

The Proposed GIPSA Rule: Paradise for Whom?

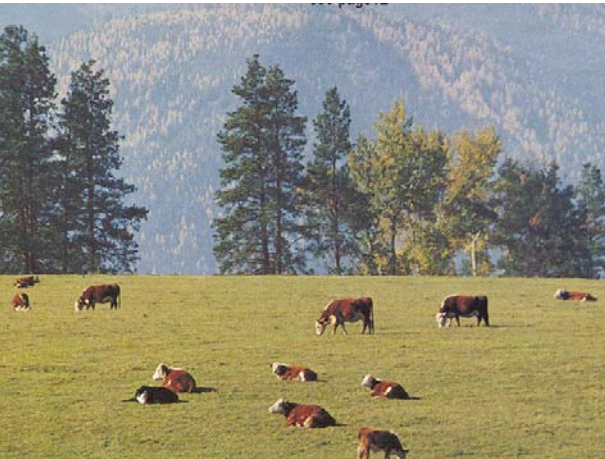
Gary Brester

MSU Department of Agricultural Economics and Economics

*The Montana Livestock Forum
and Nutrition Conference*

April 12, 2011

Bozeman, MT



To ID or Not To ID?

Paraphrased

William Shakespeare's

Hamlet



It's Déjà Vu All Over Again!

