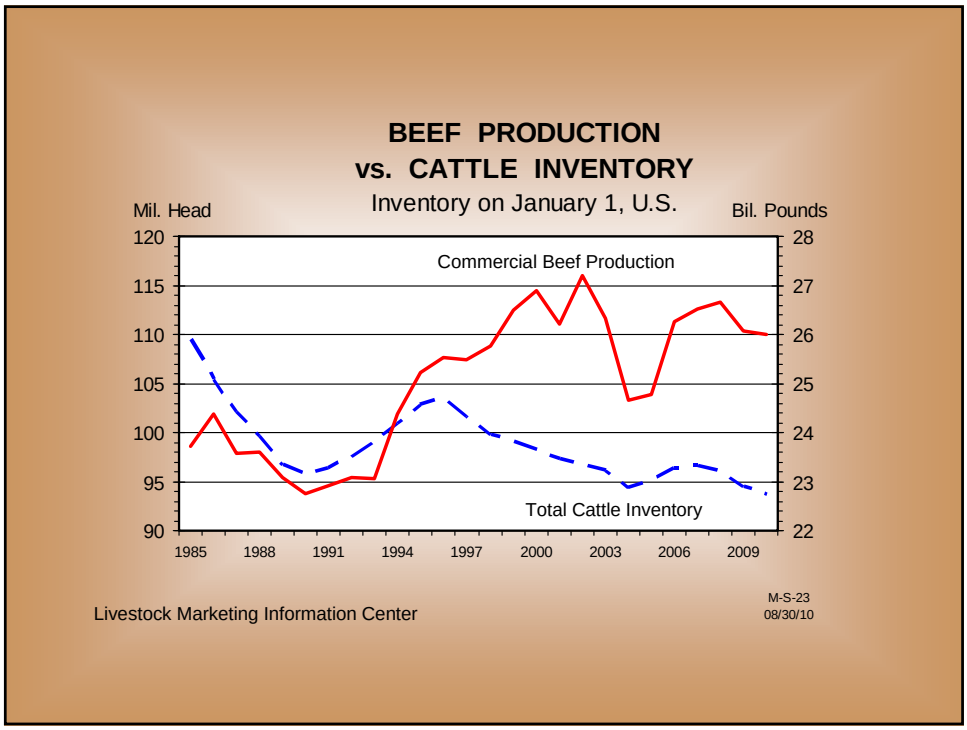
In the afternoon, another panel will discuss trends in the livestock industry, including

"We don't know what's wrong but we know something is broke."

C. Varney – Asst Attorney Gen

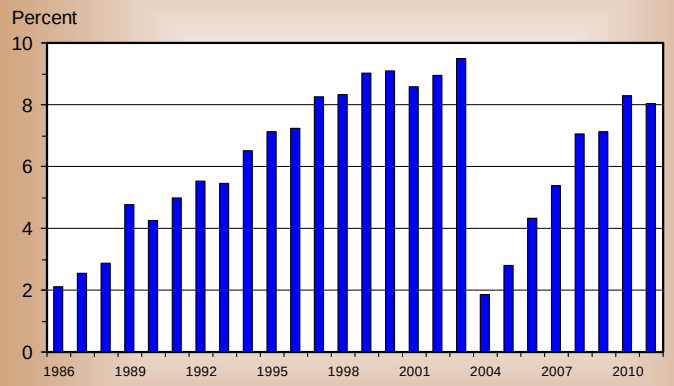



Beef Demand Index
Index Value
200
180
160
140
120
100
80
60
40
20
0
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
1998=100


BEEF PRODUCTION
vs. CATTLE INVENTORY
Inventory on January 1, U.S.
Mil. Head
Bil. Pounds
Commercial Beef Production
Total Cattle Inventory
120
115
110
105
100
95
90
28
27
26
25
24
23
22
1985
1988
1991
1994
1997
2000
2003
2006
2009
Livestock Marketing Information Center
M-S-23
08/30/10

