POTENTIAL BENEFITS OF MANDATORY PRICE REPORTING

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Mandatory price reporting has long been debated in the livestock industry. The debate included everything from "A clear form of socialism!" to "Require packers to open their books to the world!" As with most things, somewhere in the middle lay ground that could be claimed as common and useful to all market participants. It was with that goal and the mandate of Congress to "decide something among yourselves that all of you can live with" that pork producers, NPPC staff and pork packers sat down to hammer out a mandatory price reporting system for hogs and the legislation to establish it. The process started last April and resulted in the pork section of the Livestock Mandatory Price Reporting Act of 1999.

The Establishment clause of the bill states that:

> "The Secretary shall establish a program of swine price information reporting that will:
> (1) provide timely, accurate, and reliable market information;
> (2) facilitate more informed marketing decision; and
> (3) promote competition in the swine slaughtering industry.

What will this law do?

The Livestock Mandatory Price Reporting Act of 1999 calls for a number of information items regarding hog prices, supplies and characteristics; a catalog of marketing contract information; improved retail price data for pork and other meats; a new form of hog slaughter data; a monthly hogs and pigs inventory report; a study of the Secretary's powers under the Packers and Stockyards Act; and, finally a study of trim losses in the pork packing sector.

<u>Daily hog market information</u>

1. Requires 100 percent participation by packers that represent over 100,000 head per year. This covers over 95 percent of U.S. hog slaughter. The benefit of this provision will be that there will be few, if any, "hidden deals" thus lending more transparency to the hog market and hopefully engendering less suspicion of preferential treatment.
2. Provides actual data for the day prior to the report date -- heretofore, all of the information from the voluntary system were estimates or samples which may or may not have been indicative of the entire day's trade. This

provision should prevent packers from picking and choosing what information they want to report. It will also provide information from a much broader temporal market upon which contract prices can be based with less fear of manipulation.

3. Captures all of the prices in the marketplace -- today's system has no place to include hogs prices after 2 p.m. and before 8 a.m. the next morning. This means that all hogs will figure into the day's market information.
4. Provides complete information regarding the base price, net price and carcass characteristics of contract-procured hogs. This information will be further broken down by three pricing systems:
    a. Swine or pork market formulas
    b. Other market formulas (this would include feed and futures markets)
    c. Other purchase arrangements.

   This feature should reduce suspicion regarding contractual arrangement and quantify the value of contractual commitments.
5. Establishes an accountability system subject to civil penalties -- if packers' reports for the daily 10 a.m. and 2 p.m. reports show a pattern of significant variance from the actual data reported on the following day, they can be punished with fines. This puts teeth into the law to make sure that everyone complies.
6. Requires reporting of base prices, net prices and carcass characteristics. The current base price system leaves the industry comparing apples to oranges. Including both base and net will give all industry participants a clear view of the actual dollars changing hands and the relative roles of base price and carcass premiums in this system. Including carcass characteristics will allow the industry to more accurately measure progress.
7. Requires packers to disclose purchase commitments for each of the next 14 calendar days. The aggregated number will help producers know how current the market is and how much opportunity exists in the spot market.
8. Reports weekly a list of "non-carcass" premiums categories (such as delivery timing, specified genetics, load size, etc) and the amount of these premiums during the previous week. Packers are also required to provide a plant-specific listing of such premiums to producers upon request. This provision allows producers to know what is available and decide for themselves whether it is profitable to qualify for and pursue these premiums. Note that packers are not required to make these premiums available upon demand since the need for the specific class of animal may be filled.
9. Requires all original contracts, agreements and other records to be kept for 2 years and requires that packers record the time period in which a purchase occurs -- before 10 a.m., 10 a.m. to 2 p.m. or after 2 p.m. -- on the date of purchase. This requirement provides a paper trail for enforcement efforts.

<u>Contract information</u>

In addition to this information about the hog market, this bill also authorizes GIPSA to establish a much-needed system of gathering and publishing information regarding the market for production contracts. The contract catalog that GIPSA will establish and maintain should provide valuable information regarding the types of contracts being offered at any given point in time and the number of hogs being procured by contract type. We believe both will go far in providing for an efficient market for contracts that will be open to all producers who choose to pursue it.

Retail prices

The bill requires USDA to use data from a source that includes the sales quantities of retail meat items in order to compute correctly-weighted average retail prices. The current system of using Bureau of Labor Statistics retail prices doesn't allow this but recent advances and improvements in scanner-derived data should make the task manageable today and powerful in the future. It was NPPC that developed this idea and research the basic feasibility of acquiring commercial scanner data. The real benefit of this will be long run as researchers can gain a much clearer picture of the demand for meats and even specific cuts.

