

February 1, 2011

The Honorable Tom Vilsack
Secretary of Agriculture
U.S. Department of Agriculture
1400 Independence Ave., S.W.
Washington, D.C. 20250

Sent via facsimile, e-mail, and U.S. Mail: 202-720-6314

Re: Urgent Joint Request for New Rulemaking Process to Preserve Competition by Prohibiting Meatpackers from Leveraging Captive Supply Livestock to Lower the Price-Discovery Market for Livestock

Dear Secretary Vilsack:

We, the undersigned organizations, highly commend your efforts to address the ongoing erosion of competition in our U.S. livestock and poultry markets. We strongly support both your historical, collaborative efforts with the U.S. Department of Justice to hold joint competition workshops, as well as your Department's proposed rule published by the Grain Inspection, Packers and Stockyards Administration (GIPSA) on June 22, 2010 (proposed GIPSA rule), which includes provisions necessary to begin proper administration and enforcement of the Packers and Stockyards Act (PSA). We recognize the proposed GIPSA rule as an essential, first step toward bringing our U.S. livestock and poultry industries into compliance with the PSA, which has not been properly administered or enforced for decades.

Testimony provided at the competition workshop held Aug. 27, 2010, in Fort Collins, Colo., and in prior and subsequent workshops, reinforces the need for the U.S. Department of Agriculture (USDA) to take additional steps beyond the proposed GIPSA rule to address the alarming erosion of competition in the cash or spot market, *which is the price-discovery market for livestock*.

In addition, testimonies at the workshops demonstrate the urgency associated with taking corrective action. We respectfully, but in the strongest sense possible, urge you to immediately initiate a rulemaking process to specifically address the ongoing erosion of competition for livestock by prohibiting the meatpackers' practice of leveraging their captive supplies (i.e., livestock committed to meatpackers through direct ownership or by contract for many days, weeks, or even months prior to slaughter) to lower prices in the price-discovery market. The effect of this anticompetitive practice is to artificially lower livestock prices for *all* livestock producers, regardless of whether they market livestock in the cash market or through the various forms of forward contracts or marketing agreements.

Even prior to the competition workshops, researchers – including Purdue University economist John M. Connor – found that captive supplies have been shown to increase the instability of prices for cattle producers and hold down prices overall. The 2007 Livestock and Meat Marketing Study commissioned by GIPSA found that an increase in either contract or

The Honorable Tom Vilsack

February 1, 2011

Page 2

packer-owned hog quantities not only causes the spot market price to decrease, but also, higher quantities of either contract or packer-owned hogs available for sale *lowers the price of contract or packer-owned hogs and induces packers to purchase more of the now relatively less expensive hogs and purchase fewer hogs sold on the spot market.* This same study revealed that a shift of the volume of cattle procured in the spot market to any one of the various forms of captive supplies also is associated with a decrease in cash market prices.

The Fort Collins competition workshop revealed that the price-discovery market for livestock is imperiled. The volume of hogs reportedly marketed in the price-discovery market is now below 8 percent, and in some marketing regions, the volume of cattle marketed in the price-discovery market has fallen into the low 30-percent range. One panelist at the workshop stated his research revealed that in some cattle marketing regions, cattle producers go for weeks with only one prospective buyer for their slaughter-ready cattle – clearly a function of the meatpackers’ practice of hoarding captive supplies to avoid bidding in the price-discovery market.

Time is of the essence. As the price-discovery market for livestock continues to evaporate, so evaporates competition. And as competition evaporates, the only remaining available substitute for price discovery in livestock markets is the market power exerted by dominant meatpackers, which results in the antithesis of competition.

Based on testimonies and information gathered during the 2010 competition workshops, the need is undeniably urgent for USDA-GIPSA to exercise its preexisting authority under the PSA to address this disastrous loss of competition. Please initiate, as quickly as possible, a rulemaking process to reverse the alarming erosion of competition for livestock by prohibiting meatpackers from leveraging their captive supplies to lower the price-discovery market.

Sincerely,

American Agriculture Movement
American Corn Growers Association
Buckeye Quality Beef Association
California Dairy Campaign
California Farmers Union
California Food & Justice Coalition
Carolina Farm Stewardship Association
CASA del Llano
Cattle Producers of Louisiana
Cattle Producers of Washington
Colorado Independent CattleGrowers Association
Colville Confederated Tribes of the Colville Reservation
Contract Poultry Growers Association of the Virginias
Dakota Resource Council
Dakota Rural Action
Davidson College Office of Sustainability
Farm Aid

The Honorable Tom Vilsack

February 1, 2011

Page 3

Farm and Ranch Freedom Alliance
Food & Water Watch
Food Chain Workers Alliance
Food Democracy Now!
Freedom21, Inc.
Heartland Center
Idaho Farmers Union
Illinois Farmers Union
Illinois Stewardship Alliance
Independent Beef Association of North Dakota
Independent Cattlemen of Nebraska
Independent Cattlemen of Wyoming
Institute for Agriculture and Trade Policy
International Texas Longhorn Association
Intertribal Agricultural Council
Iowa Citizens for Community Improvement
Iowa Farmers Union
Kansas Cattlemen's Association
Kansas Farmers Union
Land Loss Prevention Project
Land Stewardship Project
Michigan Farmers Union
Mississippi Livestock Markets Association
Missouri Farmers Union
Missouri Rural Crisis Center
National Association of Farm Animal Welfare
National Family Farm Coalition
National Farmers Organization
National Latino Farmers & Ranchers Trade Association
Nebraska Farmers Union
Nebraska Sustainable Agriculture Society
Nevada Live Stock Association
North Carolina Contract Poultry Growers Association
Northeast Organic Farming Association, Interstate Council
Northern Plains Resource Council
Northern Wisconsin Beef Producers Association
Ohio Environmental Stewardship Alliance
Ohio Farmers Union
Operation Spring Plant, Inc.
Oregon Livestock Producers Association
Oregon Rural Action
Organic Consumers Association
Organization for Competitive Markets
Peach Bottom Concerned Citizens Group
Pennsylvania Farmers Union

The Honorable Tom Vilsack

February 1, 2011

Page 4

Powder River Basin Resource Council
R-CALF USA
Renewable Harvest
Rocky Mountain Farmers Union
Rural Advancement Foundation International - USA
Rural Coalition/Coalición Rural
Sisters of St. Francis of Philadelphia
Socially Responsible Agricultural Project
South Dakota Livestock Auction Markets Association
South Dakota Stockgrowers Association
Sovereignty International, Inc.
Texas Farmers Union
The Center For Food Safety
The Cornucopia Institute
Trappe Landing Farm & Native Sanctuary
United Poultry Growers Association
West Carroll Cattlemen's Association
Western Organization of Resource Councils
Western Sustainable Agriculture Working Group
Williams County Alliance
Wood County Citizens Opposed to Factory Farms

Cc: Members of Congress
The Honorable Edward Avalos
The Honorable John Ferrell
The Honorable J. Dudley Butler