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SUPPLEMENTARY INFORMATION: The Grain Inspection, Packers and Stockyards Administration (GIPSA) of the U.S. Department of Agriculture (USDA) administers the Packers and Stockyards Act of 1921, as amended and supplemented (7 U.S.C. 181-229) (P&S Act). The P&S Act prohibits unfair, deceptive, and fraudulent practices by market agencies, dealers, stockyards, packers, swine contractors, and live poultry dealers in the livestock, meatpacking, and poultry industries. During the development of the 2002 Farm Bill, the Senate considered an amendment to the P&S Act that would make it unlawful for a packer to own, control, or feed livestock intended for slaughter. After much debate, the proposed amendment was dropped in conference.

The issue of packer ownership of livestock is highly contentious among livestock industry members. Some industry participants are concerned that packer ownership of livestock before they are ready for slaughter and other advance procurement arrangements (some of which are referred to as captive supplies¹), may enable packers to reduce spot market prices, and that the arrangements may threaten the future of spot markets or reduce market opportunities for small producers. Others believe that advance marketing arrangements (both procurement and

sales) increase efficiency, quality of products, responsiveness to changing consumer preferences, and competitiveness with other meats.

Issues surrounding packer ownership of livestock for slaughter are part of a larger set of issues relating to concentration and vertical coordination in the livestock and meat system. Many questions remain unanswered about these issues. The effects of the ownership of livestock by packers and its impacts on the livestock and meat marketing industries needs to be better understood before it can be determined whether legislative action may be appropriate. In the fiscal year 2003 budget (Pub. L. 108-7), Congress specified that \$4.5 million of the GIPSA budget is to be used for a packer concentration study. Congress specified that the study should address "issues surrounding a ban on packer ownership" (*Congressional Record*, February 12, 2003, page H870).

Packer ownership is one of a broad range of alternative marketing arrangements that have emerged in the cattle, hog, lamb, and meat industries to coordinate activities between and within stages of the livestock and meat system. It is difficult to make important decisions about these practices in the absence of sound analyses of their use and implications. The planned study will contribute to better understanding of the role of alternative marketing arrangements, the extent of their use, reasons why firms enter into them, and their implications.

Since captive supplies, packer ownership, and other advance marketing arrangements are interrelated throughout the livestock and red meat

industries, we plan to study marketing methods from the farm level to the retail, export, and foodservice levels. The planned study will examine the use and economic effects of various methods for transferring cattle, hogs, lambs, and meat between successive stages of the livestock and meat marketing system. It will examine marketing arrangements from the first-producer (for example, cow-calf producers and hog farrowing operations) to the procurement of meat and meat products by retail establishments, exporters, and the hotel, restaurant, and institutional trades.

We established an interagency working group with representatives from USDA and other federal agencies to provide advice on the study. The working group includes representatives from the Office of the Chief Economist, Economic Research Service, Agricultural Marketing Service, National Agricultural Statistics Service, Office of Budget and Program Analysis, and Grain Inspection, Packers and Stockyards Administration in USDA plus the Department of Justice, Federal Trade Commission, and Commodity Futures Trading Commission.

We believe that we have appropriately defined the scope and identified the research steps necessary to complete the study. We have identified 10 specific objectives for the study. We then grouped the 10 objectives into 5 parts or phases. Each part represents a unique block of work, usually involving common data collection requirements or similar types of analyses. Each part and its associated objectives are specified in the following table:

Part	Objective
Part 1: Identify and classify spot and alternative marketing arrangements into appropriate categories for examining alternative methods of vertical coordination.	Objective 1: Identify various spot and alternative arrangements for transferring livestock and meat between successive stages of the livestock and meat system from farmers to retailers, and classify the arrangements by type of marketing method.
Part 2: Survey firms to learn about the terms of various spot and alternative marketing arrangements and examine why firms use them.	Objective 2: Describe the terms of the arrangements (for example, written or oral, length of agreements, quantity requirements, which party controls delivery timing, how animal or meat quality is determined, how prices are determined when formulas are used, termination options, dispute resolution mechanisms, whether prices are reported to the Agricultural Marketing Service or other market news organization), and describe arrangements that cover more than two stages in the supply chain. Objective 3: Determine the availability of alternative marketing arrangements to market participants (for example, producers, feedyards, packers, distributors, retailers) of various sizes and in different geographic regions. Objective 4: Determine reasons why producers, feedlots, packers, distributors, and retailers enter into these spot and alternative marketing arrangements (for example, cost savings, risk reduction, access to financing, access to improved genetics, access to management expertise).

¹ GIPSA defines captive supplies as livestock that are owned or fed by a packer more than 14 days prior to slaughter; livestock that are procured by a

packer through a contract or marketing agreement that has been in place for more than 14 days prior to slaughter; and livestock that are otherwise

committed to a packer more than 14 days prior to slaughter.