USDA’s “GIPSA Rule” on Livestock and Poultry Marketing Practices

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Summary

The 2008 farm bill (P.L. 110-246) included new provisions that amended the Packers and Stockyards Act (P&S Act) to give poultry and swine growers the right to cancel contracts, to require that poultry processors clearly disclose to growers additional required capital investments, to set the choice of law and venue in contract disputes, and to give poultry and swine growers the right to decline an arbitration clause that requires arbitration to resolve contract disputes. The farm bill required USDA to propose rules to implement these provisions.

On June 22, 2010, the U.S. Department of Agriculture’s (USDA’s) Grain Inspection, Packers and Stockyards Administration (GIPSA) published a proposed rule to implement regulations (9 C.F.R. 201) on livestock and poultry marketing practices as mandated by the 2008 farm bill. The proposed rule, commonly referred to as the “GIPSA rule,” added new regulations to clarify conduct that violates the P&S Act. The P&S Act regulations are used by USDA to ensure fair competition in livestock and poultry markets.

In what some saw as a major change from current practice, GIPSA proposed that a violation of the P&S Act does not require a finding of “harm or likely harm to competition.” The proposed rule set criteria for “unfair, discriminatory, and deceptive practices” and “undue or unreasonable preference or advantages” that violate the P&S Act. The proposed rule also included arbitration provisions to ensure that contract growers have a meaningful opportunity to participate in arbitration and the right to decline arbitration.

According to proponents of the proposed rule implementing the farm bill provisions, the rule brought fairness to contracts and reshaped interactions between producers and large meat packers and poultry processors. Opponents argued that the proposed rule went far beyond the intent of Congress in the 2008 farm bill, and that the rule altered business practices to the detriment of producers, consumers, and the industries.

USDA issued a final rule on December 9, 2011, which went into effect on February 7, 2012. The final rule, a significant modification of the proposed rule, included four provisions that address, respectively, suspension of the delivery of birds, additional capital investments, remedy of breach of contract, and arbitration.

In November 2011, before USDA finalized the GIPSA rule, Congress passed the Consolidated and Further Continuing Appropriations Act, 2012 (P.L. 112-55), which prohibited USDA from finalizing or implementing the most contentious parts of the rule. Congress continued to enact such appropriations riders in FY2013, FY2014, and FY2015.

In addition, the FY2013 and FY2015 appropriations acts included language to rescind three provisions that USDA had finalized in 2011. These were the definition of the “suspension of delivery of birds,” the 90-day notification period required when a poultry company intends to suspend the delivery of birds to a grower, and the provision that made the rule applicable to live poultry. In February 2015, USDA removed the three provisions from its regulations.

For the first time in four years, the enacted Consolidated Appropriations Act, 2016 (P.L. 114-113) did not include a GIPSA rider prohibiting USDA from finalizing and implementing rules on livestock and poultry marketing.

Also, the GIPSA rules were addressed during the debate over the 2014 farm bill. Section 12102 of the House-passed 2013 farm bill (H.R. 2642) permanently prohibited USDA from finalizing or implementing GIPSA provisions that have been temporarily halted in appropriations acts. The Senate-passed farm bill (S. 954) did not contain a similar provision. The House GIPSA provision was not included in the conference report for the Agricultural Act of 2014 (P.L. 113-79).
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Introduction

On June 22, 2010, the U.S. Department of Agriculture’s (USDA’s) Grain Inspection, Packers and Stockyards Administration (GIPSA) published a proposed rule on the implementation of regulations dealing with livestock marketing practices as mandated by Title XI (Livestock) of the Food, Conservation and Energy Act of 2008 (2008 farm bill; P.L. 110-246). The proposed rule amends the regulations (9 C.F.R. 201) under the Packers and Stockyards Act of 1921 (P&S Act, 7 U.S.C. §181 et seq.) to describe and clarify conduct that violates the P&S Act.

USDA received more than 61,000 public comments on the proposed rule, and it was the subject of considerable debate in Congress during 2010 and 2011. On November 3, 2011, after nearly a year of review, USDA notified stakeholders that a final rule and an interim final rule on livestock and poultry marketing practices had been sent to the Office of Management and Budget (OMB) for final review.

USDA indicated that the final rule would contain provisions covering the suspension of delivery of birds, additional capital investment, breach of contract, and arbitration—four provisions addressed in Sections 11005 and 11006 of the 2008 farm bill. Also, USDA said the final rule would contain a section on swine and poultry contracts. Importantly, USDA also indicated that it would not go forward with proposed and controversial provisions that banned packer-to-packer sales and limited the relationship between packers and packer buyers. USDA also dropped the requirement that written records providing justification for pricing differentials be maintained.

However, on November 18, 2011, the FY2012 Agriculture Appropriations Act (P.L. 112-55) was enacted and included a general provision that limited USDA’s ability to finalize a large portion of its proposed rule. Section 721 of the act placed specific conditions and prohibitions on which parts of the proposed rule USDA could finalize. It required that the combined annual cost to the economy from a final rule or an interim final rule must be less than $100 million. Section 721 also prohibited USDA from using any funds to implement eight specific provisions of the proposed rule, regardless of the annual cost to the economy of the final or interim final rule. Furthermore, Section 721 required that USDA publish any rules in the Federal Register by December 9, 2011, and that no funding be used to implement the final rule until after 60 days of being published.

On December 9, 2011, USDA issued the final rule on livestock and poultry marketing practices. The rule went into effect on February 7, 2012. The final rule was a significant modification of the proposed rule. It included four provisions from the proposed rule, addressing suspension of the delivery of birds, additional capital investment, remedy of breach of contract, and arbitration. However, it did not include many of the most contentious provisions, either because of congressional prohibitions enacted in P.L. 112-55 or because USDA decided not to pursue some provisions at this time.

For more information on USDA and congressional actions affecting the proposed rule, see “Congressional Limits in FY2012 Appropriations,” and “USDA’s Final Rule,” below.

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Background

The Grain Inspection, Packers and Stockyards Administration (GIPSA) is the USDA agency that promulgates regulations under the Packers and Stockyards Act of 1921 (P&S Act, 7 U.S.C. §181 et seq.; see box, “The Packers and Stockyards Act of 1921”) to oversee livestock and poultry markets. GIPSA is responsible for monitoring, reviewing, and investigating livestock and poultry markets to promote fair competition; providing payment protection through bonding and packer trusts, and guarding against deceptive and fraudulent trade practices.

Some farmers and ranchers and their advocate groups believe that as the meat and poultry industries have become increasingly concentrated over time, competition has eroded, and producers have little say in market transactions with large meat companies. In addition, some claim USDA has not used the P&S Act sufficiently to protect livestock and poultry producers, especially small producers, from perceived unfair trade practices of large meat companies.

During 2010, in order to address ongoing concerns about competition in the livestock and poultry industries, USDA and the Department of Justice (DOJ) jointly held five workshops to discuss competition and regulatory issues in agriculture. The five workshops covered farming, poultry, dairy, livestock, and margins (the difference between the price producers receive and the price consumers pay). These workshops provided an opportunity for stakeholders from various sectors of the meat and poultry industries to air their concerns.

USDA issued a proposed GIPSA rule on livestock and poultry marketing practices in mid-2010. Proponents and opponents espoused widely differing interpretations of it. According to USDA and supporters of the proposed rule, the regulations allowed for more effective and efficient enforcement of the P&S Act. According to USDA, the interaction between meat companies would be more transparent, as the proposed rule required meat packers and poultry processors to justify pricing differences and provide sample contracts to GIPSA. The proposed rule defined and gave examples of practices that GIPSA considered unfair that would violate the P&S Act. The proposed rule would bring fairness to marketing transactions, according to supporters.

Opponents of the proposed rule claimed that there would be unintended consequences that would adversely affect normal livestock and poultry marketing practices. They argued that the proposed rule amounted to the government stepping in to manage the day-to-day working of markets, which would lead to inefficiencies, increased litigation, and the loss of gains that the industry has experienced over the years.

