GIPSA/RTI LIVESTOCK AND MEAT MARKETING STUDY

On Friday, February 16, 2007, USDA’s Grain Inspection, Packers and Stockyards Administration (GIPSA) released the “GIPSA Livestock and Meat Marketing Study,” which was mandated by Congress in the FY 2003 Omnibus Appropriations bill. Congress mandated this multi-year study to determine the impact of various legislative proposals that were debated but not ultimately included in the 2002 Farm bill. Those legislative proposals included a ban on packer ownership of livestock, a requirement that packers purchase at least 25 percent of their animals on the spot market and bills that would either ban or restrict forward contracting and other marketing agreements.

Congress appropriated $4.5 million to GIPSA to conduct the most comprehensive and far reaching study that has ever been completed on livestock and meat marketing. On the beef complex alone, transaction data was secured from the 29 largest beef packing plants and the report focused on 58 million cattle and 590,000 business transactions. The Secretary of Agriculture was required to issue a request for proposals from entities that had the means to conduct this study and the contract was awarded to RTI International though a competitive and open bid process (68 Fed. Reg. 32455). This study was conducted with the direct input and peer review of the nations leading business and agricultural universities.

Prior to issuing its notice and request for comments regarding the scope of the study in the Federal Register, USDA/GIPSA established a working group with representatives from a wide range of federal agencies with experience and regulatory oversight in the market place. The working group included representatives from the USDA’s Office of the Chief Economist, Economic Research Service, Agricultural Marketing Service and National Agricultural Statistics Service in addition to the Department of Justice, Federal Trade Commission, and Commodity Futures Trading Commission (68 Fed. Reg. 32456).

The report found that alternative marketing arrangements (AMAs) increase the economic efficiency of the cattle, hog, and lamb markets, and that these economic benefits are distributed to consumers, as well as to independent producers and packers who use AMAs. Below are some of the other significant conclusions in the study:

- In aggregate, restrictions on the use of AMAs for sale of livestock to meat packers would have negative economic effects on livestock producers, meat packers, and consumers (RTI Study Vol.1 ES - pg. 3).

- Changing consumer expectations in terms of product quality have led retailers to modify their merchandising and purchasing practices in the meat, fruit, and vegetable sectors. These initiatives in response to consumer demand have led to increased segmentation of product offerings on store shelves and in the meat case. Retailers now offer, in addition to standard products, differentiated products focusing on health, convenience, taste, and information about how the food was produced (RTI Study Vol. 6 pg. 1-12).
Many livestock producers and meat packers benefit by using AMAs, and those benefits include (RTI Study Vol.1 ES - pg. 3):
- Better quality assurance and consistency
- Better risk management (market access and price risk)
- Improved cost management.

The producers surveyed that use AMAs identified the ability to obtain better prices, buy/sell higher quality cattle, and improve supply management as the leading reasons for using AMAs. In contrast, the producers surveyed that use only cash markets identified independence, flexibility, quick response to changing market conditions, and ability to buy at lower prices and sell at higher prices as primary reasons for using only cash or spot markets (RTI Study Vol.1 ES – pg. 4).

The packers surveyed stated that their top three reasons for using AMAs were to secure higher quality cattle, allow for product branding in retail stores (adding value throughout the chain), and improve week-to-week supply management (RTI Study Vol.1ES – pg. 4).

The producers and packers surveyed that use AMAs value them as a method of dealing with production, market access, and price risks. More specifically, feedlots believe that AMAs allow them to secure or sell better quality cattle and calves and improve operational management, efficiency, and capacity utilization. Packers identified AMAs as an important element of producing branded products and meeting consumer demand by producing a higher quality, more consistent product (RTI Study Vol.1 ES – pg. 8).

Hogs purchased through AMAs are consistently associated with higher quality than hogs acquired through negotiated (spot market) purchases (RTI Study Vol.1 ES – pg.11).

An analysis of risk associated with different marketing arrangements shows that different types of marketing arrangements exhibit different price volatilities as measured by variance of prices. From the hog producers’ perspective, spot/cash market sales pose the greatest level of risk to the producer (RTI Study Vol.1 ES – pg. 12).

In analyzing the economic effects of hypothetical restrictions on the use of AMAs in the hog and pork industries, the report concluded that hog producers would LOSE because of the offsetting effects of hogs diverted from AMAs to the spot market and consumers would LOSE because of higher wholesale and retail pork prices (RTI Study Vol.1 ES – pg.12).

Restrictions on the use of AMAs may increase concentration of various segments of the lamb industry (RTI Study Vol.1 ES – pg. 15).

To review the complete final report, including peer reviewers’ comments, and additional information about the study, you can visit the GIPSA website and click on the follow link http://www.gipsa.usda.gov/GIPSA/webapp?area=home&subject=Imp&topic=ir-mms.

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