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What Are the Market and Regulatory Conditions under which Livestock Mandatory Reporting would Benefit Livestock Producers?

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Market Report	Yr Ago	4 Wks Ago	9/22/06
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	$86.44	$81.66	$88.14
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	135.24	135.35	132.94
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	118.58	121.09	119.94
Choice Boxed Beef, 600-750 lb. Carcass	140.34	147.32	142.09
Western Corn Belt Base Hog Price Carcass, Negotiated	68.07	73.15	62.75
Feeder Pigs, National Direct 45 lbs, FOB	51.45	50.10	52.84
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	71.07	76.74	69.82
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	95.37	91.25	98.00
National Carcass Lamb Cutout, FOB	243.13	222.81	240.29
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu	*	4.14	4.31
Corn, No. 2, Yellow Omaha, bu	1.49	2.01	2.20
Soybeans, No. 1, Yellow Omaha, bu	5.04	4.99	4.98
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.39	2.95	3.54
Oats, No. 2, Heavy Minneapolis, MN , bu	1.75	2.03	2.21
Hay			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	117.50	135.00	135.00
Alfalfa, Large Rounds, Good Platte Valley, ton	37.50	87.50	87.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	52.50	82.50	82.50

* No market.

On Wednesday, September 20, 2006, Senator Chuck Hagel's office announced the re-authorization of the Livestock Mandatory Reporting Act. Enacted in 2001, the Act provides market participants with information on all cash and non-cash transactions reported by packers to the Marketing Service on a daily basis. The information is aggregated under specific confidentiality guidelines to preserve anonymity of the source, and published in the Mandatory Livestock and Meat Market News Reports.

The Act was passed in 1999 with a sunset clause requiring Congress to re-authorize it after five years. In the Fall of 2004, Congress authorized a one-year extension ending in October 1, 2005. Until last week, producers have been voluntarily reporting to USDA and separate legislation introduced by the House and the Senate aimed at extending the Act beyond October 1, 2005, was being held up in committee.

There are two reasons why re-authorization of the Act could benefit Nebraska. First, if the Act were not re-authorized, the Nebraska Department of Agriculture would have to assume the burden of developing its price reporting system by October 1, 2007, as required by Nebraska Law. Second, published research conducted by faculty in the Department of Agricultural Economics at the University of Nebraska–Lincoln shows that, under certain market and regulatory conditions, Livestock Mandatory Reporting can be beneficial to producers even if enhanced price transparency (due to the Act) ends up facilitating tacit collusion among packers. The market conditions under which the Act can be beneficial are explained in a forthcoming article co-authored by three professors and a graduate student from the Department of Agricultural Economics, University of Nebraska–Lincoln.[1]

A key result of this article is that there are two main effects of enhanced price transparency, and these two effects go in opposite directions. The first effect, called the risk effect, has to do with transparency making it possible for packers to make more accurate predictions about cattle prices. The more accurate these predictions, the lower the market risk, the less variable are the packer profits, the greater is the demand for cattle and the higher is the price received by cattle feeders. The second effect has to do with transparency potentially facilitating tacit collusion because, by being able to better predict prices, packers can also make better predictions about the way other packers price cattle and consequently lower the price received by cattle feeders relative to its competitive level.

In this context, a key issue is what USDA can do to ensure that the risk effect dominates the collusive effect of the Act so that cattle feeders benefit from the increased transparency provided by the Act. According to the authors:

> "…the government *could* make headway against collusion if the information collected by Agricultural Marketing Service (AMS) could be used to monitor packer competitive behavior in livestock markets. However, the authority to monitor competitive behavior in livestock markets lies, not with AMS, but with the Grain Inspection, Packers and Stockyards Administration (GIPSA) that is responsible for the enforcement of the Packers and Stockyards Act.
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> While in theory, the two government agencies could coordinate their efforts to ensure the 'judicious' use of information (and the dominance of the risk effect of increased transparency), coordination between AMS and GIPSA is limited because of the legal framework within which the two agencies operate (GAO, 2005).[2] According to GIPSA officials, 'individual packer data held by AMS would be useful for monitoring competitive behavior in livestock markets. However, because GIPSA could not obtain that confidential information unless the Attorney General or the Secretary directed disclosure of the information for enforcement purposes, GIPSA is making do with the publicly available AMS livestock market report data. This monitoring effort is limited because AMS reports do not include the company-specific transaction data that might reveal anti-competitive behavior' (see page 20 of the GAO report).
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> In this context, for the government to ensure that the risk effect dominates the collusive effect of increased information, it should either adjust the regulatory framework to facilitate GIPSA's access to AMS information on packers' conduct, delegate the monitoring of packers' conduct to AMS, or merge the two agencies. Under the current regulatory framework, AMS can only affect the quantitative effects of the Act through the amount of information contained in the Reports."

[1] Kenneth Njoroge, E. Yiannaka, K. Giannakas and A. Azzam. "Market and Welfare Effects of the U.S. Livestock Mandatory Reporting Act." *Southern Economic Journal* (forthcoming).

[2] Government Accountability Office. "Livestock Market Reporting: USDA has Taken Some Steps to Ensure Quality, but Additional Efforts Are Needed." Report to Congressional Requestors, GAO-06-202, December 2005.

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