The proposed rule was issued with a 60-day comment period. After considerable comment and feedback, the comment period was extended for an additional 90 days ending November 22, 2010. The proposed rule generated more than 61,000 public comments.3

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3 Comments on GIPSA’s proposed rule are posted on http://www.regulations.gov, where nearly 300 government agencies post copies of proposed regulations and the public can submit comments via the website.
The Packers and Stockyards Act of 1921

Passage of the P&S Act in 1921 was “in response to concerns that, among other things, the marketing of livestock presented special problems that could not be adequately addressed by existing antitrust laws.” Parts of the act, as amended (7 U.S.C. §181 et seq.), prohibit unjustified discriminatory practices, as well as certain, specific activities that might adversely affect competition. As stated in 7 U.S.C. Section 192 of the act, it is unlawful for a packer or poultry dealer to “engage in or use any unfair, unjustly discriminatory, or deceptive practice or device; give undue/unreasonable preference/advantage to [persons or localities];; apportion supply among packers in restraint of commerce or create a monopoly; trade in articles to manipulate or control prices, if such apportionment tends to restrain commerce or to create a monopoly; or conspire to apportion territory, or sales, or to manipulate or control prices.

The Secretary of Agriculture has assigned regulatory responsibility for the act to USDA’s Grain Inspection, Packers and Stockyards Administration (GIPSA). GIPSA does not have a direct antitrust authority, and the P&S Act does not provide the agency with premerger review authority. The agency’s role, however, is to maintain fair competition regulations. GIPSA is authorized to initiate and conduct investigations of alleged violations in the livestock industry, but generally not in the poultry industry. A violator of GIPSA regulations may, after a hearing before a USDA administrative law judge, be served a “cease and desist” order, and civil fines may be imposed.

If a packer disregards an order or refuses to pay fines, GIPSA may refer the case to the Department of Justice, which can enforce the order/fine through court action. According to GIPSA, most violations are corrected voluntarily by the individuals or firms when a violation is brought to their attention. Except for serious violations, disciplinary action tends to be the last resort, and is imposed only after substantial efforts to obtain compliance have failed.

Some Members of Congress expressed considerable interest in the GIPSA rule throughout the comment period, and during the 112th Congress there has been considerable interest in overseeing USDA’s implementation of the final rule. This report provides background on the genesis of the proposed and final rules and a summary of their provisions. The report discusses some of the major concerns about the proposed rule, and describes congressional interest and oversight.

Concern with Industry Structure and Competition

Advocates for stronger anticompetitive measures in the livestock industry contend that, because of the substantial market consolidation that has occurred over the past several decades, packers and poultry processors/integrators or live poultry dealers have more market power than individual producers when negotiating contracts and in the livestock market in general. Others argue that this consolidation occurred in previous decades and has stabilized in recent years, bringing with it efficiencies that benefit producers and consumers alike. Furthermore, barring collusion, others argue that it only takes two interested buyers to have sufficient competition for a market to work properly.

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5 See CRS Report RL33325, Livestock Marketing and Competition Issues, for discussion of other relevant authorities that govern livestock and poultry marketing and competition.
6 A packer slaughters and/or processes livestock into meat. Similarly, a poultry processor is an enterprise engaged in the business of converting live poultry into poultry meat products. An integrator is a poultry company that contracts with a poultry grower to raise live birds to contract specifications. The integrator provides inputs and processes the birds. Live poultry dealer is the term used in the P&S Act and in the proposed rule for a poultry processor or integrator. For more information on the structure of the U.S. broiler industry, see James M. MacDonald, The Economic Organization of U.S. Broiler Production, Economic Research Service, USDA, Economic Information Bulletin, Number 38, Washington, DC, June 2008.
Industry Consolidation

Market concentration in the meat and poultry industries has increased over the last two decades, with a few firms now dominating each sector. The “four-firm concentration ratio” measures the four largest firms’ share of the market and is commonly cited as a summary indicator of concentration and overall structural change in the industry. The historical evolution of industry concentration ratios for the slaughter of fed cattle (steers and heifers), hogs, and poultry is shown in Figure 1 below. From 1986 to 2008, the four-firm share of slaughter increased from 55% to 79% for cattle, 33% to 65% for hogs, and 34% to 57% for poultry. The concentration ratios appear to have stabilized in the mid-1990s for the cattle sector, around 2003 for the hog sector, and since about 2006 for the poultry sector.\(^7\)

Figure 1. Concentration Ratios of the Top Four Processing Firms by Industry

<table>
<thead>
<tr>
<th>Year</th>
<th>Steers &amp; Heifers</th>
<th>Hogs</th>
<th>Poultry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>55%</td>
<td>33%</td>
<td>34%</td>
</tr>
<tr>
<td>1990</td>
<td>79%</td>
<td>65%</td>
<td>57%</td>
</tr>
</tbody>
</table>

Sources: Data for steers & heifers and hogs are from USDA, GIPSA, Annual Reports, various issues; poultry concentration data are from “Competition in the U.S. Chicken Sector,” by Dr. Thomas Elam, FarmEcon LLC, May 19, 2010, prepared for the National Chicken Council.

Note: Poultry data are available only for five-year increments beginning in 1982. Inter-period years were extrapolated by a simple moving average. Therefore, caution should be exercised in making close comparisons of year-to-year trends in poultry with those of steers and heifers or hogs.

Recent estimates of the various marketing strategies employed by the three major livestock species are displayed in Table 1. Some in the industry are concerned that the share of cash transactions is not sufficient to adequately determine cash prices, which is critical because the cash market is often used as input for contracts or other marketing arrangements. The cash market still comprises a relatively large share (estimated at 41% in 2008) of fed cattle sales. The hog sector’s cash market share of sales has been declining over the past several decades and now

\(^7\) For more information on industry structure, see CRS Report RL33325, Livestock Marketing and Competition Issues.
stands at less than 10% of all sales. However, the hog cash market is still fairly robust and provides the basis for much of the formula and forward contract pricing. In the poultry sector, cash sales of broilers are essentially nonexistent, with production contracts accounting for nearly all transactions.

### Table 1. Livestock Marketing Strategies, by Share of Slaughter (Cattle and Hogs) or Production (Poultry)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Cash market</td>
<td>41%</td>
<td>8%</td>
<td>&lt; 1%</td>
</tr>
<tr>
<td>Forward or formula contract</td>
<td>46%</td>
<td>49%</td>
<td>0%</td>
</tr>
<tr>
<td>Negotiated grid pricing</td>
<td>7%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Production contract</td>
<td>0%</td>
<td>12%</td>
<td>98%</td>
</tr>
<tr>
<td>Packer or processor-owned</td>
<td>6%</td>
<td>26%</td>
<td>1%</td>
</tr>
<tr>
<td>Packer sold</td>
<td>0%</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total Annual Marketing</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**Sources:** Data for Steers & Heifers are from “Extent of Alternative Marketing Arrangements for Fed Cattle and Hogs,” AGEC-615, by Clement Ward, Oklahoma State University, January 2010; data for Hogs are from “Wholesale Pork Price Reporting Analysis,” A Value Ag, LLC Report, commissioned by the Agricultural Marketing Service, USDA, November 2009; and Broilers data are from “The Economic Organization of U.S. Broiler Production,” James M. MacDonald, EIB 38, Economic Research Service, USDA, June 2008.

**Note:** Formula contract pricing refers to establishing a transaction price using a formula that includes some other price as a reference. Grid pricing consists of a base price with specified premiums and discounts for carcasses above and below a base set of quality specifications. Under a production contract, a producer raises the livestock or poultry according to the instructions of a contractor. The contract specifies inputs supplied by the contractor and the producer’s compensation. A substantial portion of the formula contracts for hogs are similar to production contracts in that they are enhanced formula pricing arrangements that may include some explicit production method or input requirements, but have not been explicitly categorized as production contracts by the data source.

### Legal Challenges

Previously, producers initiated several closely watched lawsuits under the P&S Act challenging the contracting and marketing practices of large meat and poultry companies. These generally unsuccessful efforts added impetus to calls for legislative action to strengthen existing antitrust authorities, to impose more mandates on the executive branch to enforce these authorities, and to provide new contract protections for farmers and ranchers.