Supply data

The bill requires that USDA separate market hog slaughter between barrows and gilts. This has been done in the beef industry for years; first because steers and heifers were priced differently but more recently as mainly a matter of tradition. This move will put in the public realm information that can be very useful in determining ongoing changes in the breeding herd thereby improving supply and price forecasting and potentially providing for a more stable hog market.

In addition, a monthly Hogs and Pigs inventory report is mandated. NPPC, NASS and other groups have worked on this for some time. The important thing is to simplify the survey in order to reduce the reporting burden, improve the response rate, save scarce USDA funds and, most importantly, get answers that producers actually know. We think this system will eventually be programmed in to records systems so that a response to the USDA questionnaire can be generated easily, quickly and accurately. This report will provide more frequent, more accurate and more useful information for producers, packers and market analysts.

Studies

Finally, two important studies were authorized.

The first is a comprehensive look at the Secretary of Agriculture's jurisdiction, power, duties and authorities under the Packers and Stockyards Act of 1921. This study is already underway by the General Accounting Office. Amid all of the calls for broader powers, more help from the Justice Department, more resources for everyone, doesn't it make sense to first and foremost find out just what the Secretary (and, by extension, the Grain Inspection, Packers and Stockyards Administration) can and can't do.

In addition, a study of trim losses in packing plants and the production, processing and inspection factors that affect it was mandated. Trim loss is often a major concern to producers and packers and a concerted effort to reduce it will likely have positive food safety impacts as well. The law further requires AMS to update the baseline study every two years and to ascertain the improvements that have been achieved at the time of each update.

What will this law not do?

Some people have excessive expectations regarding what will be required and made available by this law. Among these are the following:

1. Provide prices of packer-raised hogs. This law excludes these transfer prices simply because they are irrelevant. Transfer prices make no difference in the overall profitability of a vertically integrated system and therefore could be reported as anything without financial harm to the reporting firm. So, if included, these could easily be used to affect the prices paid by non-integrated packers, perhaps to the detriment of producers.
2. Provide plant by plant information. Again, this kind of information would likely be more useful to packers than to producers and could be used in a predatory manner when supplies of hogs are short. Producers will still be responsible for finding out what given companies and plants are bidding for hogs on a daily basis. The aggregated information will, however, provide a useful frame of reference.
3. Provide the terms of all contracts. Producers will still be responsible for investigating contract opportunities and comparing contract terms. Publishing the contracts themselves was deemed to likely reduce innovation and competition. NPPC's soon-to-be-published Guide to Marketing Contracts is intended to help producers make meaningful comparisons.
4. Improve hog prices above the levels that supply and demand cause them to be. This is an information bill that will not change the basic laws of economics. The bill will hopefully provide better information for all participants to understand and anticipate the results of these economic relationships.

Other information is needed?

Though not contained explicitly in this bill, pork producers believe it is within the scope of USDA's responsibilities to:

1. Gather data from which accurate estimates of the distribution of prices (which is almost certainly not the classic "normal" distribution) can be derived in order to accurately portray to producers the ranges that contain, for instance, 50 percent or 70 percent of the hogs traded on a given day.

The only data needed to accomplish this is the number of hogs each packer purchases at each price on, for example, 50-cent intervals. We do not feel that this would be burdensome on packers since most computer systems will compute these breakdowns (simply histograms) quickly and easily. It would add great value and detail to the current system of reporting the low price, high price and weighted average.

2. Study the differences that currently exist in prices across load sizes and, possibly, establish an industry standard load size for price reporting. USDA currently distinguishes between truckload and less-than-truckload prices for meat items but lumps prices from all load sizes of livestock together. This practice is born of tradition but may not be optimal for the modern, changing pork industry.

Summary

NPPC opposed mandatory price reporting for many years. It was only in the aftermath of the price crisis of 1998, continued refusal of some packers to report to USDA and almost complete rejection of an internet-based price reporting system developed by NPPC and Farmland Foods in 1998 and 1999 that pork producers voted to support this concept. We worked hard to craft a system that achieved our goals while still being respectful of the individuality and competitive position of packers. Whether we have accomplished those goals remains to be seen but we are confident that this system will provide information never before available that has the potential to make a more efficient industry characterized by greater trust and teamwork.