American Philosopher

Yogi Berra



Rock and Roll Icon

Meat Loaf



Black Eyed Peas

Will.I.Am

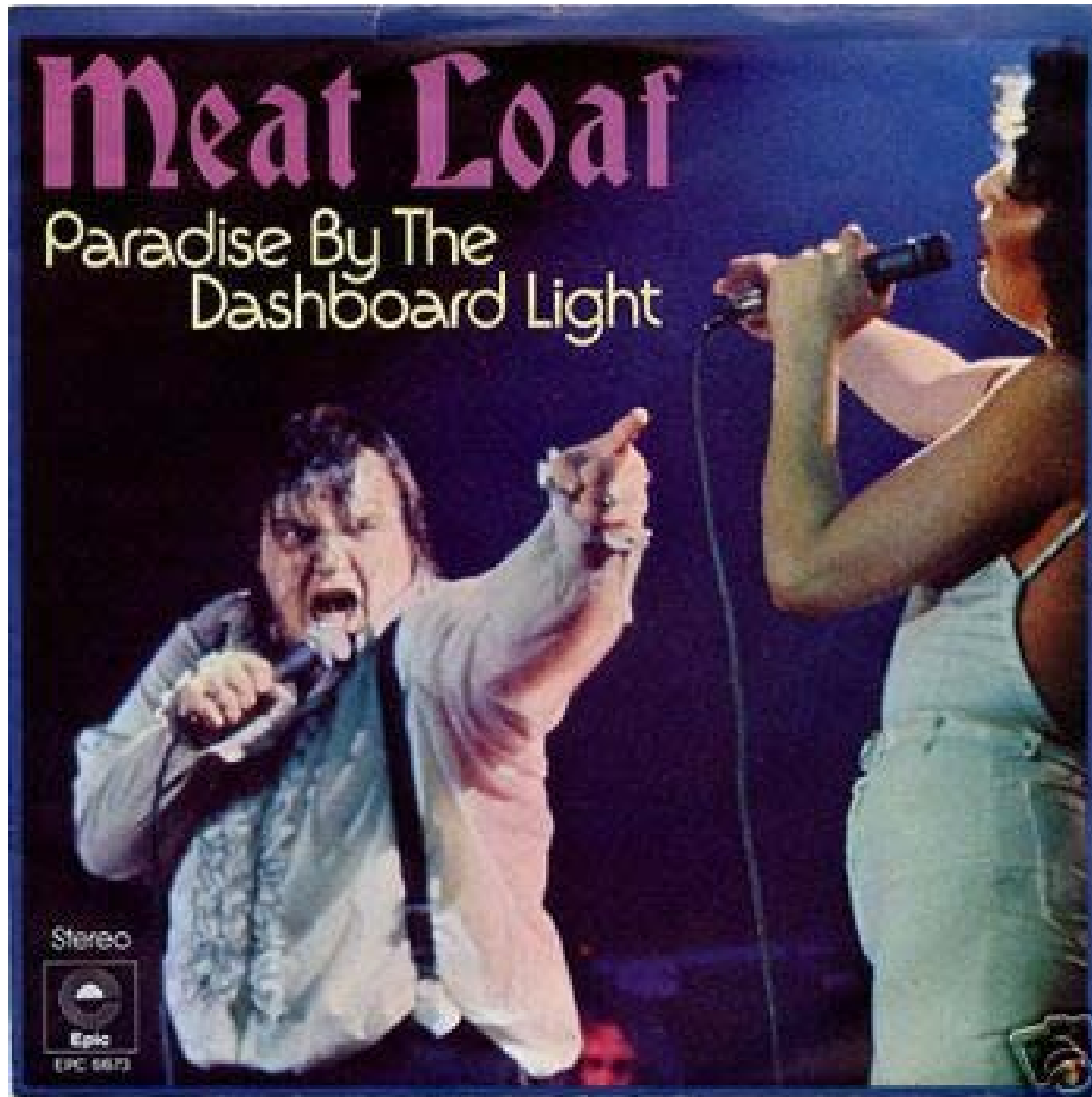


Rock and Roll Icon

Meat Loaf



Rock and Roll Never Dies



The Proposed GIPSA Rule: Paradise for Litigation Fights

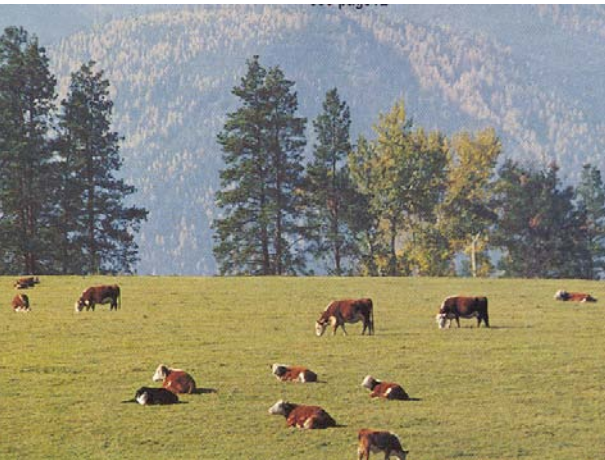
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OUTLINE

- 1. The Proposed GIPSA Rule**
- 2. Alternative Marketing Arrangements**
- 3. Reasons for AMA Use**
- 4. Research on Concentration & AMAs**
- 5. Summary Comments**

The Proposed GIPSA Rule

- 1. “Describe and clarify conduct that violates the PSA and allow for more effective and efficient enforcement by GIPSA”**
- 2. Packers cannot use “unfair, unjustly discriminatory, or deceptive practices or devices”**
- 3. Packers must provide justification for differential pricing or deviations from standard prices**
 - a. No definition of “standard” prices**

The Proposed GIPSA Rule

- 4. Issues related to “harm to the industry as a whole” have been removed**
- 5. No longer have to prove “competitive harm” (also undefined)**
 - a. Rather, now you just need to prove “likelihood” or “potential” for competitive harm**

My Interpretation of Proposed Rule

- 1. Broad, general, confusing verbiage that will make attorneys (and some economists) wealthy**
- 2. Limits packer ownership of live animals**
- 3. Requires 25% minimum spot market purchases with fixed base pricing**
- 4. Requires standardization and uniformity of animal procurement that precludes price discrimination**