U S BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual

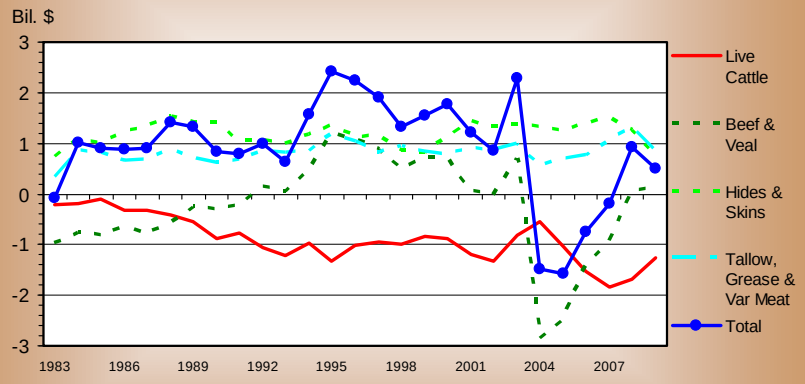


Data Source: USDA-ERS & FAS; Compiled & Forecasts by LMIC

I-N-07
08/27/10

U S BEEF INDUSTRY NET EXPORT VALUES

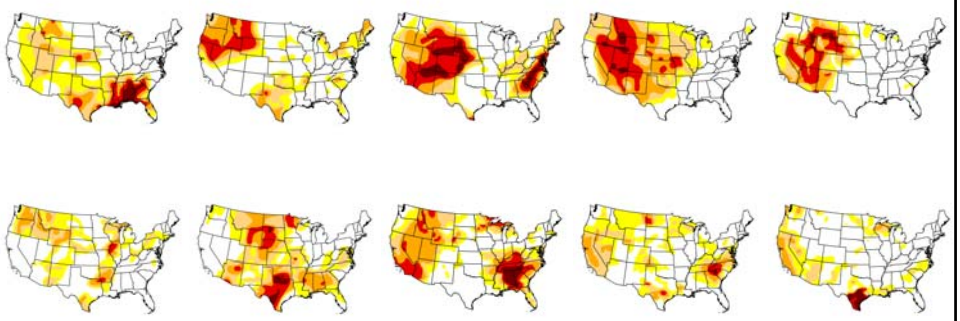
Annual



Data Source: USDA-FAS; Analysis by LMIC

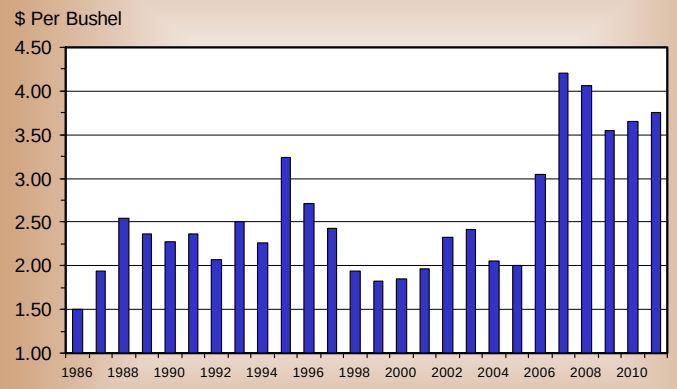
I-N-72
08/27/10

Drought Monitor – August 2000-2009



NATIONAL AVERAGE CORN PRICE

Crop Year, Received by Farmers



Data Source: USDA-NASS, Compiled and Forecasts by LMIC

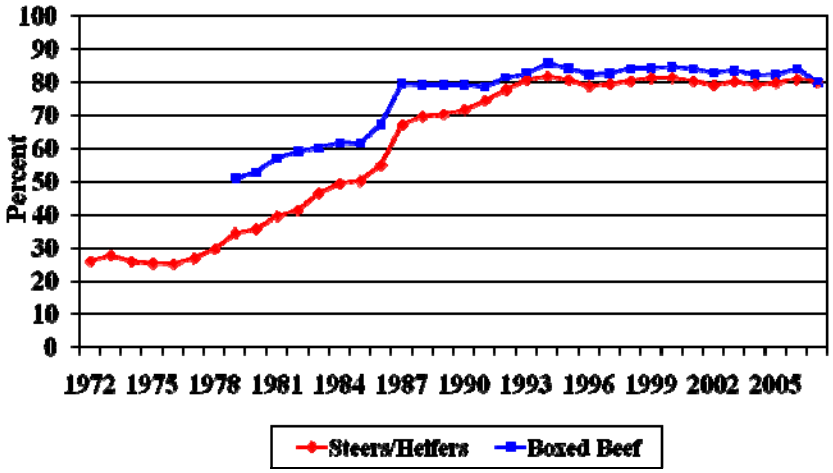
G-NP-03
07/12/10

Crude Oil Futures Prices – Monthly

So why is the beef herd & number of producers down?

- *Demand is down 50%.*
- *Productivity (or supply) is up 30%.*
- *Reduced trade dollars.*
- *Persistent drought.*
- *Ethanol demand and corn prices.*
- *Input costs.*
- *Credit availability.*
- *…*
- *I think the list is long before you come to large agribusiness processing and marketing firms or retail and food service firms having a negative impact.*

Percent of Slaughter & Boxed Beef Fabrication Conducted by the 4 Largest Firms



Source: GIPSA USDA

Industry Concentration and Industrial Organization Research

What do we know about packer's exercise of market power and why is the packing industry so concentrated?

Fighting for the U.S. Cattle Producer!

R-CALF USA

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 document include 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."

No science & no research…

ocm
Organization for Competitive Markets

The Debilitating Effects of Concentration In Markets Affecting Agriculture

~~

© David A. Domina
Domina Law Group pc llo
2425 S. 144th Street
Omaha, NE 68144
402 493 4100
ddomina@dominalaw.com

© C. Robert Taylor
Alfa Eminent Scholar
1090 S. Donahue Drive
Auburn University
Auburn AL 36849
334 844 1957
taylorcr@auburn.edu

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 refer to any of the large body of research on the concentration issue. For example, no mention of the 2007 LMMS or 1996 Concentration Study.

