

Mr. Chairman and members of the Committee, I am very pleased to be here today and to share insights from the members and staff of the Livestock Marketing Information Center (LMIC) on the USDA Mandatory Livestock Reporting Program. The LMIC is a cooperative effort of twenty-four Land Grant Universities, six USDA agencies and associate livestock industry organizations. We have been providing a continuous flow of market information and economic analysis for 50 years. Each cooperating institution has a designated professional who serves as a member of the Center. This effort allows duplication of effort to be minimized while providing regional and local expertise on livestock markets.

Summary Comments

It is a high priority that all aspects of Mandatory Livestock Reporting (MPR) legislation be continued. Further, that continuation should be for a multi-year timeframe, which will reduce uncertainty of market participants and USDA agencies, especially the Agricultural Marketing Service (AMS). AMS needs to continue to upgrade computer programming, enhance reports and propose modifications to MPR, actions that require continuity of effort within long-term USDA planning processes.

From a broad perspective, market transparency provides a foundation for efficient markets. Transparency occurs when relevant prices and transaction conditions throughout the marketing chain are readily available.

Government available price reporting has proved successful because:

- 1) access is insured to all market participants;
- 2) concerns about manipulating data are minimized; and
- 3) reduces individual costs of finding and compiling data on market conditions.

USDA has had major involvement in livestock price reporting since the 1940's. Until MPR was legislated for livestock in 1999, the system was based on voluntary price reporting, with collection, evaluation and synthesis by professional market reporters. Largely because of changes that were occurring in slaughter hog and cattle marketing arrangements, including formulas and forward contracts not being captured with the traditional voluntary system, MPR was legislated.

Today the MPR system effectively provides timely and critical livestock market information on prices that reflect underlying supply and demand conditions. But, early on the system had several problems and evolution of the reporting system and usage of that system has taken time. Problems included defining confidentiality, accuracy of reports, terminology used in reports, report release times, and lack of reports that effectively summarized volumes of data. Each year MPR data has become more integrated in the livestock and meat markets. Small local cooperative producer groups that focus on organic and natural niche markets rely on MPR to set base prices for their slaughter animal prices. Also, large multi-national firms use wholesale beef and lamb prices reported under MPR in contracting and for invoicing of their customers. So, changing major aspects of price reporting is not only costly for USDA agencies and firms

that must report, compile, and distribute the data, but also for users that integrate that data and information into their information systems. For example, at the LMIC with each new USDA report or adjustment to an existing report, re-programming of computer software is required.

Compared to the prior voluntary livestock price reporting system, MPR has generally enhanced price discovery and has greatly added to the depth and breadth of available market data and information. Accuracy of price data for the livestock and meat items included in MPR has improved. The major tradeoffs have been in terms of timeliness of slaughter animal price reports (essentially now just twice a day) and providing key data quickly with market insights (done by AMS market reporters using their contacts, both buyers and sellers). Market participants and analysts raise fewer concerns on these issues than earlier in MPR, indicating that in major ways they have compensated for those changes.

Overhaul of the livestock price reporting system is not necessary. In fact, such an effort would likely be detrimental. It took some time for market participants and investments by packers and USDA to set-up the existing system. Then market participants had to learn the new terminology and how to use the reports. As livestock and product markets continue to evolve the price reporting system and related market and policy support provided by USDA also must continue to evolve.

Based on what we know today, improvements can be made but no major changes are recommended in MPR. Recommendations made here should not be considered immediately necessary nor should they be considered a necessary for multi-year reauthorization of existing legislation. I will highlight three areas of potential improvement for your consideration in my verbal testimony some others are given in the full written statement.

? Wholesale pork cuts were not included in the enabling legislation but were for beef and lamb. Based on the need for transparency in pork markets, valuable data in the beef and lamb MPR reports, and the limited voluntary reporting on key pork items, the first priority is to include wholesale pork prices in MPR.

? MPR legislation provided for developing and evaluating high quality monthly retail meat and poultry prices. That system has been developed by USDA's Economic Research Service and now needs to be moved out of the "pilot phase" and made an on-going effort.

? In addition, consideration should be given to adding retail prices for dairy products to the retail price reporting system.

Background and Discussion

Grunewald et. al. (2004) reviewed the published literature on livestock price reporting and summarized the issues and background behind the development of MPR. MPR reports from AMS began to phase in April 2001, subsequent to enabling legislation in 1999.

Major frustrations occurred with the implementation of MPR. To USDA's credit, those

concerns have been addressed. Specific issues and adjustments involved confidentiality rules used by AMS, reporting problems on wholesale beef prices, the terminology being developed/used, and report problems.

Improving price reporting in a changing environment (more formula and contract marketing arrangements) was behind MPR. Many also had expectations that "special deals" would be uncovered by MPR, situations that have not been apparent to date. But, as pointed out by Grunewald et. al., "not revealing anything is in itself useful information". Further, some research has suggested that the old voluntary system was providing general price transparency. The much more detailed and accurate data reported by MPR and the enhanced ability to connect slaughter animal with wholesale markets will enhance future research into marketing relationships, pricing and competition issues.

