

LIVESTOCK MARKETING FAIRNESS ACT: TAKING BACK THE LIVESTOCK MARKETS

Fair and open livestock markets enable farmers, ranchers, feeders and auction yard owners to keep their independence, run their businesses, provide for their families, and build their rural communities. Unfortunately, we have a broken market that robs producers of the same opportunity enjoyed by other segments of the cattle and meat industries. Big packers are taking advantage of honest, hardworking family farmers and ranchers by price fixing.

SUPPORT THE LIVESTOCK MARKETING FAIRNESS ACT

It's time to strengthen existing law to return fairness to the livestock markets. The Livestock Marketing Fairness Act (S. 1026) would return that fairness by:

- ✓ requiring all contracts to contain a firm base price that can be equated to a fixed dollar amount on the day the contract is signed; and
- ✓ requiring the forward contract be offered or bid in an open, public manner to which all buyers and sellers have access.

The Livestock Marketing Fairness Act allows the continued use of forward contracts and coordinating supplies. It simply requires that packers must tell the feeder what they are going to pay and pay that amount upon delivery of the livestock, and offer that contract to others in a public manner.

The Livestock Marketing Fairness Act allows for any adjustment to the base price for quality, grade or other factors relating to the value of the livestock or livestock products that are market factors outside the control of the packer.

This bill amends section 202 of the Packers and Stockyards Act of 1921, which applies exclusively to packer transactions. Therefore, this Act only applies to livestock ready to slaughter. It would not affect contracts with other sectors of the livestock economy.

HOW DO PACKERS MANIPULATE MARKETS?

Meatpackers acquire half of all cattle and hogs they slaughter through what are known as captive supplies. Captive supplies are livestock packers own or control through contracts with farmers, ranchers and feedlot owners. By calling on captive supplies to fill slaughter needs, packers do not have to bid for cattle in an open, public manner. A false period of low demand is created and prices are driven even lower.

There are two main types of captive supplies:

- 1) Cattle packers actually own in feedlots
- 2) Cattle the packers procure through contracts

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Contracting cattle for future delivery, in itself, can be a good thing. However, packers are using a contract method known as “formula pricing” in which feeders are enticed to contract their cattle when the packer bases the contract price on the cash market on a certain date, rather than a firm bid price. For example, a packer might offer the feeder 50 cents per hundred weight over the cash market price on the day of delivery. Meanwhile, packers have forward contracted enough cattle so they do not need to buy on the cash market that day, driving down the cash price more than the premium offered the seller.

A HISTORY OF PACKER CONCENTRATION

The Packers and Stockyards Act (P&SA) was implemented in 1921 when five companies controlled between 75 and 80% of all interstate slaughter. At this time, forward thinking congressmen saw the problems created when only a few companies controlled so much of the market share, so they implemented the most comprehensive anti-trust legislation ever enacted in the U.S.

However, current policy makers in Washington, D.C. are not interpreting the law as intended in 1921 and amendments are needed to address the problems created by the packer cartel today.

Today trends in the packing industry are even more concentrated than those in 1921. Three major companies have taken control of the marketplace in beef and hogs and buy nearly 90% of the fed cattle and half of the hogs that end up as steaks and chops on American dinner tables. The fewer packers there are to procure cattle, the more control they have over the market and the greater their ability to drive down prices through captive supplies. In such a concentrated market, buyers (the packers) can – and do – use captive supplies to manipulate markets. In 2006, captive supplies of livestock cost family farmers, ranchers and their communities more than \$5.7 billion. In cattle alone, captive supplies lowered prices for cattle producers by approximately \$69 per head and that number continues to increase.

Consolidation of these corporations in other foods adds to the problems of vertical integration. Vertical integration is the ability of a corporation or business to control a product from “the ranch to the dinner table”—and that is exactly what is happening in today’s markets.

SOLUTION

The Livestock Marketing Fairness Act has been introduced in both the Senate and the House. The Senate Bill S.1026 was introduced by SENators Mike Enzi (R-WY), Tim Johnson (D-SD), Jon Tester (D-MT) and Charles Grassley, (R-IA). The House Bill 2631 was introduced by Representatives Cynthia Lummis (R-WY) and Marcy Kaptur (D-OH)

The Livestock Marketing Fairness Act would restore competition by making packers (and livestock producers) bid against each other to win contracts. Forward contracts and marketing agreements allow packers and producers to coordinate supply and reduce risk, but as currently negotiated – in secret, with all bargaining power on one side – they depress prices and shut small and independent producers out of markets.

Livestock producers need this legislation now. Increasing imports of captive supplies from Canada and Australia for example, will further hurt independent family farmers and ranchers. We must give U.S. ranchers the tools to compete with captive supplies. Passage of the bill would give ranchers the ability to plan responsibly and make better marketing decisions knowing that prices are based on a competitive market.

Receiving a fair price in the market place will preserve the economic base of rural communities. When ranchers receive a fair market price, they have more money to spend in local businesses. We must return this profit to these rural communities.

TAKE ACTION

Contact your Senator and encourage him or her to support S. 1026, the Livestock Marketing Fairness Act.

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