In what many analysts considered to be a landmark legal case under the P&S Act—*Pickett v. Tyson Fresh Meats, Inc.*—a group of cattle feeders in 1996 sued Iowa Beef Packers (IBP), which was bought by Tyson in 2001, for violating the P&S Act. This was reportedly the first class action certified for producers against a packer in the P&S Act’s long history. Following eight years of litigation, a jury in early 2004 agreed with producer arguments that the packer had used “captive

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9 *Pickett v. Tyson Fresh Meats Inc.*, 11th Cir., No. 04-12137.
supplies" to control the supply of cattle available on the market, thereby causing lower cattle prices. The jury set damages at more than $1.2 billion. However, the federal judge in the case set aside the verdict on the grounds that the jury had insufficient evidence to find that Tyson had no legitimate business reason for using captive supplies.

The plaintiffs appealed, but a U.S. Court of Appeals in August 2005 upheld the lower judge’s decision. The appeals court rejected the plaintiffs’ argument that there was a violation of the P&S Act. “If a packer’s course of business promotes efficiency and aids competition in the cattle market, the challenged practice cannot, by definition, adversely affect competition,” the court declared. The plaintiffs and their supporters asked the U.S. Supreme Court to review the case, but the Court declined to do so in early 2006.

In a more recent example, in January 2011, the U.S. Supreme Court declined to review the case, *Terry v. Tyson Farms, Inc.*, brought by a Tennessee poultry grower against Tyson Farms. Terry sued Tyson in federal court in 2008 claiming unfair practices under the P&S Act because Tyson would not allow him to view the weighing of his birds when they were delivered to the plant. Eventually Tyson canceled its contract with Terry. The federal court and the U.S. Court of Appeals, Sixth Circuit, had found that Tyson’s action had not harmed competition, and Terry’s P&S Act claims were dismissed.

**Earlier Debates in Congress on Competition**

Over the past decade, some farmer-rancher coalitions have proposed to address perceived anticompetitive market behavior by large meat and poultry companies through legislation, specifically by adding a “livestock competition” title to the omnibus farm bill.

Early in the debate on the 2002 farm bill (P.L. 107-171) a coalition of farm groups proposed that Congress rework antitrust laws and change the P&S Act to reflect the consolidation in the meat industry. An agriculture competition title was included in an early version of the farm bill (S. 1628) but was removed in the Senate Agriculture Committee markup. During subsequent floor action on the bill, the Senate approved some individual competition amendments that were enacted in the final 2002 farm bill. One gave producers the right to discuss their contracts with family members and advisors, and the other extended new P&S Act protections to swine producers with production contracts (Sections 10502 and 10503 of P.L. 107-171).

In February 2007, ahead of deliberations on the 2008 farm bill in the 110th Congress, Senator Harkin introduced the Competitive and Fair Agricultural Markets Act of 2007 (S. 622) to clarify

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10 Captive supplies are cattle committed to a specific meatpacker two weeks or more ahead of slaughter. The three most common captive supply methods are marketing/purchasing agreements, forward contracts, and packer feeding.


and strengthen the P&S Act and the Agricultural Fair Practices Act of 1967 (7 U.S.C. §2301 et seq.). S. 622 was intended to be the basis for a competition title in the new farm bill. A similar House bill (H.R. 2135) was introduced in May 2007.

Similar to proposals during the 2002 farm bill debate, S. 622 would have established an Office of Special Counsel for Competition within USDA to investigate and prosecute violations of the P&S Act and be a liaison with the Department of Justice and the Federal Trade Commission. The bill also would have set up production contract and enforcement provisions. Parts of S. 622 were incorporated into the Senate-passed version (S. 2302) of the farm bill, which contained a new title on Livestock, Marketing, Regulatory, and Related Programs (Title X). The Senate version of the farm bill also contained a provision to ban packer ownership of cattle. Although the final version of the 2008 farm bill did not include a competition title or the ban on packer ownership of cattle, the enacted farm bill contained competition provisions that provided producers with contract and arbitration rights.

2008 Farm Bill Provisions

Although congressional interest in livestock market competition issues did not result in a competition title, the most recently enacted omnibus farm bill in 2008 (P.L. 110-246) included a livestock title (Title XI). Previous farm bills generally addressed livestock issues in miscellaneous titles. The livestock title of the 2008 farm bill included 17 sections that cover issues such as mandatory price reporting for livestock, country-of-origin labeling for meat, and catfish grading and inspection.

Sections 11005 and 11006 of the farm bill specifically addressed the P&S Act. The first of these sections dealt with production contracts and the second section with promulgating regulations for the P&S Act. The proposed rule was issued by USDA to fulfill the 2008 farm bill requirements.

Production Contracts

Section 11005 of the 2008 farm bill amended the P&S Act to add Section 208, which provides poultry growers and swine producers the right to cancel contracts. The law now requires that growers and producers have at least three days from the date of contract execution to cancel. In addition, contracts have to clearly disclose the cancellation rights of producers, including the method and deadline for cancellation.

The 2008 farm bill also requires that production contracts state whether poultry growers or swine producers would be required to make additional large capital investments during the life of the contract. Specifically, if the contract requires an additional investment, the farm bill requires that the first page of a contract include such a statement.

The farm bill also added Section 209 to the P&S Act to include provisions about the choice of law and venue in a contract dispute. The forum for resolving disputes over a poultry, swine, or marketing contract would be located in the federal judicial district where the contract is performed. Also, the contract may specify which state law is to apply if there is a dispute over production or marketing contracts.

17 The main exception is dairy price support policies, which are covered under Title I, Subtitle E.
Lastly, the farm bill added arbitration provisions in Section 210 of the P&S Act. The provisions state that if a livestock or poultry contract contains an arbitration clause for resolving disputes, then the grower or producer must have the option to decline arbitration. The enacted farm bill requires that contracts clearly disclose the right of a producer or grower to decline the arbitration provision. The law also provides that producers and growers could opt for arbitration even after declining the arbitration provision at the time of contract execution, if both sides agree in writing to take a dispute to an arbitrator. The Secretary of Agriculture was directed to promulgate regulations that would ensure producers and growers have a meaningful chance to participate in the arbitration process.

**Promulgation of the Regulations**

Following the addition of new laws on production contracts, Section 11006 of the farm bill required the Secretary of Agriculture to promulgate regulations concerning violations of the P&S Act. The regulations were to be issued within two years of the enactment of the farm bill (i.e., by June 2010). The farm bill specifically directed the Secretary of Agriculture to establish criteria in four areas: first, criteria to determine if producers or growers are treated with undue or unreasonable preference or advantage; second, criteria to determine whether poultry dealers give enough notice to poultry growers before suspending the delivery of birds; third, criteria to determine if required additional capital investments during a poultry or swine contract were a violation of the P&S Act; and fourth, criteria to determine if poultry growers or swine producers are given enough time to remedy a breach of contract before contracts are terminated.

On June 22, 2010, GIPSA published the requisite proposed rule (9 C.F.R. Part 201) in the *Federal Register* (75 Fed. Reg. 35338). The rule was initially opened for a 60-day comment period, to close on August 23, 2010; however, in response to substantial industry feedback and concerns expressed by some Members of Congress, GIPSA, on July 26, 2010, extended the comment period until November 22, 2010.

The proposed rule generated more than 61,000 public comments. Many of the public submissions were “form letter” comments, but USDA still received approximately 30,000 unique comments. GIPSA reviewed and evaluated the public comments in preparation for publishing a final rule.

**Summary of GIPSA’s Proposed Rule**

Besides fulfilling the requirements of the farm bill, USDA also saw the proposed rule as an opportunity to address the increasing use of contracting in livestock and poultry production. USDA stated that, “The goal of this regulation is to level the playing field between packers, live poultry dealers, and swine contractors, and the nation’s poultry growers and livestock producers.”

The proposed rule and GIPSA’s discussion of the rule covered four broad areas: competitive injury, unfair or unjustly discriminatory or deceptive practices, undue or unreasonable preference or advantages, and arbitration. The proposed rule addressed the poultry grower and swine producer contract provisions in the 2008 farm bill and also included regulations that prohibit what USDA has deemed unfair market practices. The proposed rule introduced new requirements for contracts and market practices with the aim of creating a fairer, transparent market for livestock.

