

Good Morning, Mr. Chairman, Mr. Ranking Member, and Members of the Committee:

I am Jon Caspers, a past President of the National Pork Producers Council (NPPC) and a pork producer from Swaledale, Iowa. I operate a nursery-to-finish operation, marketing 18,000 hogs per year.

I would like to thank the Chairman for scheduling this hearing to review the U.S. Department of Agriculture's Mandatory Livestock Price Reporting Program. I am here this morning representing the views of the National Pork Producers Council (NPPC) and our members nationwide. NPPC appreciates the opportunity to further discuss the reauthorization of the mandatory livestock price reporting system and three proposed pork industry consensus program enhancements.

History of Mandatory Price Reporting

Severe financial crises in both the pork and beef industries in the mid- and late-1990s were the final drivers of mandated price reporting. Tremendous changes in the structure of both the packing and production sectors, the latter being especially true in the pork industry, had led many producers to believe that the prices reported under the old voluntary system were not representative of the "true" market price for animals. The only solution to a system which they perceived to be selective in the information it included was to implement a mandatory system which collected and published information on virtually all of the animals traded.

It was in response to this perceived need for more market transparency and more efficient and accurate price discovery that producers and packers worked together to draft and pass the Livestock Mandatory Reporting Act of 1999 (LMRA). Congress instructed industry groups "to decide something among yourselves that all of you can live with." Producers and packers hammered out a very specific system for cattle and hogs while sheep producers felt it best to pass general requirements and allow the Secretary of Agriculture to establish specific regulations.

We were committed to developing a timely, accurate and transparent price reporting system. The process started in late March of 1999 in a meeting at NPPC headquarters. More than 100 hours of in-person and conference call negotiations between producer representatives and major packers ensued. The result was the pork section of the LMRA which was unanimously approved by the Senate Agriculture Committee on July 29, 1999, and included in the FY 2000 Agriculture Appropriations bill that was signed into law on October 27, 1999.

The mandatory price reporting system created by the LMRA has generated information of great breadth and depth. We now gather and disseminate price information on the vast majority of cattle, hogs and sheep traded each day and we now know the numbers of animals, average and range of prices and many more information items for a wide array of different pricing mechanisms in all three species. Those are data we never knew under the voluntary system which only covered negotiated or cash trades.

How Program is Working Now

Livestock producers believe that a properly-functioning price reporting system should be a mirror to the marketplace. Such a system would not affect the market, only reflect what happens. It would do so clearly and accurately without distortions day in and day out. In addition, it would reflect everything about the marketplace. There would be no blind spots or invisible transactions.

After early difficulties in meeting the confidentiality requirements of the LMRA, this system has and continues to function well in delivering what we believe to be accurate, timely, broad information about the sales of cattle, hogs and sheep in the U.S. It is not perfect because it relies on fallible people and machines.

However, NPPC believes that, over the course of its life to date, the mandatory system has provided good and accurate information - at least as good as the voluntary system it replaced - largely because of its breadth of coverage and the careful thought invested by its framers. The systems created by this legislation capture such information on the vast majority of over 100 million hogs, 35 million cattle and 3 million sheep and lambs that are slaughtered each year in the U.S.

Producers value the amount and breadth of the information generated by the system. We know more today about the number and prices of animals sold under various price arrangements than ever before. We also know more about the physical characteristics such as weights, grade, and leanness of animals than ever before and know much of this by purchase type and by geographic region. The reports have been consistent and timely, in that they meet the times specified by the law.

Some market participants will disagree with this viewpoint. Wherever evidence supports such disagreement, Congress, USDA, producers and packers should work diligently to correct problems.

The goal of LMRA today is to provide solid, accurate, timely market data on as many animals as possible to the public in order to facilitate good business decision-making. NPPC believes that the goal has been met. We will defer to USDA regarding the actual performance of reporting entities.

Reauthorization for Five-Years

We believe it is imperative that Congress reauthorize the LMRA for a five year period and that you do so well before its September 30, 2005 expiration date.

The LMRA was scheduled to expire on Oct 22, 2004. NPPC along with the American Farm Bureau Federation, National Cattlemen's Beef Association, and American Sheep Industry Association submitted requests to then-Senate Agriculture Committee Chairman Cochran and House Agriculture Committee Chairman Goodlatte to extend the mandatory price reporting (MPR) provisions for a period of one year. The request was made in order to consider recommendations for reauthorization. NPPC has been engaged in a year-long process to review the MPR provisions with its MPR subcommittee consisting of producers, packers, and

economists.

As you recall, the extension of the act was caught up in last-minute business in both the House and Senate right before the adjournment of the 108th Congress. The LMRA expired on October 22, 2004.