A Synthesis of Market Power Research on the Cattle and Beef Industry

Stephen R. Koontz*

December 30, 2009

Comments Submitted to the
U.S. Department of Justice and U.S. Department of Agriculture
Regarding
Agriculture and Antitrust Enforcement Issues in Our 21st Century Economy

* Associate Professor, Department of Agricultural and Resource Economics, Colorado State University, Fort Collins Colorado, 80523-1172. Stephen.Koontz@ColoState.Edu.

Interesting Quotes in 1940's Research

Nicholls (1940) states, "Only after considerable further investigation will we know whether or not reform in the packing industry is necessary. It is conceivable that such monopoly elements as exist yield desirable results. A less extreme possibility is that results are undesirable but not sufficiently bad to bother about."

Nicholls, W.H. "Market-Sharing in the Packing Industry." Journal of Political Economy 22(1940): 225-240.

I think the "considerable further investigation" has occurred. And that we know the answer.

Structure-Conduct-Performance Research

- *Began in the 1960s & 1970s and was truly innovative and interesting.*
- *Performance is easy to observe, Conduct is not, and Structure is easy to observe and allows certain Conduct – so the approach infers conduct from relationships between structure and performance measures.*
- *Some well-known results:*
  - *Lower prices to producers and higher prices to consumers in more concentrated industries.*
  - *Higher margins in more concentrated industries.*

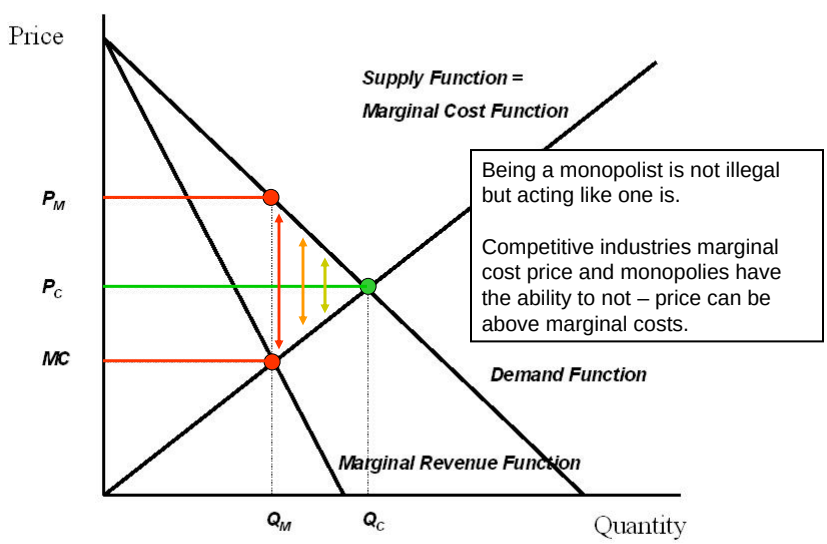
Structure-Conduct-Performance Research

- *Prices are lower in less important cattle feeding regions with higher concentration.*
- *Higher concentration mainly has no impact on margins but periodically is associated with higher cattle prices and smaller margins.*
- *Higher concentration did not weaken the farm to retail price linkages.*
- *Fed cattle transaction price research:*
  - *Higher prices with more buyers and more bidding.*
  - *Industry structure impacts price but market forces and packer economics are much more important.*
- *Results do not generalize…*

New Empirical Industrial Organization Research

- *Began in the 1980s and was the industry standard in the 1990s.*
- *Addresses specific weaknesses of SCP Research – measures conduct as described by economic theory.*
- *Also truly innovative in the linking of economic concepts to the measurement through data and methods.*
- *But tough to explain – only economists would like it.*

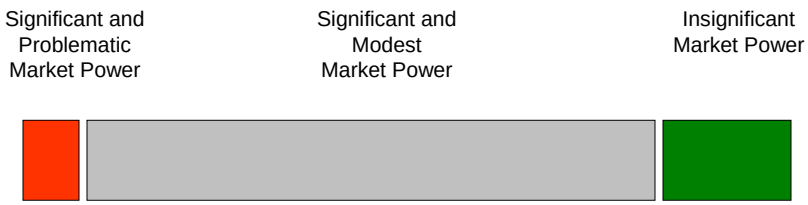
Figure 1: The Oligopoly Problem.



Being a monopolist is not illegal but acting like one is.

Competitive industries marginal cost price and monopolies have the ability to not – price can be above marginal costs.