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and poultry producers. The Appendix of this report includes a synopsis of the proposed rule and a discussion of USDA's supporting arguments and opponents’ concerns.

**Competitive Injury**

In the proposed rule, GIPSA established its definition of competitive injury or harm to competition. Section 202 of the P&S Act describes actions that are unlawful. The first actions are any unfair, unjustly discriminatory, or deceptive practices. The second involve undue or unreasonable preferences. The other unlawful actions under Section 202 include conduct where packers, swine contractors, or poultry dealers apportion supply, control prices, or create monopolies that restrain commerce (harm to competition), or aid and abet in these actions. Sections 201.2 and 201.3 of the proposed rule specifically addressed the first two unlawful acts of Section 202 of the P&S Act.

When courts have heard P&S Act cases, the rulings usually have required that plaintiffs prove that the conduct of meat packers or poultry processors has harmed competition. Proponents of the proposed rule claimed that it is nearly impossible for an individual grower or producer to prove a broad charge of harm to competition.

In Section 201.2 of the proposed rule, GIPSA defined competitive injury as any action that distorts competition in the marketplace. GIPSA defined likelihood of competitive injury as any reasonable basis that competitive injury will occur. This could be conduct by packers, contractors, or poultry dealers that raises costs for competitors or misuses market power to distort competition with rivals. In addition, the proposed rule extended the definition of likelihood of competitive injury to conduct by packers, contractors, and poultry dealers directed toward livestock producers and poultry growers. Conduct that depresses prices to producers and growers or prevents producers and growers from competing with other producers or growers can be a competitive injury or harm to competition. GIPSA also stated in Section 201.3 of the proposed rule that depending on the circumstance, conduct could be a violation of the P&S Act without a finding of harm or likely harm to competition.

**Unfair Practices**

The second category of issues in the proposed rule covered unfair, unjust discriminatory and deceptive practices. In this area USDA described actions that it considers unfair and that would be violations of the P&S Act. USDA specifically noted that these actions do not require a finding of harm or likely harm to competition to be a P&S Act violation.

In Section 201.210 of the proposed rule USDA provided eight examples of unfair practices by meat packers and poultry dealers:

1. actions that a reasonable person would consider unscrupulous or deceitful;
2. retaliatory actions, such as coercion or intimidation, in response to a lawful action by a producer or grower;
3. refusal to provide statistical data used to determine contract payments;
4. actions to limit producers’ or growers’ legal rights;
5. paying premiums or discounts without documenting a reason;
6. terminating a production contract based only on allegations of misconduct by a producer or grower;
7. practices that are fraudulent or likely to mislead a producer or grower; and
8. broadly, any act that causes or creates a likelihood of competitive injury.

In Section 201.215, USDA proposed that live poultry dealers provide at least 90 days’ notice that they are going to suspend the delivery of birds to poultry growers. This period would provide growers an opportunity to find other options for using their growing houses.

Sections 201.216 and 201.217 of the proposed rule addressed capital investment requirements and the criteria that USDA would use to consider a required capital investment a violation of the P&S Act. Sample criteria included whether or not a poultry grower or swine producer has the discretion to decide against making the investment, whether or not they are coerced into making the investment, and whether or not other similar growers or producers are required to make additional capital investments. Also, it could be considered a violation of the P&S Act if a poultry or swine contractor plans to substantially reduce or shut slaughter or processing facilities within 12 months of requiring additional capital investments. But contractors could get a waiver from that regulation for catastrophic or natural disasters, or other emergencies. If additional capital investments were required, the grower or producer would have to be given a contract of sufficient length to allow them to recoup 80% of the cost of the investment.

Section 201.218 of the proposed rule set criteria to determine if a contract grower or producer has been given sufficient opportunity to remedy a breach of contract. The proposed rule required that a written notice be given to the contract grower or producer and that the notification identify the breach, when it occurred, and how it can be remedied. Growers and producers would also have the chance to rebut a breach of contract claim. Contractors would also consider the welfare of the animals that growers or producers are responsible for when considering actions and timelines for remedying a breach of contract.

Last, USDA proposed in Section 201.212(c) that packer-to-packer sales of livestock be banned. This would include affiliated companies and wholly-owned subsidiaries. A packer could receive a waiver for catastrophic or natural disasters. In the rule discussion, GIPSA noted that it did not consider these transactions as part of its definition of unfair practices, but as a “separate and distinct regulation” intended to prevent packers from manipulation.

**Undue or Unreasonable Preference**

The third part of the proposed rule addressed undue or unreasonable preference or advantage, that is, when producers who produce the same or similar poultry or livestock product receive different treatment or payment from contractors. This includes proposed regulations for differential pricing, recordkeeping, and packer-dealer relationships. In general, the Secretary of Agriculture would use three criteria to determine if poultry growers or livestock producers had been treated with undue or unreasonable preference in violation of the P&S Act (§201.211):

1. whether contract terms were available to any producer or grower who could meet the terms of the contract;
2. whether premiums for product standards were offered to a producer or group of producers who could meet the standards; and
3. whether information about handling, processing, and the quality of livestock was made available to all producers if made available to one.

Two sections of the proposed rule, Sections 201.94 and 201.214, addressed prices in poultry and livestock markets. Section 201.94 required that packers, swine contractors, and live poultry dealers keep written records to justify differential pricing. The justification would have to provide the cost-benefit basis for different prices. GIPSA noted in its rule discussion that participation in a
branded product program could be justification for a packer paying premium prices to cattle producers. Section 201.214 prohibited discounting base pay by live poultry dealers who use the tournament system to pay poultry growers. In a tournament system a poultry grower’s birds are ranked or compared with the performance of other growers. Then grower payments are adjusted up or down based on performance relative to the group.

In Section 201.212(a), GIPSA proposed to prohibit livestock dealers from buying livestock for more than one packer. Livestock dealers buy and sell livestock for their own account or for another vendor or purchaser. A dealer who buys for a packer is often called a packer-buyer. Also, Section 201.212(b) required that a packer report to USDA if a packer-buyer relationship were established with a livestock dealer.

In order to provide more information for growers and producers, GIPSA proposed in Section 201.213 that contractors be required to provide sample copies of unique contracts to GIPSA. The sample contracts would be made publicly available except for trade secrets, confidential business, and personal identity information.

**Arbitration**

In Section 201.219 of the proposed rule, GIPSA set the criteria to be used to ensure that contract growers have a meaningful opportunity to participate in arbitration. The first part of the proposed arbitration regulation required that contracts clearly disclose the costs, the process, and the limits to legal rights and remedies associated with arbitration. It stated that the costs should be reasonable compared with typical arbitration processes and provide reasonable time limits and access to information discovery by growers and producers. The arbitration process should comply with the Federal Arbitration Act (9 U.S.C. §1 et seq.). The second part of Section 201.219 also required that contracts contain the following statement giving a grower or producer the right to decline arbitration:

> **Right to Decline Arbitration.** A poultry grower, livestock producer or swine production contract grower has the right to decline to be bound by the arbitration provision set forth in this agreement. A poultry grower, livestock producer or swine production contract grower shall indicate whether or not it desires to be bound by the arbitration provision by signing one of the following statements:

- I decline to be bound by the arbitration provisions set forth in this Agreement ________
- I accept the arbitration provisions as set forth in this Agreement ________

Failure to choose an option by signing one of the above renders the contract void.

A cross-reference of sections in the farm bill provisions and the relevant GIPSA proposed rule is provided in Table 2. The Appendix of this report includes a side-by-side synopsis of the pro and con positions for each provision.

