National Pork Producers Council

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July 17, 2003

Ms. Tess Butler
Grain Inspection, Packers
and Stockyard Administration
1400 Independence Avenue, S.W., Room 3604
Washington, DC 20250-3604

RE: Comments on Proposed Study Marketing Methods Used in the Livestock and Red Meat Industries, 68 FR 32455, May 30, 2003.

Dear Ms. Butler:

The National Pork Producers Council (NPPC) is pleased to submit these comments, on behalf of its members, in response to the notice published in the Federal Register on May 30, 2003. NPPC appreciates the opportunity to comment on Grain Inspection, Packers and Stockyard Administration's (GIPSA) proposed scope for this study as specified by the Omnibus Appropriations Act for Fiscal Year 2003 (Public Law 108-7).

NPPC conducts public policy outreach on behalf of its 44 affiliated state association members, representing over 80,000 pork producers. NPPC is committed to enhancing opportunities for the success of U.S. pork producers and other industry stakeholders by establishing the U.S. pork industry as a consistent and responsible supplier of high quality pork to the domestic and world market. The U.S. pork industry represents a major value-added activity in the agricultural economy and a major contributor to the overall U.S. economy.

We note that the report language accompanying Public Law 108-7 states that GIPSA "... should utilize expertise beyond traditional agricultural economics, including, but not limited to, industrial organization expertise and business consulting expertise." We understand the reasoning behind the language in the law and agree that securing broad expertise is critical to establishing a clear picture of today's pork marketing chain. We urge GIPSA, however, not to diminish the role of agricultural economists with livestock marketing expertise in this research. While specialists with expertise in industrial organizations, and business practices may bring new perspectives, they must have knowledge and familiarity of experienced researchers in order to accurately grasp the complexities and history of the U.S. livestock sectors. This chain has changed substantially in the past 20 years, both on the retail and restaurant/ food service side and at the farm level. This study should appreciate and reflect these changes and it cannot do so without participation by those researchers with first-hand experience of the changes.

NPPC would like to raise two general concerns raised by GIPSA's study objectives.

__Economic Drivers:__ We support GIPSA's stated intention of including the entire pork chain within the scope of this project. In addition, we urge GIPSA to fully consider that the pork chain does not end at the retail outlet or restaurant. No meaningful discussion of consolidation and its effects can take place until one considers all levels – from the producer to the consumer.

Specific consideration should be given to how modern marketing systems create consumer value, capture consumer value, and share the rewards of this value. Critical to this effort will be determining value characteristics and identifying the firm(s) responsible for creating them. All of these activities may be enhanced or hindered in various ways by changes in marketing methods.

Retailer purchasing methods (whether day-to-day business dealings or "arrangements") and needs are very important to packer pricing and supply decisions. The dramatic changes that have occurred in U.S. food retailing over the past decade and these changes' effects on both consumers and suppliers should have a prominent role in this research.

Foodservice requirements for consistency and, more recently, adherence to production methods specifications, may have even greater effects on what packers must require from their live animal suppliers in the future, especially with American consumers continually increasing reliance on foodservice establishments. Consistency, control and knowledge of production methods are, not coincidentally, major drivers of marketing systems to rely less and less on spot markets.

Finally, GIPSA must be careful to separate the effects of new marketing arrangements and packer ownership in the pork industry from the industry's dramatic structural change since the early 1980s. Technology, aging production facilities, aging producers and many other factors have driven this structural change. GIPSA and its chosen researchers must be diligent in separating correlation and causation during this time period.

Definition of Captive Supply: The GIPSA definition of "captive supply" has been consistent for about 15 years. It is our understanding that the specifics of this definition were logically chosen but arbitrary; the agency could have done something different had it thought that better.

There is no "right" answer regarding the definition of "captive supply." It would be best to allow objective analysis to tell us whether "captive supplies" actually have a negative impact on prices and what captive supply length(s) actually cause those negative effects. However, we currently have only one data series for "captive supplies" in beef cattle and even less information in pork.

An alternative approach would be to compile data for a set of captive supply definitions and then analyze the data to find which, if any, of them aid us in determining market effects. An example would be a set of data for 7-day, 14-day, 30-day, 6-month, 1-year and 3-year "captive supplies". While packers cannot tell with certainty how many hogs they will have delivered under contracts 3 years from now, they do know how many hogs they "intend" to have delivered then. Should we not allow analysis to determine whether any of these types of "captive supplies" have market effects rather than to just arbitrarily guess at one? The downside of this approach is that, unless some data exist with which to compute these measures backward in time, it will take some time (several years for the longer-term data) to gather a data set that includes a sufficient number of observations with which to do sound economic analysis.

Some alternative definitions are:

- Any animal whose harvest date and purchasing packer is already known on the date in question.
- Any animal whose transfer from a producer to a packer does not involve at least one open price discovery process. This definition would mean that hogs sold in spot or

negotiated hog markets or via futures market contracts would not be considered captive supplies since both of these involve an active price discovery process.

We believe that definitions should clearly differentiate between owned and non-owned (i.e. contracted) "captive supplies". We believe that the effects of these may be different. Data from the mandatory price reporting system may shed some light on this question. In a recent analysis done by Professor Glenn Grimes of the University of Missouri and Dr. Steve Meyer, President of Paragon Economics, Inc. and an economics consultant to NPPC, that demonstrates differences in hog base prices across regions and the time of day of the report, suggests reasons for these differences and analyzes the differences' impacts on producers who use marketing contracts. This is one example of how mandatory price reporting data may be useful in your upcoming research.

We note that the proposed Parts and Objectives are very broad and seem to cover a broad gambit of topics. One aspect that is hardly mentioned is the effect of time. We urge your consideration of time in three ways.

First, this research must be completed and published on a timely basis. The large Packers and Stockyards project on the U.S. livestock industry, completed in 1996, took too long to complete and due to delays in publishing the completed work, was discredited by some government officials and some researchers even before it was published. This is too important a topic to allow that to happen again. In addition, $4.5 million is a large sum of money to spend on a research project. Please do not spend it and then allow delays to reduce the impact of the research.

Second, all objectives must carefully consider the critical time factors involved in livestock markets. Production and prices are both cyclical and seasonal. These changes could be important factors in the emergence of non-spot market forms of coordination. GIPSA should pay close attention to these potential interactions.

Third, Objective 6 refers to " . . . the effect that alternative marketing arrangements have on spot market prices in the short run." As can be seen in the paper by Grimes and Meyer, these arrangements may have an effect in the <u>very</u> short run – within a given day! This underscores the importance of time and timing in accurately researching and portraying these markets.

We note in Objective 8 that GIPSA itself mixes the terms "price discovery" and "how prices are likely to be determined" (a form of "price determination) in the same sentence. These are two vastly different economic concepts that are frequently confused by researchers, market participants, the press and policy makers. They MUST be clearly delineated in the GIPSA research. It is quite possible (and, in fact, likely) for marketing methods to markedly change price discovery processes without significantly changing price determination outcomes.

NPPC appreciates the establishment of an interagency working group and urges GIPSA to keep the group as small as possible and to clearly define the role of each agency and individuals within the working group. We strongly support a peer-review panel to review the technical research work. We believe this type of review will help ensure a multidisciplinary approach, academic integrity and accountability.

We appreciate the opportunity to present comments on behalf of America's pork producers. If you have any additional questions, please contact Ms. Audrey Adamson, Director, Government Relations at (202) 347-3600.

Sincerely,

Jon Caspers

Jon Caspers
President
National Pork Producers Council