My Interpretation of Proposed Rule

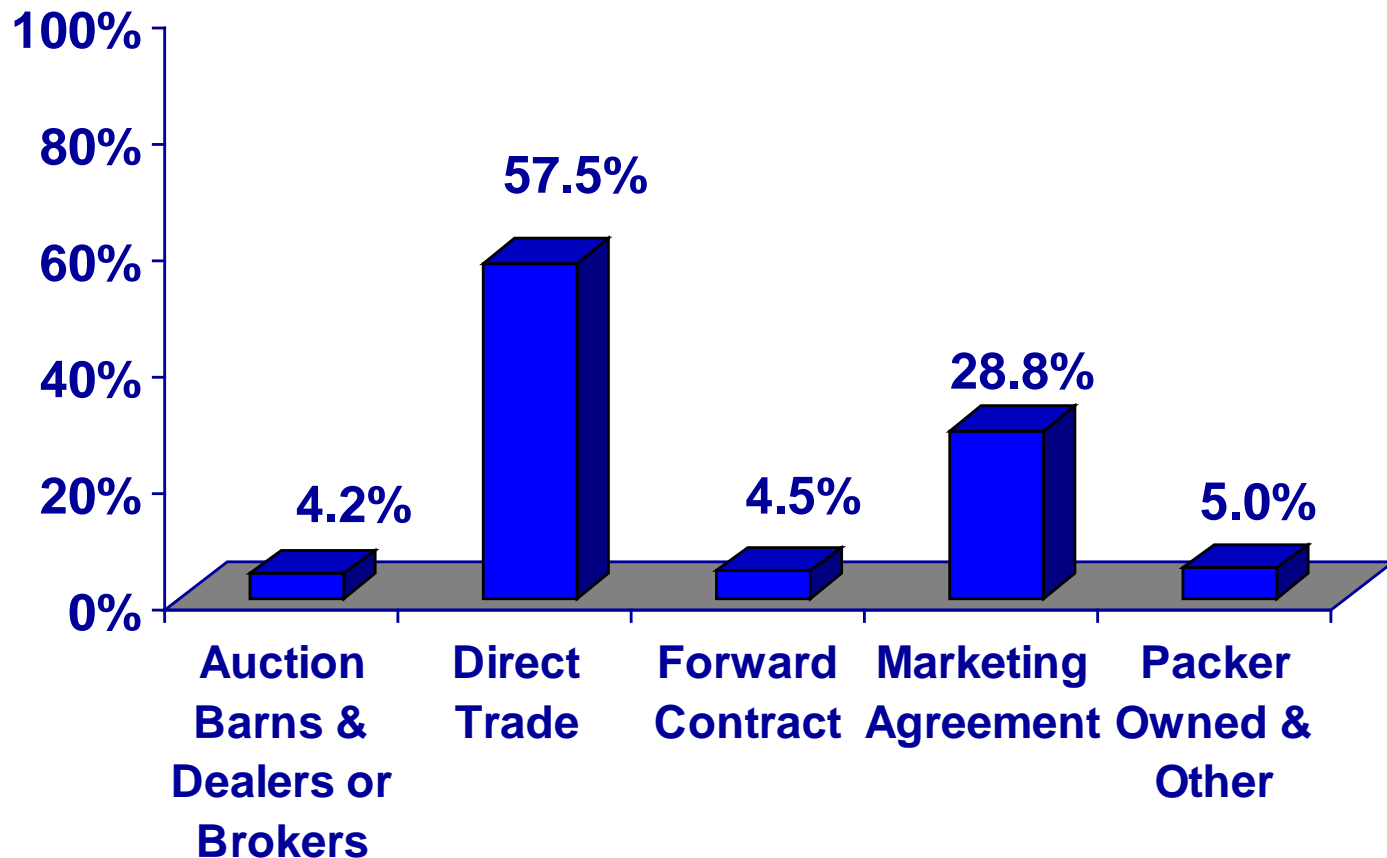
5. Restricts broiler contract provisions
6. Precludes the transfer of animals between packers
7. Eliminates the need to prove actual or potential injury related to violations of the Packers and Stockyards Act
 - a. One merely has to prove that they might have been injured
8. All of this restricts business activity