**Table 2. Relationship Between GIPSA Proposed Rule and Farm Bill Requirements**

<table>
<thead>
<tr>
<th>Farm Bill Provision</th>
<th>GIPSA Proposed Rule Sections</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>§201.2(l)-(u), (l, t, &amp; u)</td>
<td>Terms defined</td>
<td></td>
</tr>
<tr>
<td>§201.3(a)-(d), (c)</td>
<td>Applicability of regulations</td>
<td></td>
</tr>
<tr>
<td>Section 11005</td>
<td>§201.219</td>
<td>Arbitration</td>
</tr>
</tbody>
</table>
USDA's "GIPSA Rule" on Livestock and Poultry Marketing Practices

<table>
<thead>
<tr>
<th>Farm Bill Provision</th>
<th>GIPSA Proposed Rule Sections</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 11006(1)</td>
<td>§201.210</td>
<td>Unfair, unjustly discriminatory and deceptive practices or devices</td>
</tr>
<tr>
<td></td>
<td>§201.211</td>
<td>Undue or unreasonable preferences or advantages; undue or unreasonable prejudice or disadvantages</td>
</tr>
<tr>
<td></td>
<td>§201.212(a)-(b)</td>
<td>Restrictions on livestock purchasing practices between packers and livestock dealers</td>
</tr>
<tr>
<td></td>
<td>§201.212(c)</td>
<td>Prohibits packer-to-packer sales</td>
</tr>
<tr>
<td></td>
<td>§201.213(a)-(d)</td>
<td>Transparency restrictions on livestock and poultry contracts</td>
</tr>
<tr>
<td></td>
<td>§201.214</td>
<td>Restrictions on use of tournament system</td>
</tr>
<tr>
<td></td>
<td>§201.94</td>
<td>Records retention requirement for price differentials</td>
</tr>
<tr>
<td>Section 11006(2)</td>
<td>§201.215(a)-(b), (c)</td>
<td>Suspension of delivery of birds; waiver of (a)-(b)</td>
</tr>
<tr>
<td>Section 11006(3)</td>
<td>§201.216(a)-(g)</td>
<td>Capital investments criteria</td>
</tr>
<tr>
<td></td>
<td>§201.217(a)-(e)</td>
<td>Capital investment requirements and prohibitions</td>
</tr>
<tr>
<td>Section 11006(4)</td>
<td>§201.218(a)-(h)</td>
<td>Reasonable period of time to remedy a breach of contract</td>
</tr>
</tbody>
</table>


Congressional Limits in FY2012 Appropriations

On November 3, 2011, USDA submitted a final rule and an interim final rule on livestock and poultry marketing practices to the Office of Management and Budget (OMB) for review. USDA informed stakeholders that the proposed rule had been modified in its final form. USDA indicated that the final rule would contain provisions covering the suspension of the delivery of birds, additional capital investment, breach of contract, and arbitration. USDA also noted that the final rule would include a section on sample swine and poultry contracts. In addition, USDA planned to publish a separate interim final rule on the poultry tournament pricing system. 19

However, on November 18, 2011, the Consolidated and Further Continuing Appropriations Act, 2012 (P.L. 112-55) was signed into law and it curtailed USDA's ability to finalize its rule. Specifically, FY2012 funds could only be used to publish a final or interim final rule if the annual cost to the economy, which would include the livestock and poultry industries, is less than $100 million. USDA's notification on November 3, 2011, to stakeholders indicated that the final rule and its interim final rule would have an economic impact under $100 million. Opponents of the GIPSA rule believed the economic impact could reach into the billions of dollars and had strongly criticized USDA for not providing a comprehensive economic analysis of the proposed rule (see “Economic Impact of the Proposed Rule”). In February 2011 testimony, Secretary of Agriculture Tom Vilsack had assured Members of Congress that USDA was analyzing public comments and incorporating them into additional economic analysis of the rule. 20

19 November 3, 2011, email on the proposed GIPSA rule from USDA’s Office of Congressional Relations to stakeholders.

The FY2012 appropriations provision significantly restricted what USDA could put forward in its final rule. Section 721 prohibited USDA from using any funds to implement eight specific sections of the proposed rule, regardless of the annual cost to the economy of the final or interim final rule. Section 721 prohibited USDA from using funds to finalize definitions of the tournament system (§201.2(l)), competitive injury (§201.2(t)), and the likelihood of competitive injury (§201.2(u)). It also did not allow funding for USDA's proposed provision that recognized the possibility of a violation of the P&S Act without necessarily there being harm or likely harm to competition (§201.3(c)). The section prohibited USDA from using funds to issue criteria for determining unfair, unjust discriminatory and deceptive practices or devices (§201.210) and undue or unreasonable preferences or advantages (§201.211). Furthermore, USDA was prohibited from using funds for collecting sample swine and poultry contracts (§201.213) and finalizing regulations on the tournament system (§201.214).

Section 721 further required that USDA publish any rules in the Federal Register by December 9, 2011, and stated that no funding could be used to implement the published rules until 60 days after publication.


USDA’s Final Rule

On December 9, 2011, USDA published its final rule on livestock and poultry marketing practices. The rule went into effect on February 7, 2012. The final rule included four provisions from the proposed rule: suspension of the delivery of birds (§201.215), additional capital investment (§201.216), remedy of breach of contract (§201.217, §201.218 in proposed rule), and arbitration (§201.218, §201.219 in proposed rule). The final rule also included three definitions—principal part of performance (§201.2(m)), additional capital investment (§201.2(n)), and suspension of delivery of birds (§201.2(o)—and a section on the applicability of the rule (§201.3). See Table 3 for a comparison of the proposed rule and the final rule.

Final Provisions

Three of the final four provisions addressed three of the four parts of Section 11006 of the 2008 farm bill that required the Secretary of Agriculture to establish criteria that could be used to determine if there is a violation of the P&S Act. In the final rule, USDA made small adjustments to the proposed provisions based on public comments. USDA’s final rule removed parts of the proposed rule that could be considered prescriptive, and focused on criteria. Section 11006(1), which addressed “undue or unreasonable preference or advantage,” is not included in the final rule because it is one of the sections of the proposed rule (§201.211) prohibited by P.L. 112-55. The fourth provision on arbitration addressed Section 11005 of the 2008 farm bill, which required the Secretary of Agriculture to promulgate regulations to carry out the arbitration amendment to the P&S Act and to establish criteria to determine that poultry growers and livestock producer are able to participate in the arbitration process.

Suspension of Delivery of Birds

Suspension of the delivery of birds (§201.215) addressed Section 11006(2) of the 2008 farm bill, in which Congress required the Secretary of Agriculture to set criteria to determine if poultry growers are given reasonable notification of the suspension of the delivery of birds. Under the rule, USDA will examine whether or not poultry companies give poultry growers at least a 90-day notice that birds are not going to be delivered under their contract agreement. The notice should include the reason for not delivering birds, how long the suspension of delivery will last, and an estimate of when delivery will resume. Also, when considering whether or not a violation of the P&S Act has occurred, USDA may consider natural disasters or emergencies, such as bankruptcy. In its economic analysis of the provision, USDA estimated that the annual cost to the industry was $75,480 based on the administrative cost of providing written notices to poultry growers.

Additional Capital Investment

The provision on additional capital investment (§201.216) addressed Section 11006(3) of the 2008 farm bill and establishes criteria that may be used to determine if contracts that require additional capital investment violate the P&S Act. The final rule included eight criteria which are similar to the proposed rule (see “Unfair Practices”), with small changes to account for public comments. The final rule moved the equipment part of the proposed rule on capital investments requirements and prohibitions (§201.217(c)) into Section 201.216. In the proposed rule, if new equipment investments were required, the poultry dealer or livestock contractor would have been required to provide adequate contract compensation incentives to the grower or producer. Under the final rule, if new equipment investment is required when previously approved equipment is functioning properly, compensation incentives are criteria to be considered in determining a violation of the P&S Act.

Remedy of Breach of Contract

The provision on remedy of a breach of contract (§201.217) addressed Section 11006(4) of the 2008 farm bill. The provision provided criteria that could be considered to determine if a poultry grower or livestock producer is given a reasonable time to remedy a breach of contract that could ultimately lead to the termination of a contract. The final rule provision was similar to the proposed provision (see “Unfair Practices”) in that the criteria to be considered included whether or not growers or producers are given written notice with a description of the breach, the date of the breach, the means to remedy the breach, and the date by which it should be remedied. The proposed provision that set a 14-day period for growers or producers to rebut a breach of contract claim was dropped because it was viewed as a requirement instead of a criterion. This final rule provision was originally Section 208.218 of the proposed rule.