Producers were extremely concerned about the expiration and the potential loss of market information. Most pork packers continued to provide the data required by the LMRA but they had no legal responsibility to do so. Congress should not put producers and packers in such a position again, especially when Congress has a clear consensus request for action and ample time to act.

Since late last year, the National Pork Producers Council, National Cattlemen's Beef Association, American Sheep Industry Association, American Farm Bureau Federation and the American Meat Institute, at the request of House Agriculture Committee, have worked through their respective member and committee structures to vet proposed changes to current law. The groups reached consensus to support a 5-year reauthorization and, on May 6, 2005, sent letters to House Agriculture Committee Chairman Goodlatte and Ranking Member Peterson requesting speedy action on the 5-year reauthorization of the MPR provisions including three pork industry consensus enhancements.

Decisions are being made today which will affect hog, cattle and sheep market for years to come. Any uncertainty about the nature of future market information makes these decisions more difficult and more risky. Risk, regardless of its source, is costly. It results in sub-optimal asset allocations and investments and can sometimes result in higher interest rates on borrowed capital. Our industries normally operate on very thin margins and large amounts of borrowed capital. We must have a stable business environment and foreknowledge of the type of market information to be available over the long run, contributes to such stability. We urge Congress to reauthorize the LMRA for 5 years by September 30 to provide certainty about the market information that will be available during the coming years.

The pork industry is proposing three enhancements, all of which have the support of both producers and packers. They are:

1. Enhanced sow reporting. The original LMRA was designed for market hogs with little thought given to the unique characteristics of cull sows and boars and companies that slaughter them. A new section addresses these issues and expands cull sow and boar coverage to over 80 percent of all sow and boar packing capacity.

2. Reporting time change. The original LMRA required all prior day purchase and slaughter data to be reported to AMS by 7:00 a.m. Central time and to be published by AMS by 8:00 a.m. Central time. Pork producers and packers are requesting that these times for prior day slaughter data be changed to 10:30 a.m. Central for reporting and 12:00 p.m. Central for publication. Prior day slaughter data comes from animals that were slaughtered the previous day and purchased over the past 2-7 days. This data set includes all price (high, low, weighted average), volume, carcass data (weight, backfat, loin depth, loin area, percent lean) and sort loss

for each lot of hogs slaughtered the previous day, sorted among five purchase types. The size and complexity of these data have made them a source of errors which must be corrected within one hour in order to release as accurate a report as possible. The fact is that these data, while important to inform producers about prices as they relate to many, many factors, are not critical for the market on the day they are published. They are descriptive of market conditions over the past few days - not the current day or the next few days as are the purchase data. Therefore, both producer and packers believe that allowing packers more time to check the accuracy of the prior day slaughter data and moving its reporting and publication to a time of day when AMS is not as swamped by incoming data will enable more accuracy without depriving the market of information needed to function efficiently.

3. Publish distributions of net prices. LMRA requires AMS to publish the high, low and weighted average price in all of its mandatory reports. While valuable, these three prices do not fully characterize the entire price distribution. Producers would like to know how many animals sold within narrower portions (say \$1 increments) of the price range. We believe that very few pigs are being purchased for extremely low prices. Daily distributions of net prices will tell us much more about the nuances of the market.

In summary, the LMRA has generated more information than we have ever had before about market prices, quantities and practices in the beef, pork and sheep markets. These data are the result of large investments of time and money by producers, packers and taxpayers. Allowing the reporting programs to end would mean that those investments would be wasted. We believe it is imperative for Congress to re-authorize LMRA for hogs, cattle and sheep for 5 years before September 30, 2005.

This information is vital to producers. Producers and packers have come to depend upon the information and have learned its strengths and weaknesses. The MPR system gives them an accurate frame of reference for their price negotiations. It tells them the cost of animals purchased through contract arrangements so they can have some idea of what a packer's needs and willingness to pay or not pay might be on a given day. It helps them understand the forces that drive prices and price differentials. Finally, it gives producers and packers alike some peace of mind in that everyone is required to participate in the program and all trades are required to be reported.

These systems and the data they provide do not change the prices received by producers or paid by packers. A "mirror" to the marketplace does not affect the marketplace. It does, however, provide a relatively undistorted reflection of a very complex marketplace. We urge Congress to reauthorize the mandatory price reporting system for hogs, cattle and sheep for 5 years by September 30. NPPC asks that Congress include the three pork-industry consensus enhancements for hog price reporting outlined in my testimony. We believe these enhancements make the system stronger and provide needed details about key aspects of our marketplace.

Thank you Mr. Chairman and Members of the Committee for your time and attention. I would be pleased to answer questions at the appropriate time.