Summary of NEIO Research

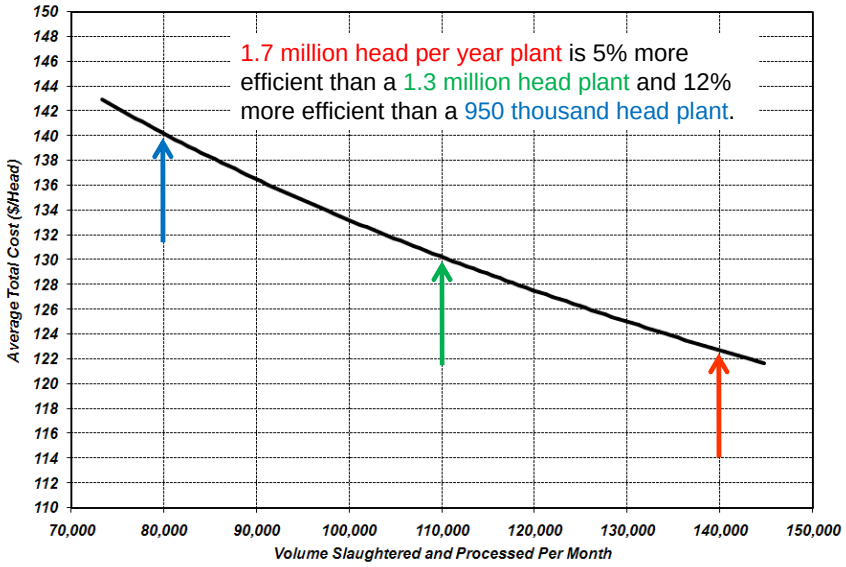


It is a reasonable conclusion that there is significant but modest market power in the beef packing industry.

Cost Economies Research

- *So if it's not market power that is driving the increases in concentration then what is it?*
- *Economies of size – and to a lesser extent scale and scope…*
  - *Economic engineering studies*
  - *Accounting studies*
  - *Econometric studies using firm, industry, & census data.*
  - *Survey research*
- *Every study that examines costs economies in the packing industry finds this result.*

Average Slaughter and Fabrication Costs Per Head for the "Representative Plant"



Cost Economies Research

- *Any discussion of the problems of concentration without recognizing this well-documented benefit is dishonest.*
- *There is a need to assess the costs – market power and coercion – and the benefits – lower costs and expanded industry size.*
- *All studies that measure the costs & benefits find net benefits to industry change that has occurred – the benefits are orders of magnitude larger than costs.*
- *There is also a problem in NEIO Research in that not all studies recognize economies of size – economies of size can cause departures from marginal cost pricing that look like market power.*

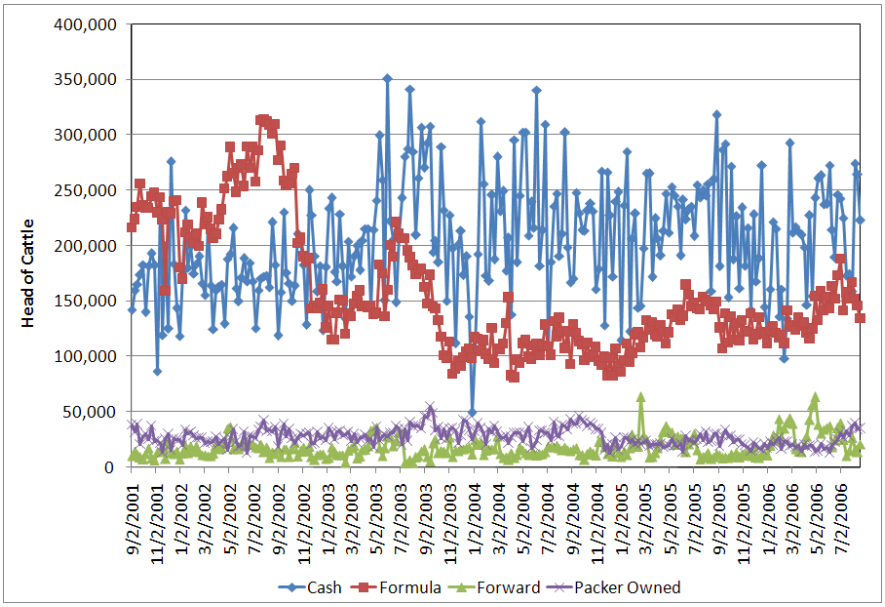
Summary of Concentration Research

- *This issue is and has been important to the agricultural economics research community.*
- *The bottom-line conclusion is that: market power is present and modest.*
- *The bottom-line conclusion is that: there are tremendous economies of size.*
- *And, comparisons of benefits and costs find the current industry structure is a net benefit – to cattlemen and to consumers.*
- *In Nicholls words, "A less extreme possibility is that results are undesirable but not sufficiently bad to bother about."*

Alternative Marketing Agreement Research

Also called Captive Supplies or Contracts.

And what is the impact on cash market prices?



Captive Supply Research

- *Much concentration legislation is focused on prohibiting captive supplies.*
- *Very well studied: dozen published works.*
- *Very thoroughly studied:*
  - *1996 Concentration Study (Red Books)*
    - *13-Month study period: 4/1992-4/1993 with transactions for every pen of animals traded in the country.*
  - *2007 Livestock & Meat Marketing Study*
    - *30-Month study period: 10/2002-3/2005 with transactions for every pen of animals traded in the country.*
  - *Both studies Congressionally mandated and funded.*
- *Strategic behavior by packers in the use of captive supplies was hard to find.*

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 decrease.*
  - *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 use more AMAs when more AMA cattle are available and when AMA cattle are cheaper.*
- *If AMAs were eliminated then cattle prices would have been higher by ½% or $0.68/cwt of carcass weight for this time period with the model estimated…*

OCM newsletter Page 1 of 1

ocm
Organization for Competitive Markets
Honesty. Prosperity. Economic Liberty.