Arbitration

As in the proposed rule, the final rule on arbitration contained the provision that contracts include on the signature page a statement providing poultry growers and livestock producers the right to decline arbitration provisions in a contract (see “Arbitration”). The required statement was similar to the proposed rule clause, except that in the final rule, absence of a signature is considered to constitute declining the arbitration provision, instead of voiding the contract, as in the proposed rule. Also, in order to determine that growers and producers have a meaningful opportunity to participate in arbitration, USDA could consider if any costs and limits are disclosed to growers and producers and whether costs and time limits are reasonable. Also, USDA could consider whether or not growers and producers have a chance at reasonable discovery of information, if
arbitration covers only issues relevant to the contract, and if arbitration findings follow applicable law and legal principles.

### Table 3. Comparison of Proposed Rule and Final Rule
(includes appropriations prohibitions)

<table>
<thead>
<tr>
<th>Section</th>
<th>Proposed Rule</th>
<th>Final Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>§201.2 Terms Defined</td>
<td>Defines terms for tournament system (§201.2(l)), principal part of performance (§201.2(m)), capital investment (§201.2(n)), additional capital investment (§201.2(o)), suspension of delivery of birds (§201.2(p)), forward contract (§201.2(q)), marketing agreement (§201.2(r)), production contract (§201.2(s)), competitive injury (§201.2(t)), and likelihood of competitive injury (§201.2(u)).</td>
<td>Defines principal part of performance, additional capital investment (became §201.2(n)), and suspension of delivery of birds (became §201.2(o)). Section 721 of P.L. 112-55, Section 742 of P.L. 113-6, Section 744 of P.L. 113-76, and Section 731 of P.L. 113-235, Div. A prohibit USDA from finalizing or implementing definitions for tournament system (§201.2(l)), competitive injury (§201.2(t)), and likelihood of competitive injury (§201.2(u)). P.L. 113-6 and P.L. 113-235, Div. A rescinded the definition of suspension of delivery of birds, §201.2(o). USDA removed the definition from regulations in February 5, 2015 (80 Federal Register 6430).</td>
</tr>
<tr>
<td>§201.3 Applicability of regulations</td>
<td>Describes how rule applies to live poultry dealers and contracts (§201.3(a) and (b)). Also proposed in §201.3(c) that conduct can be found to be in violation of sections 202(a) and 202(b) of the P&amp;S Act without a finding of harm or likely harm to competition.</td>
<td>Finalized, except §201.3(c). Rule applies to pullets, laying hens, breeders, and broilers. Not table egg sector. Effective February 7, 2012. Section 721 of P.L. 112-55, Section 742 of P.L. 113-6, Section 744 of P.L. 113-76, and Section 731 of P.L. 113-235, Div. A prohibit USDA from finalizing or implementing §201.3(c). P.L. 113-6 and P.L. 113-235, Div. A rescinded the applicability to live poultry, §201.3(a). USDA removed the provision from regulations in February 5, 2015 (80 Federal Register 6430).</td>
</tr>
<tr>
<td>§201.94 Record retention</td>
<td>Requires a packer, swine contractor, or live poultry dealer to maintain written records that provide legitimate reasons for differential pricing or any deviation from standard price or contract terms offered to poultry growers, swine production contract growers, or livestock producers.</td>
<td>Not finalized. USDA indicated in November 2011 that it would not finalize this provision. Public comments indicated that the provision could cause a reduction in the use of premium payments, and would require the creation of new records, which was not the intent of the proposed rule.</td>
</tr>
<tr>
<td>§201.210 Unfair, unjustly discriminatory and deceptive practices or devices</td>
<td>Provides examples of conduct that would be considered unfair, unjustly discriminatory and deceptive practices to provide more clarity and allow improved enforcement under the P&amp;S Act.</td>
<td>Not finalized. Prohibited by Section 721 of P.L. 112-55, Section 742 of P.L. 113-6, Section 744 of P.L. 113-76, and Section 731 of P.L. 113-235, Div. A.</td>
</tr>
</tbody>
</table>
### USDA’s “GIPSA Rule” on Livestock and Poultry Marketing Practices

#### §201.211 Undue or unreasonable preferences or advantages; undue or unreasonable prejudice or disadvantages

Establishes criteria the Secretary may consider in determining if these actions have occurred under the P&S Act.

Not finalized. Section 721 of P.L. 112-55, Section 742 of P.L. 113-6, Section 744 of P.L. 113-76, and Section 731 of P.L. 113-235, Div. A.

#### §201.212 Livestock purchasing practices

Bans packer-to-packer sales and places restrictions on packer-dealer (buyers), i.e., they cannot represent more than one packer.

Not finalized. USDA indicated in November 2011 that it would not finalize this provision. Public comments indicated the provision would be disruptive to the marketplace.

#### §201.213 Livestock and poultry contracts

Requires packers, swine contractors and live poultry dealers to provide GIPSA with a sample copy of unique types of contracts. With the exception of certain information, the contracts may be publicly distributed.

Not finalized. Prohibited by Section 721 of P.L. 112-55, Section 742 of P.L. 113-6, Section 744 of P.L. 113-76, and Section 731 of P.L. 113-235, Div. A.

#### §201.214 Tournament systems

If a poultry dealer is paying growers on a tournament system (where some portion of growers’ payments are based on comparisons with other poultry growers’ performance), dealers are required to pay the same base pay to those raising the same type/kind of poultry (with no grower paid below the base). Live poultry dealers would be required to rank growers with others with like house types.

Not finalized. Prohibited by Section 721 of P.L. 112-55, Section 742 of P.L. 113-6, Section 744 of P.L. 113-76, and Section 731 of P.L. 113-235, Div. A.

USDA indicated in November 2011 that it would propose an interim final rule on tournament systems that clarified its proposed provisions. The interim final rule was not issued because of the appropriations prohibitions.

#### §201.215 Suspension of delivery of birds

Establishes criteria to consider when determining whether or not reasonable notice has been given for suspension of delivery of birds to a poultry grower. §201.215(a) requires a 90-day notification, §201.215(b) requires suspension reason, length, and resumption date, and §201.215(c) provides waivers for §201.215(a) in cases of disasters or emergencies.

Finalized. Poultry dealers must provide growers at least a 90-day notification of suspension; notification must include reason, length of suspension, and expected resumption of delivery. USDA may consider disasters or emergencies, such as bankruptcies, when determining if there is a violation of this provision.


#### §201.216 Capital investment criteria

Establishes criteria to consider whether or not additional capital investments required of a poultry grower or swine producer constitute an unfair practice in violation of the P&S Act.

Finalized. Renamed Additional capital investments criteria.

Incorporated equipment provision from proposed §201.217(c). Will consider whether producers are provided adequate compensation incentives if new equipment is required when old equipment is still functioning as intended.


**USDA’s “GIPSA Rule” on Livestock and Poultry Marketing Practices**

**Section**

<table>
<thead>
<tr>
<th>Proposed Rule</th>
<th>Final Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>§201.217 Capital investments requirements and prohibitions</strong></td>
<td>Requires a production contract to be of sufficient length to allow poultry or swine growers to recoup 80% of investment costs related to the capital investment. Adequate compensation incentives are required for additional equipment investments, if existing equipment is in good working order.</td>
</tr>
<tr>
<td><strong>§201.218 Reasonable period of time to remedy a breach of contract</strong></td>
<td>Establishes criteria for determining whether a packer, poultry dealer, or swine contractor has provided a producer a reasonable period of time to correct a breach of contract.</td>
</tr>
<tr>
<td><strong>§201.219 Arbitration</strong></td>
<td>Establishes criteria to consider when determining whether the arbitration process in a contract provides a meaningful and fair opportunity for the poultry grower, livestock producer, or swine contract grower to participate fully in the arbitration process.</td>
</tr>
</tbody>
</table>

**Source:** Congressional Research Service.

**Notes:** Section 721 of the FY2012 Agriculture Appropriations Act (P.L. 112-55), Section 742 of the Consolidated and Further Continuing Appropriations Act, 2013 (P.L. 113-6), and Section 744 of the Consolidated Appropriations Act, 2014 (P.L. 113-76).

