

Agricultural Advisory Council Meeting
Commodity Futures Trading Commission
August 5, 2010
Comments of
Neil Dierks, CEO
National Pork Producers Council
Regarding Price Reporting in Livestock Markets

On behalf of the National Pork Producers Council and America's 67,000 pork producers, I thank the Commissioners of the Commodity Futures Trading Commission (CFTC) for the opportunity to share perspective on Livestock Price Reporting, specifically in the pork industry.

The U.S. Pork Industry has long recognized the importance of accurate and timely reporting of livestock markets to allow commerce to be conducted throughout the U.S. Pork Chain. The U.S. Pork Chain, through its various segments, (from the producer to the ultimate consumers of pork products domestically and around the world) is dynamic and constantly evolving. As consumer preferences have evolved, so too have the business and management mechanisms for delivering products through the chain.

The changes to the systems for determining value have been driven by a number of factors, including efforts of the industry to provide products of certain quality characteristics. In addition, the ever-increasing volatility of external factors has led to a greater need for increased risk management, particularly by producers. These risk management needs have led to many changes in hog marketing. The collection and dissemination of pricing information greatly aids in the facilitation of commerce throughout the chain, particularly at the producer and wholesale levels.

Methods and forms of reporting in the pork industry have also evolved. Historically, the focus on hog marketing centered at collection points (i.e., stockyards and auction markets). This gave way to voluntary reporting from the buyers as hogs were increasingly marketed directly to packing companies. In the late 1990s, swine reporting (together with other species reporting) became mandatory through action of Congress, under the supervision of the Agricultural Marketing Service of USDA. The legislation that required mandatory reporting included a number of swine procurement methods beyond traditionally negotiated "spot" market purchases. This includes several different formula pricing methods in use in the industry. The initial legislation recognized the changing market realities for hog procurement and resulted in significantly greater amounts of information for the marketplace, both in quantity and breadth. The act was reauthorized in 2006 with enhancements to reporting of cull breeding animal numbers and prices.

The current authority of the act expires September 30 of this year. Legislation to reauthorize the act has been worked on by a coalition of groups, including covered species organizations, packers and general farm organizations.

The pending reauthorization language contains three important elements related to swine:

- 1.) A five-year reauthorization.
- 2.) The inclusion of weekly export reporting of pork, similar to existing authorities already contained in the act for beef.
- 3.) The addition of mandatory wholesale pork reporting.

NPPC believes a regularly timed five-year reauthorization is important to focus producer, industry and government attention on the reporting system for any needed changes to keep the reporting mechanisms robust and relevant to market participants.

In the past 15 years, after years of being a net importer of pork, the United States has become the largest pork exporting nation in the world. More timely pork export reporting data will benefit industry participants in the U.S. The method contained in the current reauthorization language will provide this information in a manner similar to other U.S. agricultural product export reports.

The addition of mandatory wholesale pork price reporting, when properly implemented, will aid commerce in the industry. Because of the dynamic nature of the U.S. Pork Industry (and the effort to deliver safe, nutritious, high-quality pork at a reasonable price), the “devil will be in the details” as the complexities of the wholesale pork market are addressed, ultimately resulting in reporting that meets the needs of the marketplace and the criteria of the government.

These improvements in reporting also relate to an issue that has been monitored in the industry for some time. This is the issue of the percentage of swine whose price is negotiated between buyer and seller on the “spot” market. For the past several years, methods used to price animals have been shifting away from a traditional negotiated purchase between buyer and seller. Many of the new methods for conducting commerce rely on the published negotiated (spot) price as a reference point for determining the price between parties. The percentage of total animals traded on the negotiated (spot) market has been steadily declining and has fallen to roughly 5 percent on some days this year. For some time there has been concern over the relatively small number of animals that ultimately establish prices for the majority of hogs priced on any given day. This is referred to as the “thinness” of the market.

NPPC is and has been aware of this issue and the associated question: “Is the negotiated market truly establishing the accurate value of the animals”? The organization, through individual producers as well as its Competitive Markets Committee, has examined the issue and continues to do so. At the most recent meeting of the committee, several economists who have studied this issue were asked their perspective on the “thinness” of the market. The following are critical points that were shared by the economists:

- 1.) When asked about the thinness of the spot market, the response was – “Just because a market is thin doesn’t mean that it is not accurately determining the value of the product being traded.”
- 2.) When asked if the current market is “too thin,” the response was – “We don’t know.”
- 3.) When asked how producers and the industry would know when it was too thin, the response was – “When the market participants use other methods for determining value.”

From this and other discussions the committee and Board of NPPC have focused on supporting additional opportunities that will allow choices if options are needed by producers and others in the market to accurately determine value. The inclusion of mandatory wholesale pork price reporting in the current reauthorization legislation is an example of an additional option that may be used if necessary. (Note: The U.S. House of Representatives Agriculture Committee passed a reauthorization bill the week of July 26, 2010.)

The National Pork Producers Council supports accurate, timely and robust price reporting. The desire of the Council is that price reporting be an accurate “mirror” of the transactions in the marketplace to facilitate commerce to the greatest degree possible.

I appreciate the opportunity to present these comments.