

Campaign for Contract Agriculture Reform, Farm and Ranch Freedom Alliance, Food & Water Watch, Land Stewardship Project, Institute for Agriculture and Trade Policy, Iowa Citizens for Community Improvement, Missouri Rural Crisis Center, National Family Farm Coalition, Organization of Competitive Markets, Ranchers Cattlemen Action Legal Fund – United Stockgrowers of America, Rural Advancement Foundation International-USA, Western Organization of Resource Councils

Our organizations are promoting interrelated reforms to restore competitive livestock markets and fair contracts based on a platform supported by over 200 organizations that represent independent farmers and ranchers, contract growers, and consumers (available at <http://tinyurl.com/3gcty2>).

## **Agricultural Competition Issue Brief 2 of 18:** **Curb Contract Manipulation through Captive Supply**

**Obama-Biden Position:** “...fight to ensure family and independent farmers have fair access to markets, control over their production decisions, and transparency in prices, issue regulations for what constitutes undue price discrimination and enforce the law...The 1921 Packers and Stockyards Act prohibits price discrimination by meatpackers against small and mid-size farmers, but the law has not been enforced...change federal agriculture policy to strengthen producer protection from fraud, abuse and market manipulation; and make sure that farm programs are helping family farmers, as opposed to large vertically integrated corporate agribusiness...”

**Relevant Program:** Packers and Stockyards Act

**Relevant Agency:** USDA Grain Inspection, Packers and Stockyards Administration

**Policy Recommendation – Administration Action:** USDA should issue rules under the authority of the Packers and Stockyards Act (P&SA) prohibiting packers from procuring cattle for slaughter through a forward contract, unless the contract contains a firm base price that can be equated to a fixed dollar amount on the day the contract is signed and the forward contract is offered or bid in an open, public manner.

**Background:** In 1997 a Petition for Rulemaking was published in the Federal Register amending the P&SA requiring packers to pay a firm base price on all contracts. No action has been taken by USDA. The Petition remains on the Agriculture Secretary’s desk awaiting action.

Three major packers have taken control of the market in beef and hogs and buy over 80% of fed cattle. These packers use Captive Supplies to procure livestock and their market power gives them the ability to drive down prices. Captive supplies are: 1) Cattle and hogs packers own in feedlots and confinements and 2) Cattle and hogs the packers procure through contracts.

In this concentrated market, packers use captive supplies to manipulate markets. When packers use captive supplies to fill slaughter needs, they do not have to bid for cattle in an open, public manner. A false period of low demand is created and prices are driven down. Packers use a contract method known as “formula pricing” where the price is based on a cash market the packers can manipulate, rather than a firm bid price. In 2006, captive supplies of livestock cost family farmers, ranchers and their communities more than \$5.7 billion, and that loss continues to rise. In cattle alone, captive supplies lowered prices for producers by approximately \$69 per head in 2006.