**Final Rule Economic Impact**

One of the chief complaints by opponents of USDA’s proposed rule was the lack of a rigorous economic impact analysis (see “Economic Impact of the Proposed Rule”). In studies conducted for the livestock and poultry industries, the economic impact of the proposed rule ran into the billions of dollars. In the final rule, USDA estimated the impact of the four provisions to fall in the range of $21.3 million to $72.1 million, based on costs for industry adjustment to the new rules, and legal and administrative costs. Most of the costs fall on the poultry sector. USDA noted that many of the high cost estimates associated with the proposed rule were due to potential litigation or administrative actions. Because proposed provisions that were considered most likely to lead to litigation or cause market disruptions were not included in the final rule, the estimated costs were much lower than industry estimates for the proposed rule.

**Reaction to Final Rule**

Reaction to the final rule was mixed. Some proponents of the proposed rule described the final rule as a “start” or as “modest steps,” but also expressed disappointment that USDA was not able to finalize key provisions addressing anticompetitive issues in the livestock and poultry industries. For example, the National Farmers Union (NFU) said, “While the final rule is a good first step, it is certainly not a last step,” and said the rule “will make the livestock market at least

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22 Final rule, pp. 76883-76885.
somewhat more transparent and fair.” NFU noted that it was critical for USDA to implement the competitive injury provisions of the proposed rule. At the same time, proponents expressed disappointment that Congress prevented USDA from finalizing most of the proposed rule. Opponents of the proposed rule were generally satisfied with the final rule, but also were concerned about provisions that were not finalized and what might eventually happen with those provisions. Provisions that define competitive injury, and set criteria for determining unfair, unjustly discriminatory, and deceptive practices and undue or unreasonable preferences or advantages were considered some of the most contentious of the proposed rule, and opponents argued that these provisions would lead to increased litigation between packers and poultry dealers and producers and growers. Opponents remained concerned that USDA could re-evaluate and re-propose these provisions in the future.

Selected Issues

The debate on the GIPSA rule stretched from the middle of 2010 until the end of 2011, and some of the issues could arise in the context of the upcoming farm bill debate. The following section includes a description of several of the major concerns about the proposed rule, as well as the positions of those for and against the proposed rule. A description of each section of the proposed rule and arguments for and against them also is provided in the Appendix of this report.

Industry Groups Choose Sides

Within the U.S. livestock sector, there appeared to be few neutral parties regarding the proposed rule. Broadly, the industry appeared to be sharply divided into two groups:

The proponent groups argued that the rule would achieve greater price transparency in livestock markets and greater fairness and protection for producers in production contract arrangements. A few examples of proponents of the proposed rule include:

- **Organization for Competitive Markets (OCM):** OCM is a non-profit research group whose work focuses on market competition in the food and agriculture sector.

- **Ranchers-Cattlemen Action Legal Fund, United Stockgrowers of America (R-CALF USA):** R-CALF USA represents U.S. cattle producers on domestic and international trade and marketing issues.

- **U.S. Cattlemen’s Association (USCA):** USCA represents the U.S. cattle industry, focusing on efforts in Washington, DC, to further the interests of U.S. cattle producers on various marketing and competition issues.

- **National Farmers Union (NFU):** NFU represents family farmers, ranchers, and rural communities to protect and enhance their well-being through grassroots-driven policy positions.

The opponent groups argued that the rule would disturb carefully developed marketing arrangements that have evolved slowly over time to produce greater consumer choices in meat quality and variety, and would place an undue burden on packers and poultry dealers who are competing for consumer dollars with a wide array of other food products. A few examples of opponents of the proposed rule include:

- **American Meat Institute (AMI):** AMI represents red meat and turkey companies in the United States. AMI keeps track of legislation, regulations, and media activity that impacts the meat and poultry industry.

- **National Cattlemen’s Beef Association (NCBA):** NCBA represents U.S. cattle producers to advance the economic, political, and social interests of the U.S. cattle business and to be an advocate for the cattle industry’s policy positions and economic interests.

- **National Chicken Council (NCC):** NCC represents chicken producers/processors, poultry distributors, and

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allied industry firms to promote and protect the interests of the chicken industry and is the industry’s voice before Congress and federal agencies.

- National Pork Producers Council (NPPC): NPPC represents U.S. pork producers and other industry stakeholders through public-policy outreach, working for reasonable legislation and regulations, and developing revenue and market opportunities that protect the livelihoods of pork producers.
- National Meat Association (NMA): NMA represents meat packers, processors, equipment manufacturers, and food suppliers to the meat industry through assistance on regulatory and technical issues.

**Note:** Descriptions of the groups above are taken from the groups’ own websites.

The box above includes a partial list of organizations that were actively involved in the debate over the proposed rule. Proponents of the proposed rule argued that the P&S Act had not lived up to its potential because rules had not been properly promulgated over the years and courts had incorrectly interpreted the act. The Organization for Competitive Markets (OCM), one of the leading proponents of the proposed rule, stated in its comments to GIPSA that “perhaps its most important worth is in addressing what we believe to be errant court rulings that there is a requirement to establish ‘harm to competition’ prior to considering harm to an individual.”

According to proponents, the proposed rule would bring fairness to contracts and reshape interactions between producers and large meat packers and processors, especially for poultry growers who rely almost entirely on contracts. The proposed rule, according to OCM, would not “reinvent” the P&S Act but “reinvigorate” it. OCM also contended that opponents had overblown the rule’s potential impacts.

Opponents of the proposed rule were concerned about how USDA proposed to establish criteria for violating the P&S Act, as well as a number of other provisions. Also, the proposed rule contained several provisions to address the perceived unequal balance of market power between packers or poultry dealers and individual producers or growers. Overall, opponents expected the rule to significantly alter how business is currently conducted, to the detriment—in their view—of producers, consumers, and industry participants. According to the critics, the proposed rule would have resulted in increased litigation if GIPSA’s view that harm to competition is not necessary to determine a violation of the P&S Act prevailed. Opponents also were concerned that the proposed rule attempted to impose a “one-size-fits-all” rule on the marketing structure and processes of different livestock sectors. They pointed to a wide range of differences in structure and the nature of markets, with nearly all poultry produced under contract while a substantial portion of steer and heifer slaughter is traded on the cash market. The marketing of hogs falls in between poultry and cattle with respect to the four firm concentration and marketing methods (see Figure 1 and Table 1). Hence they argued that several rules that might appear reasonable for one sector might be counterproductive for another.

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25 Comments on the proposed rule by several industry and livestock and poultry groups are available at http://www.regulations.gov/. National Cattlemen’s Beef Association, ID# GIPSA-2010-PSP-0001-RULEMAKING-22431.1, National Pork Producers Council, ID# GIPSA-2010-PSP-0001-RULEMAKING-22460.1, National Chicken Council and U.S. Poultry & Egg Association, ID# GIPSA-2010-PSP-0001-RULEMAKING-22432.1, American Farm Bureau Federation, ID# GIPSA-2010-PSP-0001-RULEMAKING-13971.1.

Congressional Intent and GIPSA Authority

An initial concern expressed by many opponents of the rule was whether GIPSA had exceeded the intent of Congress as expressed in Sections 11005 and 11006 of the 2008 farm bill, and to what extent GIPSA had authority to revise and amend existing regulations of the P&S Act. According to opponents, the proposed rule included provisions—such as banning packer-to-packer sales of livestock—that extended well beyond the requirements of the 2008 farm bill.

In the proposed rule, GIPSA argued that its authority derives in large part from Section 407 of the P&S Act (7 U.S.C. 228), which provides that the Secretary “may make such rules, regulations, and orders as may be necessary to carry out the provision of the Act.”

GIPSA was supported in this conclusion by a group of 21 Senators who, in an August 13, 2010, letter to USDA Secretary Vilsack, argued that “GIPSA authority and responsibility to address the full scope of subject matter covered in the proposed rule is amply supported and justified by the letter and intent of the P&S Act, as amended, and by well-established principles of federal administrative law enunciated by the Supreme Court of the United States and other federal courts.”

