Written Statement Of
National Pork Producers Council

On The

Livestock Mandatory Reporting Act of 1999
Mandatory Price Reporting System

House Committee on Agriculture
Subcommittee On Livestock and Foreign Agriculture

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Introduction

The National Pork Producers Council (NPPC) is an association of 43 state pork producer organizations that serves as the voice in Washington. D.C., for the nation's pork producers. The U.S. pork industry represents a significant value-added activity in the agriculture economy and the overall U.S. economy. Nationwide, more than 68,000 pork producers marketed more than 112 million hogs in 2013, and those animals provided total gross receipts of $23.4 billion. Overall, an estimated $22.3 billion of personal income and $39 billion of gross national product are supported by the U.S. hog industry. Economists Daniel Otto, Lee Schulz and Mark Imerman at Iowa State University estimate that the U.S. pork industry is directly responsible for the creation of more than 37,000 full-time equivalent pork producing jobs and generates about 128,000 jobs in the rest of agriculture. It is responsible for approximately 102,000 jobs in the manufacturing sector, mostly in the packing industry, and 65,000 jobs in professional services such as veterinarians, real estate agents and bankers. All told, the U.S. pork industry is responsible for nearly 550,000 mostly rural jobs in the United States. The U.S. pork industry today provides 23 billion pounds of safe, wholesome and nutritious meat protein to consumers worldwide.

Importance of the System and Timely Reauthorization

The mandatory price reporting (MPR) system for hogs and pork is one of, if not the singularly, most important service the U.S. government provides to the U.S. industry. The system made possible by the Livestock Mandatory Reporting Act of 1999 (LMRA) is the cornerstone of the marketing information used by pork producers, packers and users of pork products every day to price the products they buy and sell.

The system provides the information upon which the industry runs. Pork producers continue to need a transparent, accurate and timely national market reporting system to make knowledge-based business decisions about selling their hogs. Packers depend on the information as well, and packers and buyers of pork are now quite dependent on the data provided by the mandatory price reporting system for wholesale pork cuts, which was added the last time the act was reauthorized.

Timely and accurate information is important for a competitive market to function effectively. The MPR system is the primary source of such information for the U.S. pork industry.

The timely reauthorization of MPR before it expires on Sept. 30, 2015, is of critical importance to the pork industry. The U.S. Department of Agriculture's authority to gather and publish price information under the LMRA was allowed to expire in September 2004 when key lawmakers blocked action on reauthorization amid concerns about how the system was operated in its early years. The pork industry escaped serious harm during that hiatus when pork packers agreed to continue providing the required information to USDA even though the law was not in effect.

A far more serious disruption of the system occurred in October 2013 when the budget-induced government shutdown prevented USDA from gathering information or publishing reports for two weeks. The pork industry continued to function based on prices known immediately prior to the shutdown, but it was reaching a critical level of uncertainty about the true value of hogs and pork just as the budget standoff ended and USDA price reporters went back to work. Little long-term damage was done, but no one wants a repeat of that unfortunate experience.

LMRA needs to be reauthorized well before the Sept. 30, 2015, deadline to preclude any uncertainty for buyers and sellers of hogs from entering into contractual relationships. NPPC supports another five-year reauthorization of LMRA.

Requested Changes to the LMRA and MPR System

Pork producers are requesting three substantive changes to the Livestock Mandatory Reporting Act in this year's reauthorization legislation. The section below explains the circumstances that are driving the requested changes.

- **Add a Purchase Category for Negotiated Formula Sales/Purchases**

The original LMRA specified four types of purchase for hogs: Negotiated, Swine or Pork Market Formula, Other Market Formula and Other Purchase Arrangements. USDA established criteria for each of the categories that, though changed slightly through the program's life, have stayed generally constant, providing a known set of rules for industry participants.

The market, however, has changed dramatically over the past 15 years. The most notable change has been the long-term decline in the proportion of total hog sales that are conducted through Negotiated trades. Today less than 4 percent of hogs are sold in the negotiated, or cash, market, and the number sold under some sort of alternative marketing arrangement continues to increase.

