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► GIPSA administrator Donna Reifschneider says the study will give producers better information so they can make informed marketing decisions.

The \$4.3-Million Question

Marketing study may clear up captive supply questions.

by Barb Baylor Anderson

A U.S. Department of Agriculture (USDA)-funded marketing study now underway may help clear up some of the perennial packer and retailer concentration questions cattle producers have dealt with for decades. The vast study will address industry-wide concerns about changes in the structure and business practices of the livestock and meatpacking industries, including captive supply issues and the potentially adverse effect on fed-cattle prices.

"We have more and more Angus producers feeding cattle on the grid. Really, we are just getting started, so the results of this study could provide us with the information we need to supplement other marketing tools we use to help producers get top dollar for their animals," says Leroy Baldwin, past American Angus Association president, Ocala, Fla. "The study's results are going to be especially useful for the long run."

Donna Reifschneider, administrator, USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA), shares similar thoughts. "This study will give producers better information on which to base their decisions on whether to participate in nontraditional marketing arrangements, and, if so, which ones," she explains. "It also will provide information on the role of alternative marketing arrangements, the extent of their use, reasons why firms enter into them and implications of their use. The study will help identify emerging marketing information needs of livestock producers and other market participants, as well as provide objective information for market participants, Congress and USDA to consider while confronting livestock industry challenges."

Adequate protection?

This summer, USDA awarded the \$4.3 million contract earmarked by Congress in fiscal year (FY) 2003 Omnibus Appropriations Bill to Research Triangle International (RTI). RTI, based in Research Triangle Park, N.C., relies on a multidisciplinary approach to research, and will work with specialists from Colorado State University (CSU), Iowa State University (ISU), Kansas State University (K-State), Montana State University (MSU), North Carolina State University (NCSU) and the Wharton School at the University of Pennsylvania in completing the study.

The National Cattlemen's Beef Association (NCBA) led the initial charge to encourage Congress to appropriate funding for the study. NCBA asserts current antitrust and anticompetitive laws and regulations do

not seem to afford adequate protection to livestock producers.

“It is absolutely critical that this study address the impact to cattlemen of both packer and retailer concentration, and determine the implications of alternative marketing arrangements available to cattlemen,” stresses Errol Rice, associate director, livestock marketing services, NCBA, Washington, D.C. “The study needs to provide cattlemen with answers about how today’s market entry conditions, industry concentration, price discovery and thinning spot markets affect prices offered to them. The study will also need to provide information regarding efforts to push legislation that would place federal restrictions on the use of captive supplies.”

GIPSA outlines the following five specific research goals.

- 1) Identify and determine the use of emerging types of marketing arrangements.
- 2) Determine terms of marketing arrangements and their availability to entities of different sizes and entities in different geographic locations.
- 3) Analyze short-run relationships between captive supplies and spot and non-spot market prices.
- 4) Determine long-run implications of marketing arrangements on operating costs, animal and meat quality, marketing risks, prices of livestock and meat, and the structure of the livestock and meatpacking industries.
- 5) As NCBA requested, determine implications of the marketing arrangements for entry conditions, industry concentration, price discovery and thinning spot markets.

Research underway

RTT’s work on the study began July 1. Mary Muth is leading the effort, and says preliminary reports about marketing arrangements will be completed about one year from the start date.

“More detailed analyses (including descriptive findings and implications of alternative marketing arrangements) are to

be completed in approximately two years. Timing of completion will depend on the schedule for the industry surveys that are being conducted as part of the project,” she says.

GIPSA is committed to completing the study as quickly as possible, “consistent with legal requirements and the need to produce technically sound findings,” Reifschneider says. “RTI will depend on voluntary data collection from producers, meat wholesalers, retailers, and foodservice and export firms. As information collection requirements are identified, we will follow the standard procedure for notice, comment and request for approval from the Office of Management and Budget (OMB).”

Ultimately, Reifschneider expects the report to “make a very important contribution to USDA and Congress in deciding whether restrictions on use of captive supplies are warranted,” she says. “It will assist GIPSA in enforcing the Packers and Stockyards Act by contributing to our understanding of changing marketing practices and by identifying areas we may need to include in our investigation plans.”

NCBA’s Rice hopes the study finds “concrete and credible answers” to the

questions that cattlemen have posed regarding captive supplies, packer ownership of livestock and alternative marketing agreements. “NCBA will monitor the progress of this study very closely, and communicate relevant findings to the industry,” he says.

“Most consumers today recognize the quality of Angus beef — you see it everywhere being used as a marketing point,” Baldwin says. “As more

and more commercial producers receive Angus production information, they will be able to use carcass data at point of sale to command a premium. The findings of this study will hopefully just back our justification for a premium and continue to enhance the return Angus producers should get for their performance-based cattle.”

For more information visit GIPSA’s Web site at www.usda.gov/gipsa.



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