October 2007 Newsletter 1 | 2 | 3 | 4 | 5

Captive Supplies Caused Nearly 10% Decline In U.S. Net Farm Income

From OCM's General Council Michael Stumo

USDA numbers reveal the significant price hit you are taking on hogs and cattle because of captive supplies. In January, USDA released a report by the Research Triangle Institute on captive supplies.

This was a $4 million study mandated by the 2002 Farm Bill, when the packer lobby blocked captive supply reform. USDA is hostile to making markets work well, and picked RTI and other academics to write a report saying things were just fine. RTI tried hard, even coining a new feel good term for captive supplies – "Alternative Marketing Arrangements" or AMA's. Who could be against marketing alternatives?

But the report itself shows a stunning decrease in prices caused by packer ownership and contracts. The study shows a $69 per head price decrease for cattle and at least $32 per head for hogs.

The USDA-commissioned report finds that 9% of hogs and 62% of cattle were sold on the open market from 2002 to 2005. The cattle number is almost certainly too high, but I will use those number for now.

Most cattle studies have found that each one percent increase in captive supplies is correlated with – or causes - a .145% to a .25% decrease in cattle prices. Using the USDA report numbers of 38% captive supplies (probably too low) and a low end .15% negative price impact, the price decline today is $5.75 per hundred weight. In other words, you are receiving **$69 per head less** (on a 1200 pound animal) than you would be in a free market.

The hog picture is worse. The USDA report found that each one percent increase in contract hogs causes – yes, causes - a spot price decline of .75%. The authors also said a one percent increase in packer owned hogs causes a spot price decline of .24%.

Assuming 20% of hogs marketed are packer owned, the negative price impact is $4.80/cwt live, or $13.44 per hog. Then adding the contracted hog effect, we get another $43.28/cwt price depression (58% x .75) for a **total of $48.30/cwt.** This is a tremendous price decline.

But let's assume the price effect is more like cattle, at about .15% for every 1% of captive supply. The price depression effect is $11.65/cwt or **$32.62 per head** for a 280 pound hog.

Commercial hog slaughter numbers for 2006 were 104.7 million head annual hog slaughter in 2006. Hog producer received **$3.4 billion** less than they should have in a free market (at $32.62/head price decline).

Commercial cattle slaughter numbers for 2006 were 33.7 million head. Cattle feeders received **$2.3 billion** less than they should have in a free market (at $69/head price decline).

To put this in perspective, net farm income for all commodities for the United States in 2006 was $60.6 billion. Net farm income would have been nearly 10% higher if we had fair, open and competitive markets in livestock agriculture.MS

http://www.competitivemarkets.com/news_and_events/newsletters/2007/oct5StumoCaptiveSuppli... 11/6/2007

"But the report itself (the RTI-Livestock & Meat Marketing Study) shows a stunning decrease in prices caused by packer ownership and contracts."

"… $5.75/cwt less…"

"… $69 per head less…"

These calculations are not correct and the RTI project leader wrote Mr. Stumo and detailed the errors.

It's not $5.75/cwt. It is $0.68/cwt.

2007 study results very similar to the 1996 study and all other captive supply research.

What did the packer P&L data show?

Variable	*Mean*	*Standard Deviation*	*Minimum*	*Maximum*
Average total cost per head (ATC)	***$138.61***	***10.7476***	***$120.32***	***$164.21***
Average gross margin per head (AGM)	***$140.72***	***38.8241***	***$22.62***	***$211.98***
Average profit per head (PPH)	***–$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 (10/02-3/05).

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?

- *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%.*
- *These measures are conservative in that all are within-plant measures – no across-plant measures.*
- *Cost savings are approx 4.7% or $6.50 per animal.*
- *Related to fixed costs and much less to variable costs.*
- *If AMAs were eliminated then cattle prices would decrease $6.50/head.*

Captive Supply Research

- *Conclusion: captive supplies have a significant and negative impact on cash market prices but the magnitude is modest.*
- *Other research says eliminating captive supplies will not necessarily increase the cash price by the amount of the negative impact.*
- *Other research recognizes that captive supplies are used for more than market power. Thus, there is a need for a cost and benefit assessment.*
  - *Benefits greater than costs and this was a major objective of the 2007 LMMS.*

Market Impacts of Eliminating AMAs

Impacts (Billion $2003)	*Short-run*	*Long-run*
– Consumers	*-$1.9*	*-$10.5 (4.4%)*
– Retail	*-$0.5*	*-$6.1 (1.9%)*
– Wholesale	*-$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.*
- *Feeder Cattle (Cow-Calf) Producers are "residual claimants…"*

Sort of a Wrap-Up

- *There is and will be no unifying theory, model, or study of concentration that explains everything.*
- *There is and will be a lot of different work that looks at different aspects and issues regarding concentration.*
- *There will be new data and innovation in economic thinking resulting in more research.*
- *But some hard thinking and assessment will then be needed – maybe some democracy – regarding what the science says.*
- *And what we do today will impact our markets and our economy tomorrow…*

The USDA GIPSA Packers & Stockyards Act Rule Change

What are the issues and why should you care?