The decline in the number of hogs traded through Negotiated trades is not, in NPPC's opinion, the fault of the mandatory price reporting system. Any good reporting system should serve as a mirror that reflects the state of a market and any changes that are occurring. The system has done so with only one exception: hogs that are not committed to any packer on a long-term basis and whose price is determined by a formula negotiated on a lot-by-lot basis. USDA has always applied a rule that if a sold lot does not have a numerical price and a delivery date established, it is not a Negotiated trade. At present, any hogs that don't meet the price and delivery date criteria must fall in another category. Hogs for which a price formula is negotiated and agreed to on a lot-by-lot basis currently are included in the Swine or Pork Market Formula category.

NPPC believes the true market will be better reflected under the MPR system by placing these animals in a separate category that will reflect the true number of hogs and prices of those hogs that are sold through negotiations each day, whether or not those negotiations result in a hard and fast numerical price or an agreement on how such a price will be established on the hogs' delivery. No change is free of cost, but NPPC believes this one involves relatively minor programming changes at both the packer and USDA levels. NPPC does not know exactly how many hogs will fall into this new category, but anecdotal feedback from market participants suggests it would be 2 to 4 percent of the total. That is not a lot, but it would represent a 50 to 100 percent increase in the number of "negotiated" hogs.

- **<u>Add a Provision to Include Late-Day Purchases in Subsequent Day Purchased Swine Reports</u>**

One problem that has arisen from the diminishing number of hogs sold through Negotiated trades is that USDA's confidentiality conditions for publishing information are now often not met for the morning Purchased Swine reports (LM-HG 202, 209, 205 and 211) and sometimes not met for the afternoon Purchased Swine reports (LM-HG 203, 210, 206 and 212). When data are not published in these reports, producers and packers do not know what is going on in the marketplace beyond their own actions and trades and thus have no frame of reference for market conditions.

Producers believe that hogs purchased after the 1 p.m. afternoon reporting deadline are, in almost every instance, delivered the following day and thus affect the next day's market. At present, those animals are not included in the next day's morning or afternoon reports. Including them would: a) reflect the current day's market more clearly; and b) add to the number of trades and the total volume of trades that are submitted to USDA for those reports, thus reducing the probability of violating USDA's confidentiality conditions and increasing the probability of USDA publishing complete reports.

- **<u>Recognize That the MPR System is Essential to the Pork Industry</u>**

Finally, pork producers believe strongly that the Livestock Mandatory Reporting Act and the mandatory price reporting system clearly have established USDA as the authority on daily prices and supplies of pigs. Filling that role for the past 15 years has further established USDA's mandatory price reports as an indispensable information source for the pork industry. The addition of wholesale pork cuts to the system has only enhanced that position.

The MPR system is now essential to the smooth operation of the U.S. pork industry and to protecting and enhancing the economic positions of all participants. The industry survived the October 2013 government shutdown, but it did so uncomfortably and was beginning to face substantial uncertainty when the budget standoff was resolved and USDA's market reporters were called back to their important work. That uncertainty about market supplies and prices was on the verge of causing significant disagreements over the values of pork products and pigs. Had the shutdown continued, NPPC believes there would have been major disruptions to commerce and lingering legal challenges to actions taken by packers and producers during the information void. The fact that little harm came from the 2013 situation is not as important as what might have happened and how easily the situation can be prevented in the future by deeming MPR an essential service – because it is indeed essential to the U.S. pork industry.

<u>Summary</u>

NPPC appreciates Congress's foresight in establishing the MPR system in 1999 and in maintaining it since that time. The organization urges timely reauthorization of the system, with just three changes. First, create a category for Negotiated Formula purchases to better reflect the total number of hogs for which value is negotiated each day regardless of how buyers and sellers arrived at those prices. Second, give USDA the authority and direction to include late-day hog purchases in the following day's morning and afternoon reports to better represent that subsequent day's market conditions and to reduce the chance of information not being published because of the failure to meet USDA's confidentiality criteria. Finally, recognize that the MPR system is absolutely essential to the U.S. pork industry and ensure that it does not "go dark" during any future government shutdowns.

While NPPC recognizes and appreciate MPR's positive role in the pork industry, it opposes any new legislation or regulations that restrict marketing opportunities for producers. Further, NPPC opposes any further government interventions into hog markets unless such actions address a clear, unequivocal instance of market failure or abuse of market power. NPPC does not believe any industry conditions rise to that level of importance at the present time and urge Congress to limit any actions to the ones requested in this testimony.