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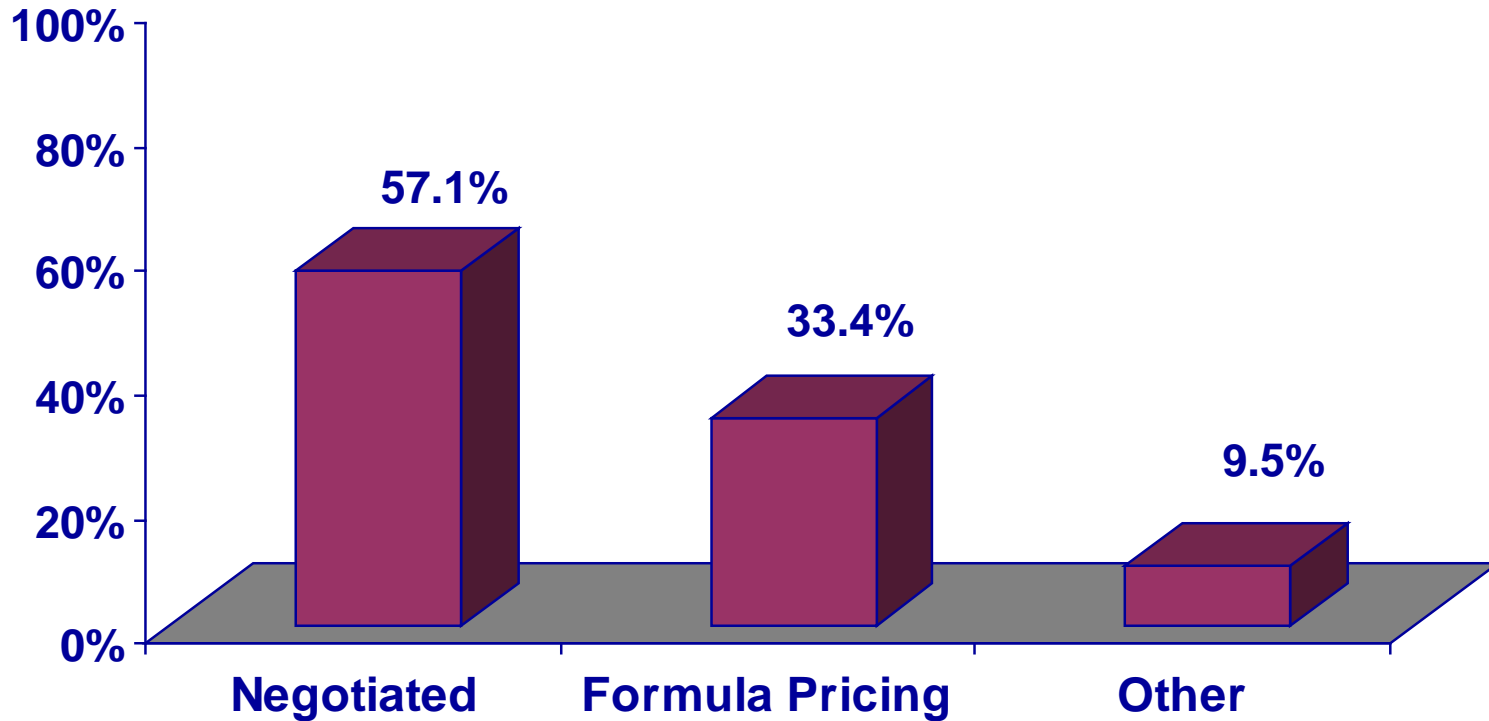
Marketing Methods