35338

Proposed Rules

Federal Register
Vol. 75, No. 119
Tuesday, June 22, 2010

This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

DEPARTMENT OF AGRICULTURE

Grain Inspection, Packers and Stockyards Administration

9 CFR Part 201

RIN 0580–AB97

Implementation of Regulations Required Under Title XI of the Food, Conservation and Energy Act of 2008; Conduct in Violation of the Act

AGENCY: Grain Inspection, Packers and Stockyards Administration, USDA.

ACTION: Proposed rule.

SUMMARY: The Department of Agriculture (USDA), Grain Inspection, Packers and Stockyards Administration (GIPSA) is proposing to add several new sections to the regulations under the Packers and Stockyards Act, 1921, as amended and supplemented (P&S Act).

The new regulations that GIPSA is proposing would describe and clarify conduct that violates the P&S Act and allow for more effective and efficient enforcement by GIPSA. The proposed regulations would clarify conditions for industry compliance with the P&S Act and provide for a fairer market place.

DATES: We will consider comments we receive by August 23, 2010.

ADDRESSES: We invite you to submit comments on this proposed rule. You may submit comments by any of the following methods:

- *E-mail: comments.gipsa@usda.gov.*
- *Mail:* Tess Butler, GIPSA, USDA, 1400 Independence Avenue, SW., Room 1643–S, Washington, DC 20250–3604.
- *Fax:* (202) 690–2173.
- *Hand Delivery or Courier:* Tess Butler, GIPSA, USDA, 1400 Independence Avenue, SW., Room 1643–S, Washington, DC 20250–3604.
- *Federal e-Rulemaking Portal: http://www.regulation.gov.* Follow the on-line instructions for submitting comments.

Instructions: All comments will become a matter of public record and should be identified as "Farm Bill Comments," making reference to the date and page number of this issue of the Federal Register. Comments will be available for public inspection at *http://www.regulations.gov* and in the above office during regular business hours (7 CFR 1.27(b)). Please call GIPSA Management Support Services staff at (202) 720–7486 to arrange a public inspection of comments.

FOR FURTHER INFORMATION CONTACT: S. Brett Offutt, Director, Policy and Litigation Division, P&SP, GIPSA, 1400 Independence Ave., SW., Washington, DC 20250, (202) 720–7363, *s.brett.offutt@usda.gov.*

SUPPLEMENTARY INFORMATION:

Background

The P&S Act sets forth broad prohibitions on the conduct of entities operating subject to its jurisdiction. These broad provisions make enforcement difficult and create uncertainty among industry participants regarding compliance. In enacting Title XI of the Food, Conservation and Energy Act of 2008 (Farm Bill) (Pub. L. 110–246), Congress recognized the nature of problems encountered in the livestock and poultry industries and amended the P&S Act. These amendments established new requirements for participants in the livestock and poultry industries and required the Secretary of Agriculture (Secretary) to establish criteria to consider when determining whether the P&S Act has been violated.

In accordance with the Farm Bill, GIPSA is proposing regulations under the P&S Act that would clarify when certain conduct in the livestock and poultry industries represents the making or giving of an undue or unreasonable preference or advantage or subjects a person or locality to an undue or unreasonable prejudice or disadvantage. These proposed regulations also establish criteria that GIPSA would consider in determining whether a live poultry dealer has provided reasonable notice to poultry growers of a suspension of the delivery of birds under a poultry growing arrangement; when a requirement of additional capital investments over the life of a poultry growing arrangement or swine production contract constitutes a violation of the P&S Act; and whether a packer, swine contractor or live poultry dealer has provided a reasonable period of time for a grower or a swine producer to remedy a breach of contract that could lead to termination of the growing arrangement or production contract.

The Farm Bill also instructed the Secretary to promulgate regulations to ensure that poultry growers, swine production contract growers and livestock producers are afforded the opportunity to fully participate in the arbitration process, if they so choose. We are proposing a required format for providing poultry growers, swine production contract growers and livestock producers the opportunity to decline the use of arbitration in those contracts that have an arbitration provision. We are also proposing criteria that we would consider in finding that poultry growers, swine production contract growers and livestock producers have a meaningful opportunity to participate fully in the arbitration process if they voluntarily agree to do so. We would use these criteria to assess the overall fairness of the arbitration process.

In addition to proposing regulations in accordance with the Farm Bill, GIPSA is proposing regulations that would prohibit certain conduct because it is unfair, unjustly discriminatory or deceptive, in violation of the P&S Act. These additional proposed regulations are promulgated under the authority of section 407 of the P&S Act, and complement those required by the Farm Bill to help ensure fair trade and competition in the livestock and poultry industries.

In recent years, there has been an increased use of contracting in the marketing and production of livestock and poultry by entities under the jurisdiction of the P&S Act. This increased contracting coupled with the market concentration has significantly changed the industry and the rural economy as a whole, making proposed regulations necessary, especially in those situations in which packers, live poultry dealers or swine contractors use their market power to harm producers or impair private property rights of growers and producers. Transparency, competition and financial integrity of the marketplace have also diminished.

