From: Hassebrook, Chuck
To: Comments Gipsa
Date: 6/26/03 3:49PM
Subject: comment on meat packer study

I am writing to comment on the congressionally-mandated Grain Inspection, Packers and Stockyards Administration (GIPSA) study of marketing methods used in the livestock and red meat industries.

Specifically, I urge you to collect and analyze information on livestock procurement contracts offered currently and over the last year by the nation's ten largest packers of pork and beef in a manner that demonstrates the differences in base price (controlling for yield and quality adjustments) and other terms offered to producers of varying sizes, the size categories that determine the terms offered, and the number of producers of varying sizes to which the various contracts and terms are offered. We urge you to include in your public report, findings that clearly describes the size categories (in annual marketings) at which price premiums change and the size categories (in annual marketings) at which more favorable contracts become available. We also urge you to construct size categories to ensure that none include more than 25 percent of the national slaughter.

The Need for Documentation of the Extent of Price Discrimination

The extent of price discrimination against small and mid size farms has not been documented. The Center for Rural Affairs has collected anecdotes from producers and lenders in which they share what they were told by buyers with major packers. However, no one with access to the data has conducted a systemic analysis of volume premiums and price discrimination against small and mid size operations.

Only USDA has access to this information. The Secretary has long enjoyed broad authority under the Packers and Stockyards Act to issue special orders requiring that packers file regular reports regarding all livestock transactions. Special orders may mandate that these reports include all important information regarding 1) method of procurement; 2) terms of payment 3) captive supplies 4) practices for offering forward contracts and marketing agreements; and 5) any additional information the Secretary deems necessary to carry out the provisions of the Packers and Stockyards Act.

The Secretary should use that authority to resolve the question. The one effort USDA has made in this regard - the Western Cornbelt Study - is inadequate and out of date. The data was collected nearly eight years ago. Since then, the hog industry has changed dramatically.

Futhermore, its usefulness was limited by its design. It lumped all producers selling more than 1,000 head during January of 1996 into a single category. Thus mega-producers with the capacity to exercise real market power were lumped with independent farmers selling 12,000 or fewer hogs annually and sale barns selling large mixed lots. That diluted the premiums received by mega-producers.

Nonetheless, the study found that large producers were more likely to sell on contract and as a result did receive more for their hogs. But it did not examine why larger producers were far more likely to have contracts that paid more than the spot market. It did not analyze whether contracts that provided higher prices than the spot market were offered exclusively or primarily to those with large numbers of hogs.

When I served on former Secretary Glickman's National Small Farms Commission I once asked why the Packers and Stockyard's Administration had not acted on the Commission request that it draft proposed legislation to clarify its legal authority to stop undue price discrimination. I was told that the recommendation would not be implemented because the view within Packers and Stockyards was that "volume premiums are the American way."

I believe that is wrong. I believe that a level playing field is the American way. This is not about efficiency. We do not objective to volume premiums that reflect real costs savings and real efficiency associated with the lower cost of acquiring livestock from one mega-producer rather than many smaller farmers. So limited, volume premiums can enhance efficiency and benefit consumers.

We object to volume premiums based on market power. Mega-producers have market power. They are big enough that their decisions about who they sell hogs to can make and break packing plants. Packer that win long-term contracts that commit the hogs of the giants to them are protected from the risk of having to compete in markets for their survival on a continuous basis.

But society does not benefit from that. Society gains no greater efficiency. There is no social interest in protecting firms from the rigors of continuous and vigorous competition.

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