Percent of cattle purchased by method



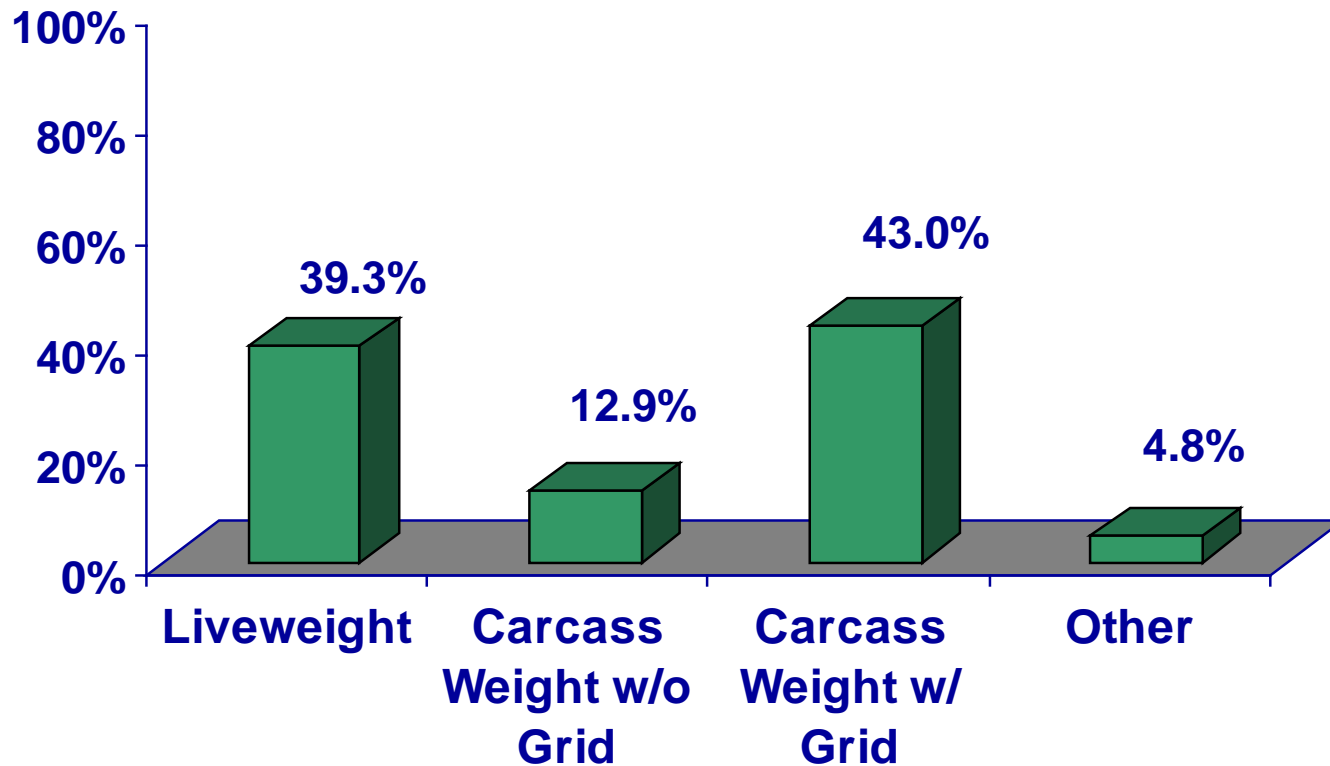
Pricing Methods

Percent of cattle purchased by pricing method



Valuation Methods

Percent of cattle sold by valuation method



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Reasons Feedlots Use AMAs

Reason	Percent
Allows for sale of higher quality cattle	51.6
Sell cattle at higher prices	38.5
Reduce risk	34.5
Reduce price variability	33.8
Secure buyers	26.5
Carcass data	20.3

Reasons Packers Use AMAs

Reason	Percent
Improves week-to-week supply management	57.7
Secure higher quality fed cattle	53.8
Allows for product branding in retail sales	46.2
Allows for market access to cattle	42.3
Improves efficiency of operations (animal uniformity)	42.3
Reduces costs of acquiring cattle	34.6

Reasons Feedlots Only Use Cash Markets

Reason	Percent
Allows for independence, control, and flexibility	54.1
Sell cattle at higher prices	40.9
More beneficial during favorable market conditions	37.5
Do not have to manage complex contracts	24.8
Allows for faster adjustments to market conditions	23.1
Reduces selling costs	22.8

Reasons Packers Only Use Cash Markets

Reason	Percent
Allows for independence, control, and flexibility	51.4
Secure higher quality cattle	44.3
Allows for quick response to market conditions	38.6
Can purchase cattle at LOWER prices	27.1
Provides benefits from favorable market conditions	21.4
Do not have to manage complex contracts	17.1

