

# ***Impact of GIPSA's Proposed Rules (Release No. 0326.10) on Cattle Producers***

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# Overview of Proposed Rules

- Proposed vs. Final Rules
- I'm not a lawyer & am free-market oriented...
- I think both “sides” are exaggerating...
- Timeline highlights
  - June 22<sup>nd</sup> proposed rules released
  - Comment period extended to Nov. 22<sup>nd</sup>
  - Internal cost-benefit study timeline unknown
  - “final rule” period will also have long timeline characterized by uncertainty and litigation

# Proposed Rules - Implications

- “written records”
  - Must keep written records to justify differential pricing... should be sufficient to identify benefit-cost of pricing differentials...
  - Some may take “one price” approach to simplify and avoid new costs
  - Those maintaining differential pricing will have higher costs that are passed on...

# Proposed Rules - Implications

- “written records” ...
  - Increases costs of grid pricing, reduce net premium for “higher quality” cattle, etc.
  - Likely reduces choice set for consumers; certainly increases costs...
    - Interesting that “supporters” here are against similar requirements for them in context of livestock identification & traceability...

# Proposed Rules – Implications

## “only buy for one packer”

- Restrict sometimes common practice of one buyer acting for multiple packers at a given auction...
- Likely impact is reduction in # of bidders at a given auction; particularly lower volume auctions – could actually reduce received prices for cattle...
- Arguably an even bigger deal in areas including Eastern Cornbelt...

# Proposed Rules – Implications

## “competitive injury” clause

- No longer require complaints under PSA to show action of accused packer caused competitive injury.
- Many prior cases have resulted in plaintiffs (producers) being unable to demonstrate actions by defendant (packer) harmed competition
- Recall 2004 AL verdict of \$1.2B against Tyson Foods – judgment later vacated

# Proposed Rules - Implications

- “capital investments” clause
  - “contract must be for a sufficient length of time for the producer to recover 80%...”
  - limits response to food safety, animal welfare, and other developing concerns
  - Impossible to implement?
    - different accounting rules & approaches
    - consider enterprise budget issue (allocation of labor to livestock or crop enterprises)...

# Existing Studies/Resources

- Univ. of Arkansas held webinar (Oct. 14)
  - <http://www.nationalaglawcenter.org/gipsawworkshops/>
- American Meat Institute
  - <http://www.meatami.com/ht/d/sp/i/61286/pid/61286>

## THREE IMPACT ASSESSMENTS:

- Informa Economics, Inc.
- John Dunham and Associates
- FarmEcon, LLC
  - USDA conducting internal study



# Informa Economics, Inc.

(for National Meat Association)

- Total Industry Costs:
  - Cattle & Beef: \$880 million
    - \$39 mil: one-time direct costs
    - \$62 mil: ongoing direct costs
    - \$402 mil: efficiency loss based cost increase
    - \$378 mil: quality impact based revenue loss
  - Swine & Pork: \$401 million; Poultry: \$361 million
- Aggregate Impacts:
  - Reduce GDP by \$1.5 billion & jobs by 23,000
  - Removing competitive injury clause could reduce impacts by 75%...

# John Dunham and Associates

(for American Meat Institute)

- Total Impacts:
  - \$14 billion reduction in national GDP
  - 104,000 jobs lost nationally
  - 3.3% increase in retail meat prices

# FarmEcon, LLC

(for National Chicken Council)

- Total 5 Year Poultry Industry Cost Increases: \$1.03 billion
  - \$644 million – feed costs
  - \$150 million – housing costs
  - \$110 million – death loss
  - \$115 million – feed assay costs
  - \$6 million – administrative costs
- Additional costs not quantified:
  - Litigation increase; export competitiveness;

# 2007 – GIPSA Livestock & Meat Marketing Study

- *Over ten years a 25% reduction in alternative marketing arrangements would cost:*
  - *feeder cattle producers \$5.1 billion;*
  - *fed cattle producers \$3.9 billion; and*
  - *\$2.5 billion for consumers.*
- *If 100%, 10-yr cumulative losses top \$60 billion*
  - *feeder producers \$29 billion; fed producers \$21.8 billion; and consumers \$13.7 billion*

# Additional Considerations

- Farm-retail margins
  - Widening = anti-competitive behavior & adverse welfare impacts on producers?
    - Recent article says no...
    - Fixed dollar value mindset at play...
      - EX: 100% of \$1 OR 10% of \$1,000...
  - How good are underlying data?
    - BLS vs. scanner data
      - 15 beef products (4/08') avg. of 17% higher in BLS data
    - By definition farm-retail margin is overstated...

# Additional Considerations

- Uncertainty on implementation holding back investment?
  - Expanding cow herd is multi-year decision; growth in “exogenous” uncertainties...
- Differentiation dilemma:
  - Global markets demand quality control & differentiation,
  - Proposed rules impose barriers & cost to differentiation
    - Age verification is prime example

***Related material available at:***

**<http://www.agmanager.info/>**

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