With voluntary price reporting systems, the inherent suspicion is that a small number of transactions are being used to "set market prices". Further, voluntary systems typically do not focus on terms of trade for non-negotiated short-term transactions, which tend to involve formula pricing and contractual relationships. In contrast, mandatory systems conjure-up a picture of government intervention, leaking of proprietary information, collusion mechanisms, and cost of implementation. Overall, MPR has not been as detrimental as early detractors implied. Given existing concentration in the processing of livestock into meat and other products, etc., in the U.S., packers and processors may view MPR as just a cost of doing business.

The major tradeoffs between the old voluntary livestock price reporting system and MPR have been in terms of timeliness of slaughter animal price reports (essentially now just twice a day) and ease distilling data down to a set of key price quotes (done by people with contacts between buyers and sellers). Further, in the old voluntary system, USDA market reporters often credited with assisting in understanding of short term market dynamics between buyers and sellers and for providing market insights, like their assessment of contacts between buyers and sellers that often suggested transactions would soon occur.

Market participants and analysts raise fewer concerns on these issues than earlier in MPR, indicating:

- 1) development of some limited supplementary reports by USDA;
- 2) use of private data sources for those insights; and
- 3) increased comfort and better interpretation of MPR reports.

Specific Comments and Recommendations

In this section some comments on Mandatory Livestock Price Reporting (MPR) and specific recommendations for consideration about improvements are discussed. These comments are rather short and designed for those familiar with details of several of USDA's specific efforts and reports. LMIC staff would be happy to provide additional comments to AMS and other

interested groups. However, as previously indicated, none of these recommendations should be considered as a necessary condition to multi-year reauthorization of existing legislation. Still, reauthorizing legislation would give USDA and all interested industry participant's clear guidance to continue to improve MPR through the rule making process. In such a format, we would hope that the items identified below would be given consideration.

A multi-year reauthorization of MPR will reduce uncertainty for all market participants. It will allow producers, agribusinesses and government agencies to further integrate reports into their management and marketing systems. Importantly, as multi-year continuation will allow USDA to justify and make investments that will improve the current system, especially the USDA's Agricultural Marketing Service. In term of timeframe the LMIC suggests at least a four-year reauthorization of all aspects of existing legislation on MPR.

Some added reports that summarize AMS data would be useful. For example, USDA could develop some monthly reports that could overcome confidentiality problems and in a sense "fill in the holes" where data are often missing in daily and weekly reports. This is especially the case for some imported items.

Cattle and Beef

Essentially one year after AMS began to provide MPR reports (April 2002), a survey was conducted of cattle feeders that had several questions regarding MPR (evaluated in Gruenwald et. al.); cattle feeder's responses to MPR depended on "whom you asked". Since that survey, LMIC members and staff indicate that cattle feeders tend to have higher satisfaction levels with MPR. Further, there are indications that cattle feeders and market analysts (private and public) monitor wholesale market prices more than ever before.

Possible improvements to MPR for cattle/beef are:

? Include a timeframe in the "committed" data as in the current format those data have very limited use and the industry only focuses on "delivered" animal reports. Committed data are of little value unless categorized by period covered (e.g. less than 14 days, 14-35 days, 35 days and over).

? Consider extending the packer-reporting period by one hour (and delaying report delivery) so that more of the current days transactions can be incorporated. This is especially a concern with the afternoon reports.

? Study reducing the reporting burden for cow, bull and other small beef processing firms to once per day. Large firms, which mostly process steers and heifers, would still report on a twice per day basis.

Sheep and Lamb

For this industry, USDA developed MPR rules and procedures, for cattle/beef and hogs, the enabling legislation prescribed most MPR procedures. This industry suffered dramatically as long periods of time occurred before an adequate reporting occurred. Recent rule making process have greatly improved the quantity of data, capturing non-negotiated transactions, and usability of price data. At this time, no specific changes or additions are recommended.

Hogs and Pork

Likely the most common question about MPR is why wholesale pork values are not reported like beef and lamb. That question often comes from producers, but importantly often comes from meat buyers for retailers and institutions (e.g. restaurants). Enabling legislation specifically excluded wholesale pork from MPR. Recognizing that there are some limitations in pork product standardization compared to beef and lamb, there is a need for increased transparency in the hog/pork complex. Therefore, it is highly recommended that pork be included in MPR.

Retail Prices

As part of MPR a pilot system was mandated to collect store scanner based retail meat and poultry prices. It should be noted that retailers are not mandated to provide data. But, data are purchased from secondary sources. Retail prices are often misunderstood and the government reported data in the past has had severe problems (e.g. months and years without a steak price reported). This unique effort needs to be maintained and USDA's Economic Research Service has completed their mandate to define, develop and initiate a useful retail price reporting system. The next step is to make this an on-going data collection and dissemination effort. Further, dairy product prices were not part of the MPR retail price reporting system -- dairy should be added.