Section 407 of the P&S Act (7 U.S.C. 228) provides that the Secretary "may make such rules, regulations, and orders as may be necessary to carry out the provisions of this Act." Pursuant to this

What's the issue?

- *The P&S Act has two sections different from antitrust legislation which are used in legal proceedings*
  - *"unfair and unjustly discriminatory"*
  - *"undue and unreasonable preference"*
- *The 2008 Farm Bill required GIPSA to more clearly define "undue or unreasonable preference" with respect to poultry and pork production contracts.*
- *GIPSA proposed Rule changes to both sections and with respect to all livestock and poultry contracts – poultry, pork, and beef – and production and marketing contracts.*

My specific concerns within the Rule Change

- *Little economics in clarifying "unfair, unjustly discriminatory," and "undue or unreasonable preference."*
- *"Paying a premium or applying a discount… without documenting reasons and substantiating the revenue and costs justification…" is unfair. (Doesn't say contract when talking about cattle.)*
- *Not offering the same contract terms to all producers that can provide the required livestock is undue or unreasonable. But doesn't require purchases if needs are met. Does require "legitimate business reasons" and "to maintain records that justify" differential treatment.*
- *Remember, within P&S Actions the burden of proof can be on the packer and the standard can be vague.*

What happens to the cash & AMA markets?

- *If price differences risk litigation then pricing will become more standardized.*
- *If participating in the cash market or in AMAs risks litigation then there is less incentive to be in the cash market or in AMAs.*
- *One response to these risks is to return to commodity pricing – through posted prices and "take or leave it" bids – also make AMA pricing very standardized.*
- *The easiest way is for the packer to own their own animals – this is what will happen to the hog industry.*
- *The Rule changes can thin the cash market.*
- *Missouri experience…*
- *Changes in beef demand over past 29 years…*

How is price discovery impacted?

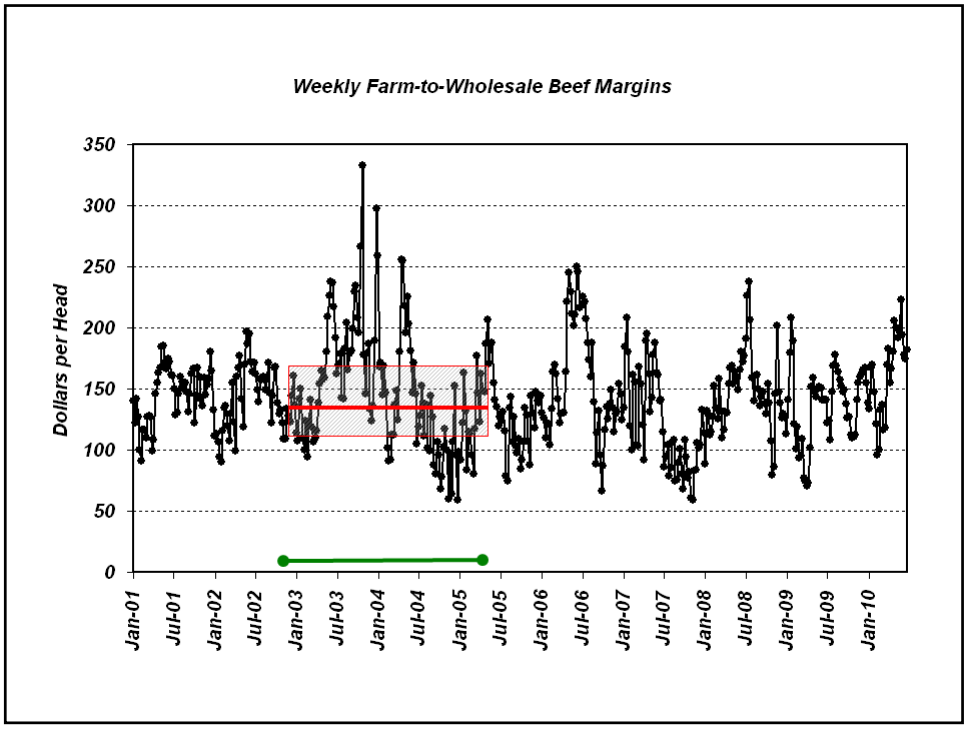
- *If price differences risk litigation then there will be fewer price differences – pricing becomes more standardized.*
- *But consider*
  - *changes in the Beef Demand Index.*
  - *industry improvements through value-based marketing.*
  - *product development work that has involved cattlemen – as opposed to food technology.*
- *Innovation example…*
- *The Rule change does not recognize and could constrain the price discovery process.*
- *If a packer purchases at different prices it will have the opportunity to explain itself to GIPSA.*

