LIVESTOCK MANDATORY REPORTING FOR LAMB UPDATE

2017 ASI ANNUAL CONVENTION

JANUARY 27, 2017
Livestock Mandatory Reporting Act of 1999 (Act)

Implemented by USDA Agricultural Marketing Service (AMS)

Enacted to:

- Increase transparency in market transactions for swine/pork, cattle/beef, sheep/lamb.
- Facility more efficient markets; encourages competition in the market.
- Provide all market stakeholders with comparable levels market information.
- Readily understood by producers.

Renewed every 5 years….2015, 2020, 2025.
The Act requires USDA to 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.

Applied to all species under LMR...despite industry size.
As U.S. sheep & lamb industry has become more concentrated:

- Each year, an increasing amount of lamb market data cannot be reported.
- In 2016, increase in the amount of slaughter lamb prices not reportable due to confidentiality.
- Significant reduction/lack thereof in the amount of market information available to producers.
- Decline in market transparency & usefulness to producers.

Remaining lamb market data is at risk of not being reported if consolidation continues under 3/70/20...look at 2016.

**LMR – Lamb data used to establish insurance contracts, indemnity loss payment determination, & for policy analysis.**
“Analysis of Mandatory Price Reporting System for Lamb” by the Livestock Marketing Information Center

Reviewed lamb marketing data that are frequently unavailable.

Discussed some potential remedies to help correct the issues in an effort to improve LMR-Lamb reporting.

Analysis proposed 22 recommendations.
- Slaughter/Importer thresholds
- Import data
- Pelt data
Reduce the FI packer/processor & importer thresholds.

Add a pelt price category under LMR-Lamb to reflect the value paid by packers to producers for slaughter lambs.

Review, update, or redefine the “custom processing” definition.

Update the calculations in the Estimated National Lamb Carcass Cutout & review these calculations every two years.

Evaluate the imported cut item categories & adjust either by eliminating unnecessary items &/or grouping similar items into more general categories.

Evaluate & adjust the LMR definitions for “forward contract” & “forward priced” to reflect recent & current lamb marketing practices.

Reconsider a “lambs committed” category that would capture transactions for lambs to be processed in the future.
ASI & AMS discuss the recommendations of LMIC report & ASI high priority items.

Collaborate on how to amend LMR-Lamb to achieve best solutions to increase market information, transparency & accuracy.

- Updating regulatory guidelines to better reflect current industry structure.
- Changing report categories & descriptors to represent current marketing practices.
- Consolidating reports &/or sections of reports (internal & external).
- Propose statutory rulemaking to the Act of 1999.

More straightforward regulatory reporting provisions changed internally by AMS.
Required AMS to conduct a comprehensive study of LMR due to Congress by March 1, 2018.

Changes to slaughter & import volume thresholds—Direct Final Rule Effective March 2016

- “Importer”—Includes only those importers that imported an average of 1,000 metric tons of lamb meat products per year during the immediately preceding 4 calendar years.

- “Packer”—Includes a federally inspected lamb processing plant which slaughtered or processed the equivalent of an average of 35,000 head of lambs per year during the immediately preceding 5 calendar years.

ASI request to include a pelt price category & lambs committed under LMR-Lamb was not included under reauthorization.

AMS Introduces “Working with Livestock Industry to Provide Critical Market Intelligence”

AMS Staff & USDA’s Office of Chief Economist Office

Step 1 – AMS commissioned Value Ag, Inc., to conduct a baseline analysis of the livestock and meat industry and LMR.

- Provided an overview & trends of the evolving livestock and meat markets.
- Trends – Packers have become larger, more concentrated, & more vertically integrated.
- Impacts – Confidentiality guidelines challenging price reporting; markets thinner.
- Nothing new for the lamb industry...been discussing issues with AMS since 2012.
- Potential Alternatives – Not feasible for the lamb industry...already doing.
Step 2 – Engage cattle, swine, and lamb producers, packers, and other market participants.

- Discuss marketing methods, current challenges with reporting livestock & meat markets.
- Discuss needs of the industry regarding future revisions to 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 present to Congress by March 1, 2018.
- Consensus Report will serve as a useful body of information for Congress to consider and use as the basis of an orderly reauthorization of LMR in 2020.
- Not a formal process, per se.
Lamb Industry Stakeholders:

- **ASI** – **Benny Cox, Paul Rodgers, Erica Sanko**
- American Farm Bureau Federation (AFBF) – **Katelyn McCullock, Gary Heibertshausen**
- Livestock Marketing Information Center (LMIC) – **David Anderson, Jim Robb**
- Livestock Marketing Association (LMA) – **Chelsea Good**
- National Farmers Union (NFU) – **Barbara Patterson**
- North American Meat Institute (NAMI) – **Dennis Stiffler**
Meeting 1 – LMR Stakeholder Meeting, Nov. 15 – 16, 2016

- Informational meeting to establish the procedural ground rules.
- Help lay the groundwork for subsequent commodity – specific meetings by clarifying the goals & objectives of the meetings.
- Provide stakeholders with an overview of current LMR reporting & audit processes.
- Participated in interest – based problem – solving training.
- All sectors facing issues with confidentiality guideline.

Next Step – Separate focus group meetings

- Lamb industry meeting – May 2017
ASI appreciates the opportunity to continue discussions with USDA/AMS on improving Livestock Mandatory Reporting for Lamb to better, and more appropriately, reflect the current industry structure.

Transparency in pricing should be everyone’s goal. Price reporting systems cannot, and should not, be so inflexible and intractable such that in a dynamic marketplace those systems are rendered ineffectual.

As it now stands, due to USDA/AMS’ interpretation of the Livestock Mandatory Reporting statute and regulations, LMR for lamb reporting, especially direct live and carcass sales, are essentially non-existent.

The agency’s one – size – fits – all confidentiality guidelines and prejudice against cooperatives has negated the intent of the statute for lamb price reporting.

It will be difficult for ASI to support an outcome of this process for a report to Congress unless these issues are addressed effectively so that reporting becomes a reality.”
ASI requested AMS conduct analysis of potential alternatives that will allow for reporting of market data under LMR regulations, while maintaining the intent of the Act for confidentiality.

Key issue & future of LMR-Lamb depends on the confidentiality guideline or 3/70/20.

If there are no alternatives to 3/70/20, then what little timely market data exists today will be nonexistent in next few years or sooner.

- Daily reports already changed to weekly price & rolling average reports.
- Options – weekly composite, monthly or quarterly price reports to meet 3/70/30??
- Is that timely, useful data for producers?

Cooperatives & vertical business relationships in which prices are negotiated must be included in LMR-Lamb.
LOOKING AHEAD...SOME THOUGHTS

- 3/70/20 can no longer apply to all commodities that differ greatly in terms of size & market structure.

- Vertical Business Relationships – cooperatives, vertical integrated systems, custom processing arrangements, alternative marketing arrangements.
  - Negotiated trade does occur...where do they fit in...why don’t they fit now?

- If LMR is reporting prices that are in the past then why the need for confidentiality?
  - Packers have argued for LMR to be a rearview mirror vs. forward looking.

- 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.