OUTLINE

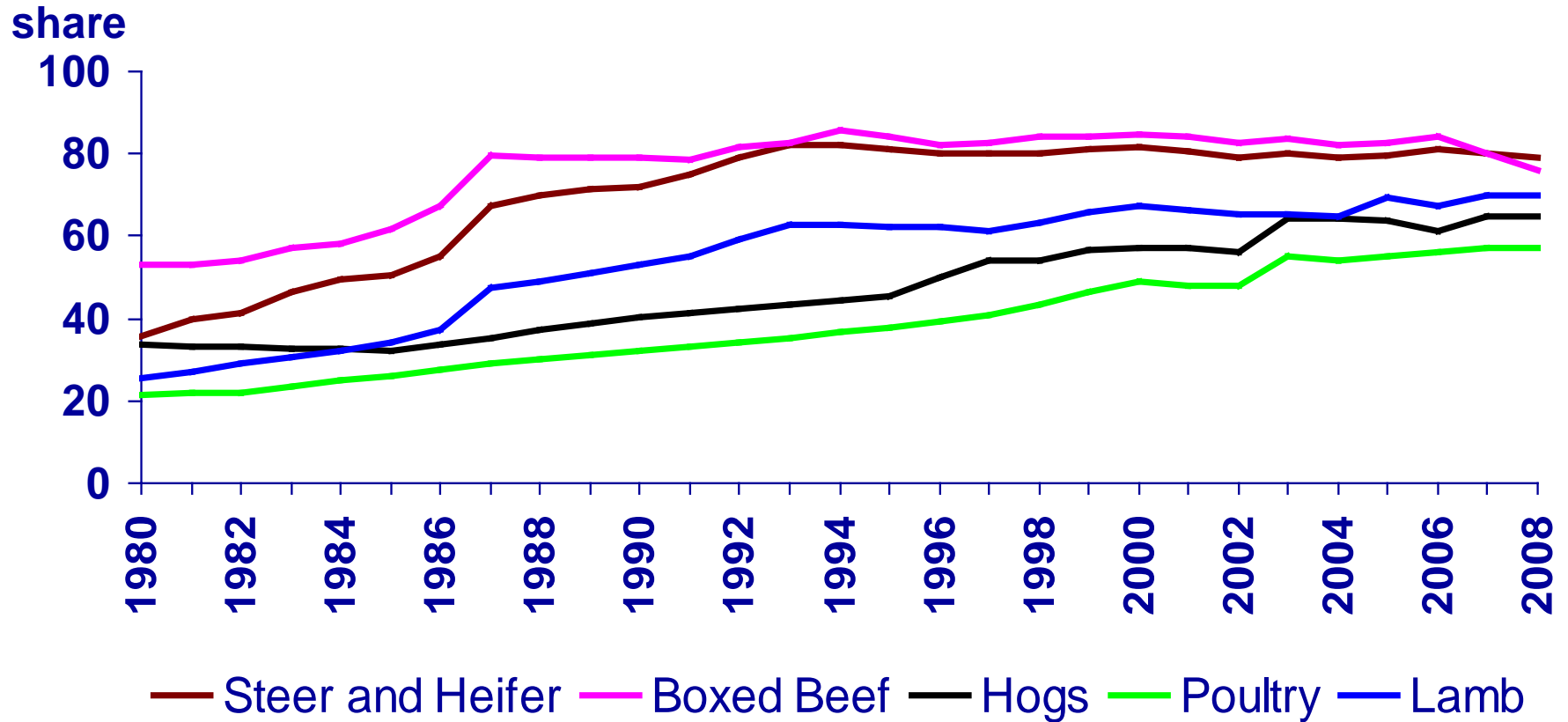
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Effects of Concentration

- 1. This may be the most studied issue in agricultural economics research**
- 2. Large increases in concentration across all sectors**

Concentration Ratios

Four-firm Concentration Ratios



Effects of Concentration

1. More opportunity for “cooperation” among large players
 - a. Little evidence this has occurred
2. Concentration also can provide benefits
 - a. Efficiency gains/better capitalization
 - b. Technological change
 - c. Product development
3. Results indicate that IF there has been any negative effects
 - a. They have been more than offset by positive effects

Effects of Alternative Marketing Arrangements On Cattle Prices

- 1. RTI Alternative Marketing Arrangements Study**
- 2. Found a small, statistically significant result of increases in AMA usage**
 - a. A 10% increase in AMA usage reduced cattle price by \$0.04/cwt**
 - b. A complete elimination of AMAs would increase cattle prices by \$0.10/cwt**

Effects of Alternative Marketing Arrangements on Packer Costs

1. If all AMAs were eliminated
 - a. Packing costs would increase by 1%
 - b. Slaughter volumes would decline by 8% and increase costs by 2.6%
 - c. Monthly volumes would be more variable and add 1.2% to costs
2. A loss of AMAs would increase costs by \$6.50/head
 - a. The average profit over this period was a LOSS of **\$2.40/head**

