Update on Livestock Mandatory Reporting for Lamb

Erica Sanko
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Livestock Mandatory Reporting (LMR)

- Livestock Mandatory Reporting Act of 1999 (Act)
- Managed by USDA Agricultural Marketing Service (AMS)
  - Increase transparency in market transactions.
  - Facilitate more efficient markets.
  - Encourage competition.
  - Easily understood by producers.

- Sole source of market information on sales of lambs to packers, lamb meat products, & imported lamb.

- Renewed every 5 years…2015, 2020, 2025.
LMR Confidentiality Guideline

- Act – Must publish in a manner that protects the identity of reporting entities & preserves the confidentiality of proprietary transactions.

- LMR Confidentiality ‘Guideline’ or 3/70/20
  - At least 3 reporting entities need to provide data at least 50% of the time over the most recent 60-day period.
  - No single reporting entity may provide more than 70% of the data for a report over the most recent 60-day period.
  - No single reporting entity may be the sole reporting entity for an individual report more than 20% of the time over the most recent 60-day time period.
Lamb industry has become more concentrated:
- Significant reduction in the amount of market information available.
- Lamb market data cannot be reported due to 3/70/20.
- Decline in market transparency & usefulness to producers.
- Markets are not operating efficiently due to lack of data.
- What little market data being reported is at risk.

LMR data used to establish insurance contracts (LRP–Lamb), indemnity loss payments, economic analysis, financial management, & policy analysis.
Timeline of ASI Efforts: 2012 – 2015

- **2012**: “Analysis of Mandatory Price Reporting System for Lamb” by the Livestock Marketing Information Center (LMIC)
  - Analysis proposed 22 recommendations.
- **2013 – 2015**: ASI & AMS collaborated to achieve best solutions.
  - Alternatives to regulatory guidelines – slaughter & importer thresholds, alternatives to 3/70/20.
  - Changing report categories & descriptors to represent current marketing practices.
  - Consolidating reports &/or sections of reports.
  - Propose statutory rulemaking to the Act.
Timeline of ASI Efforts: 2015

- Reauthorization of LMR Act
- Required AMS to conduct a comprehensive study due to Congress by March 1, 2018.
- Lowered lamb slaughter & import volume thresholds
  - Reflect current industry levels & increase reporting under 3/70/20.
- Proposal for mandatory reporting of lambs committed & a new pelt credit report with quality descriptors was not included.
  - AMS implemented proposed pelt credit report under voluntary program per ASI recommendations.
Timeline of ASI Efforts: 2016

- AMS Introduces ‘Working with Livestock Industry to Provide Critical Market Intelligence’

- AMS commissioned a study to conduct a baseline analysis of the livestock & meat industry relative to LMR.
  - Packers have become larger, more concentrated, & more vertically integrated.
  - Confidentiality guidelines challenging price reporting; markets thinner.

- Nothing new for the lamb industry.

- Potential Alternatives – Not feasible for the lamb industry…already doing…i.e. weekly reports, rolling averages.
Timeline of ASI Efforts: Fall 2016

- Commodity Stakeholder Meetings
- Engage lamb producers, packers, & other key market participants.
  - ASI, AFBF, LMA, LMIC, NAMI, NFU, Importers
- Discuss current challenges & industry needs with LMR.
- Goal is to reach consensus on what each commodity area would like changed in the next reauthorization (2020).
- Information necessary for AMS Consensus Report to Congress.
- Consensus Report to serve as information for Congress to consider & use for the basis of an orderly reauthorization.
Comprehensive Value: March 2017

- National Weekly Slaughter Sheep Review (LM_XL352)
- Mathematical formula:
  - Converts live basis transactions to a carcass basis; uses the estimated dressing percentage.
  - Aggregated with existing carcass basis prices to determine the weighted average net price.
  - Suppresses weekly trade volumes to meet 3/70/20.
- ASI Response:
  - Should be a short-term alternative.
  - Lack of information available to producers & stakeholders.
  - Not readily understood by producers.
ASI requested AMS conduct analysis of 3/70/20 alternatives.

Report assessed 16 alternative price reporting calculations.

- Comprehensive Value – *Current & preferred option by AMS.*
- Supplement with voluntary auction data…*Significant market differences.*
- Price Index…*Not readily understood by producers.*
- Standardized Pricing…*Not readily understood by producers.*

**ASI Response:**

- Conflicts with Act objectives, changes AMS role from a ‘reporting’ agency to one that ‘analyzes & interprets’ market data.
Meeting held over two conference calls.
Discussion focused on confidentiality guideline & cooperative reporting.

**Consensus** – 3/70/20 not working.

**Consensus** – Cooperative transactions must be reported.
- Now cooperative transactions are included in LMR–Lamb
- **BUT** this is not guaranteed – Need a regulatory change to ensure cooperatives are included under LMR.

Additional items & issues discussed.

**ASI submits its priorities to Stakeholder group.**
ASI Position Unchanged

- LMR is challenged & not meeting objectives of the Act.
- Critical to implement guidelines that are specific to the unique, consolidated lamb industry.
- Current 3/70/20 guideline hindering efficient markets.
- The impact of not providing information is significant.
  - It may influence the future viability of lamb producer & packer–processor enterprises.
- LMR–Lamb is a price reporting program.
  - Data is not real-time, rearview mirror approach.
ASI Position Unchanged

- Future of LMR–Lamb depends on the confidentiality guideline.
- Act is rather vague regarding confidentiality.
- Must change 3/70/20 or program to allow for more reporting entities.
- Comprehensive values instead of actual prices is not a solution.
- Vertical business relationships in which prices are negotiated must be included in LMR.
- Price data cannot be manipulated &/or reported in a manner that is not easily understood by producers or reflective of the marketplace.
Develop a new confidentiality guideline that works for lamb.
Include a definition for Cooperatives & Custom Processors.
Lower slaughter/processor thresholds to 20,000 head.
Mandatory reporting of carcass data to calculate the National Lamb Carcass Cutout (LM_XL502).
Mandatory reporting of pelt price/credit, volume, & classification descriptors (i.e. make the voluntary report mandatory).
Lambs Committed Report – 30 day window.
Doing nothing is not an answer nor a solution.
Looking Ahead…Some Thoughts

- If, the goal of LMR is to provide information to lamb producers, & encourage market competition for lamb & lamb meat products the question that needs to be addressed is:
  - “How does the industry achieve functional reporting in a uniquely structured industry with extraordinary consolidation, significant vertical coordination & integration, & in many instances, is thinly traded?” – Dennis Stiffler

- Without LMR market data ASI cannot advocate on behalf of your sheep industry.
  - Establish insurance contracts.
  - Indemnity loss payment determination.
  - Economic, market, trade, & policy analysis.
Thank You…Questions