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

Meat Loaf
Paradise By The Dashboard Light
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
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

- Auction Barns & Dealers or Brokers: 4.2%
- Direct Trade: 57.5%
- Forward Contract: 4.5%
- Marketing Agreement: 28.8%
- Packer Owned & Other: 5.0%
Pricing Methods

Percent of cattle purchased by pricing method

- Negotiated: 57.1%
- Formula Pricing: 33.4%
- Other: 9.5%
Valuation Methods

Percent of cattle sold by valuation method

- Liveweight: 39.3%
- Carcass Weight w/o Grid: 12.9%
- Carcass Weight w/ Grid: 43.0%
- Other: 4.8%
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<table>
<thead>
<tr>
<th>Reason</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allows for sale of higher quality cattle</td>
<td>51.6</td>
</tr>
<tr>
<td>Sell cattle at higher prices</td>
<td>38.5</td>
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<tr>
<td>Reduce risk</td>
<td>34.5</td>
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<tr>
<td>Reduce price variability</td>
<td>33.8</td>
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<tr>
<td>Secure buyers</td>
<td>26.5</td>
</tr>
<tr>
<td>Carcass data</td>
<td>20.3</td>
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<tr>
<td>Reason</td>
<td>Percent</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------</td>
<td>---------</td>
</tr>
<tr>
<td>Improves week-to-week supply management</td>
<td>57.7</td>
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<tr>
<td>Secure higher quality fed cattle</td>
<td>53.8</td>
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<tr>
<td>Allows for product branding in retail sales</td>
<td>46.2</td>
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<tr>
<td>Allows for market access to cattle</td>
<td>42.3</td>
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<tr>
<td>Improves efficiency of operations (animal uniformity)</td>
<td>42.3</td>
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<tr>
<td>Reduces costs of acquiring cattle</td>
<td>34.6</td>
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## Reasons Feedlots Only Use Cash Markets

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percent</th>
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</thead>
<tbody>
<tr>
<td>Allows for independence, control, and flexibility</td>
<td>54.1</td>
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<tr>
<td>Sell cattle at higher prices</td>
<td>40.9</td>
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<tr>
<td>More beneficial during favorable market conditions</td>
<td>37.5</td>
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<tr>
<td>Do not have to manage complex contracts</td>
<td>24.8</td>
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<tr>
<td>Allows for faster adjustments to market conditions</td>
<td>23.1</td>
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<tr>
<td>Reduces selling costs</td>
<td>22.8</td>
</tr>
</tbody>
</table>
## Reasons Packers Only Use Cash Markets

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

share


Steer and Heifer  Boxed Beef  Hogs  Poultry  Lamb
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