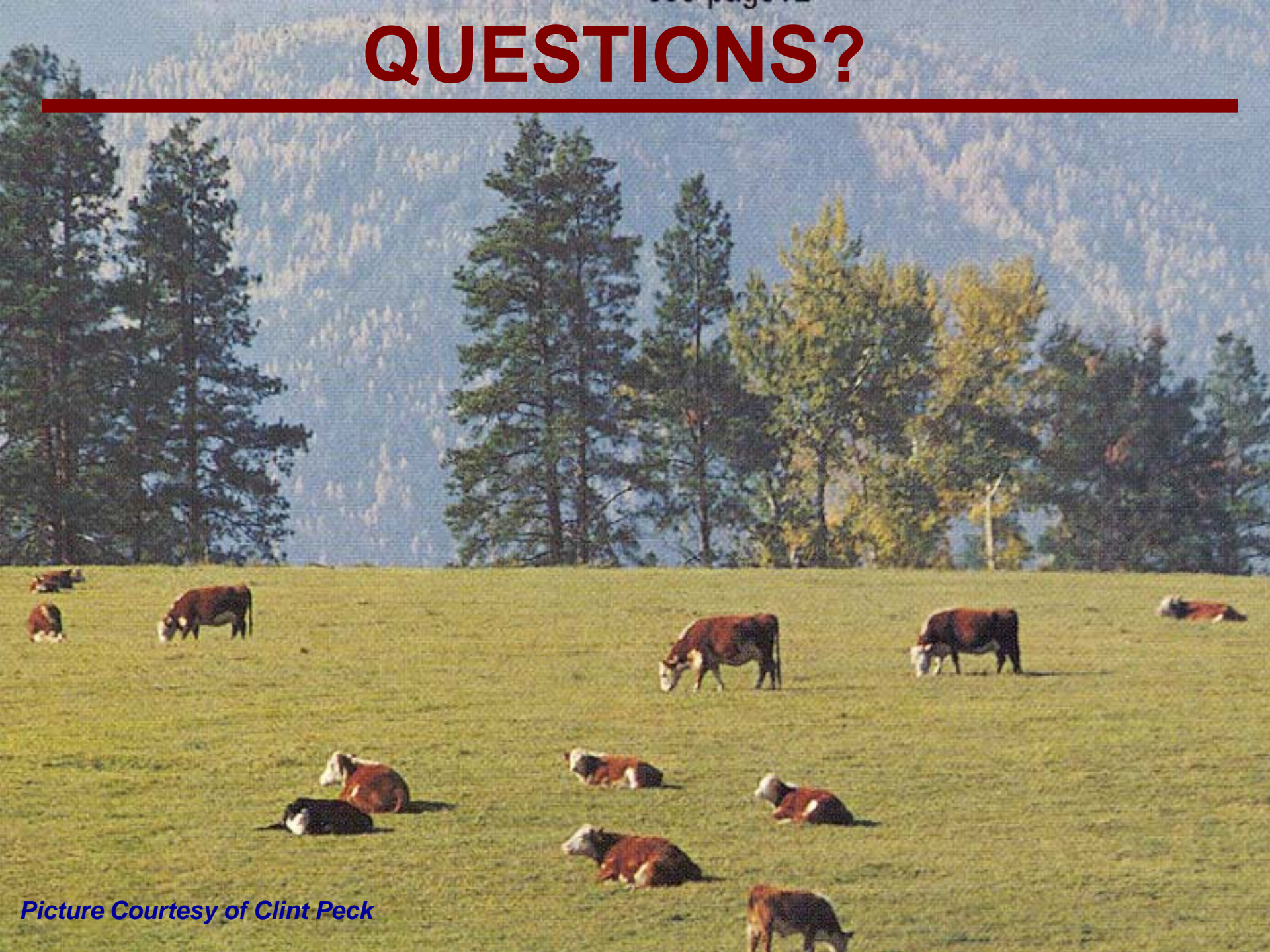
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Summary Comments

- 1. Benefits of concentration and AMAs have outweighed their costs**
- 2. Agricultural producers sign contracts voluntarily for many reasons**
- 3. One must be very careful when you interfere with the decision-making process of businesses**
 - a. There may be reasons to do so**
 - b. But, one has to be very careful**

QUESTIONS?



Picture Courtesy of Clint Peck