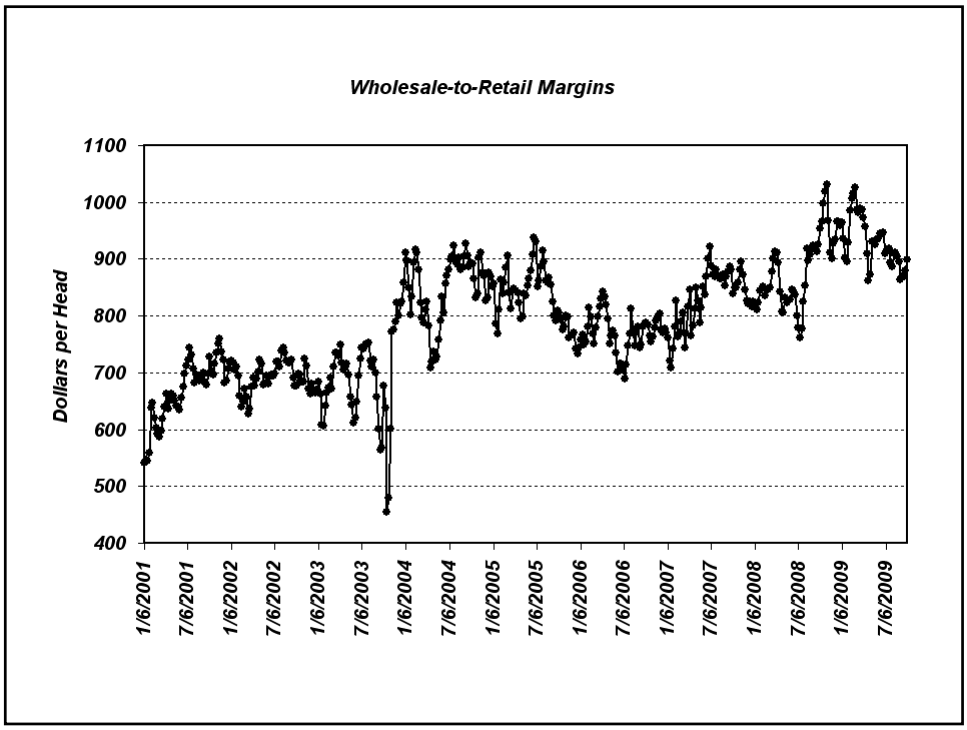
How will innovation be treated?

- *Suppose a packer and a group of producers have an idea for a better product.*
- *They build a program to produce that product and work with a retailer to market that product.*
- *Premiums are offered to producers but the packer keeps some of the benefit.*
- *How does the program work so that it is not "unfair," "unjust," or "undue"?*
  - *Similar treatment of like producers? Have to share?*
  - *Size of the market? Experimenting with the new?*
  - *Premiums to producers have to be justifiable?*
  - *Will be public knowledge.*

What will be the impact on small producers?

- *Small producers benefit if preferential treatment and market power are the cause of current price differences. But research does not support this view.*
- *Packer margins are thin and volatile – increasing costs & risk to the packer will require more conservative bidding in the cash market and is an incentive to move away from the cash market.*
- *And it is the cash market that smaller producers use.*
- *What about smaller packers attempting to not be in the beef commodity market?*
- *What about small auction markets?*


Weekly Farm-to-Wholesale Beef Margins
Dollars per Head
350
300
250
200
150
100
50
0
Jan-01
Jul-01
Jan-02
Jul-02
Jan-03
Jul-03
Jan-04
Jul-04
Jan-05
Jul-05
Jan-06
Jul-06
Jan-07
Jul-07
Jan-08
Jul-08
Jan-09
Jul-09
Jan-10


Wholesale-to-Retail Margins
Dollars per Head
1100
1000
900
800
700
600
500
400
1/6/2001
7/6/2001
1/6/2002
7/6/2002
1/6/2003
7/6/2003
1/6/2004
7/6/2004
1/6/2005
7/6/2005
1/6/2006
7/6/2006
1/6/2007
7/6/2007
1/6/2008
7/6/2008
1/6/2009
7/6/2009

What will be the impact on large producers?

- *Large producers and processors are some of the most efficient. This is an undisputable fact from research…*
- *These firms will continue to do business.*
- *But the demand and efficiency benefits will be impacted if AMAs are made more standardized.*
- *What does the 2007 RTI Livestock and Meat Marketing Study say? We examined the elimination of AMAs…*
- *I have two questions for you:*
  - *What packing firms will be least impacted by more standardized pricing?*
  - *What packing firms can, "Buy them all, pay one price, and sort them in the cooler"?*

If you are not using marketing agreements then the Rule change will not effect you?

- *That could be the case.*
- *But the Rule change does not clarify what is meant by "unfair, unjustly, and undue".*
- *It has the potential to be an institutional market change.*
- *The litigation risk to the packer is increased.*
- *Costs to packers of documenting business decisions clearly increase.*
- *And demand will be impacted.*
- *If that is the case then the entire market will be impacted – the cash market, AMAs, and value-based efforts.*
- *And market power will be lessened…*

Will these Rule changes increase cattle prices?

- *Fewer bids and more conservative bids. Incentives to move away from the cash market.*
- *More risk and more costs to the bidder. Disincentives to innovate and do something different – with AMAs…*
- *Small and medium sized producers and packers can be impacted the most.*
- *Large packers given incentives to use standardized AMAs and return to the business model of "buy them all and sort in the cooler."*
- *There is the potential for fundamental market changing impacts.*