In contrast, concerned industry groups and some Members of Congress charged that the proposed rule went beyond what was required in the farm bill. Furthermore, opponents said that it contradicted several congressional votes taken during the debate on farm bill Sections 11005 and 11006, and that the proposed rule appeared to contradict the decisions of several federal courts.

Unfair Practice vs. Harm to Competition

One of the more contentious issues surrounding the proposed rule was GIPSA’s view that harm to competition is not necessary to conclude that certain conduct violates the P&S Act. GIPSA argued in its discussion of the proposed rule that USDA has long believed that unfair or deceptive practices or unreasonable or discriminatory preferences (Sections 202 (a) and (b) of the P&S Act) can be a violation of the P&S Act without a finding of harm to competition. GIPSA contended that Congress intended the same. They said that unlike in Sections 202 (c)-(e), which specifically note conduct that harms competition or creates monopolies, Congress did not include “harm to competition” and “creates monopolies” conditions in parts (a) and (b), and would have done so if it believed that harm to competition was necessary for determining a violation.

GIPSA noted that courts of appeal have disagreed with USDA’s view on harm to competition and stated that the courts are inconsistent with the language of the P&S Act in rulings that require findings of harm to competition. GIPSA said the courts have failed to defer to USDA’s interpretation of the regulations. This line of reasoning was supported by the August 13, 2010, letter from the group of 21 Senators to Secretary Vilsack, which stated:

A cardinal principle is that the courts are to give deference to the interpretation of laws by the federal agencies that are charged with implementing and administering them. Specifically, for

29 Copies of some letters from Members of Congress to Secretary Vilsack are available at the American Meat Institute, http://www.meatami.com/nt/d/spi/61286/pid/61286.
30 Proposed rule, p. 35341. As noted earlier in this report, the Terry vs. Tyson Farms case was concluded with the Supreme Court declining to review the case.
instance, GIPSA is to be accorded deference in its interpretation, spelled out in the proposed rule, that the P&S Act protects individual producers against “unfair, unjustly discriminatory, or deceptive practice[s] or device[s]” without a necessity of showing such conduct has an impact on the broader market.

In Sections 201.210 and 201.211 of the proposed rule, GIPSA proposed to establish criteria for determining conduct that violates the P&S Act. GIPSA contended that conduct that is unfair or deceptive, or discriminatory, may not harm the larger market or harm competition within that market, but producers or growers may be hurt financially by the packer or poultry processor actions, and GIPSA said this would violate the P&S Act.

Proponents of the rule contended that it is too difficult to prove harm to competition because sufficient or compelling evidence is difficult to acquire. GIPSA cited numerous examples where individual producers have been harmed by packer or poultry processor behavior that did not necessarily involve harm to competition.31 For example, some chicken growers have stated that even though there are two poultry processors in their areas, it is understood that growers can only grow for one company and cannot switch. Small hog producers claim that packers offer lower prices for small lots of hogs, even if hogs are comparable to larger lots from large producers.

In contrast, opponents of the regulations charged that federal courts have consistently ruled that a plaintiff must show such harm to win a case.32 In particular, the American Meat Institute (AMI) contends that “USDA is attempting to use the rulemaking process to outflank the courts. Our system of government, however, is designed such that if the law is going to be changed, it should be changed by Congress, not by bureaucratic fiat.” AMI contended that if the requirement to prove harm to competition is waived, “in virtually every case brought, a trial lawyer representing a plaintiff in a P&S Act case will argue that there is no need for the plaintiff to show injury to competition.”33

Many livestock groups and producers fear that this weaker standard of proof could undermine the use of alternative marketing arrangements (AMAs).34 They are concerned it could lead to a profusion of litigation such that the use of AMAs will be reduced or they will become so standardized that value-added improvements and other market innovations will be unrewarded and thus abandoned, leaving the industry less consumer-driven. In the long run, some believe the meat industry would become more concentrated if AMAs are undermined, as packers and poultry processors would seek more control over their slaughter supplies.

**Status:** Provisions in the FY2012, FY2013, FY2014, and FY2015 appropriations acts prohibited USDA from finalizing the provisions on harm to competition and establishing criteria for determining unfair, unjustly discriminatory and deceptive practices or devices, and determining undue or unreasonable preferences or advantages.

31 For examples of producer comments during several GIPSA town hall meetings, USDA-DOJ Workshops, and congressional testimony, see “Examples of Market Behavior,” GIPSA, undated; available at http://archive.gipsa.usda.gov/psp/FB_examples.pdf.


33 Letter to Secretary Vilsack from J. Patrick Boyle, AMI President and CEO, July 28, 2010, and accompanying document that responds to a GIPSA document entitled, “Farm Bill Regulations—Misconceptions and Explanations.”

34 AMAs refer to agreements to purchase livestock by means other than the cash market. They could be forward contracts, marketing agreements, or packer-owned supplies. See “GIPSA Livestock and Meat Marketing Study,” January 2007. Available at http://www.gipsa.usda.gov/GIPSA/webapp?area=home&subject=lmptopic=ir.
Livestock and Poultry Purchasing Practices

According to opponents of the proposed rule, Sections 201.212 and 201.214, which covered the packer and dealer relationship and tournament systems for poultry pricing, overstepped the intent of the farm bill, and would severely disrupt livestock and poultry markets. USDA and proponents of the proposed rule argued that these practices need to be limited because they allow packers and processors to manipulate prices.

Restricting Livestock Dealers to a Single Packer

Currently, livestock dealers often buy livestock for multiple packers. Dealers, or packer-buyers, often go to feedlots or sale barns and, based on packer specifications, purchase livestock for packers. Section 201.212(a) and (b) of the proposed rule would have limited livestock dealers to working with a single packer. Likewise, packers could only enter an exclusive arrangement with a dealer who has been identified as the packer’s buyer and has officially notified GIPSA. USDA argued that the regulation would open livestock markets to more buyers and prevent collusion between multiple packers using one dealer as an exclusive agent, which it says could lead to price manipulation. GIPSA noted that this would especially benefit the cow/bull slaughter market, where a single dealer often buys for multiple packers, by opening the market to more dealers.

Rule opponents argued that restricting livestock dealers to a single packer could impose a burden on packers, especially small packers who lack the resources to send multiple dealers across the countryside to various auction houses, sale barns, or feedlots. Currently, small packers may share the costs of a single dealer operating in different market zones. Similarly, a single dealer may need to interact with multiple packers in order to obtain sufficient earnings. Opponents also argued that restricting dealers could reduce competition, especially in small markets. Some packers could choose to exit small markets because transaction costs would rise if they were required to use their own packer-buyer instead of being able to share transactions costs with multiple packers.

Status: On November 3, 2011, when USDA submitted the final rule to OMB for review, USDA indicated that it would not finalize Section 201.212 of the proposed rule. Provisions in the FY2012, FY2013, FY2014, and FY2015 appropriations acts did not address the proposed provision on packer-buyer relationships.

Banning Packer-to-Packer Sales

Section 201.212(c) would have banned packer-to-packer sales. USDA and proponents contended that price information is exchanged during packer-to-packer transactions, which creates a situation where packers may be able to manipulate prices to the detriment of producers. If the packer-to-packer sale price is not publicly reported, then the marketplace and producers are missing a crucial market signal.

Opponents argued that a ban on packer-to-packer sales as proposed in the rule could cause market harm and speed up industry consolidation rather than slow it down. Critics of such a ban said that packer-to-packer sales are a key tool for smoothly meeting occasional disequilibrium in supply and demand at the plant level. Without such sales, opponents said, packers would further integrate into the livestock production sector to limit procurement risks stemming from a loss of this additional source of supply (i.e., purchases from other packers). Alternatively, they would have to
sell feeding facilities (perhaps to other packers) that were not within a reasonable shipping distance to their own slaughter operations, raising animal welfare issues.\footnote{Temple Grandin, “Ag Department Proposal Threatens Animal Welfare,” October 20, 2010, http://www.huffingtonpost.com/temple-grandin/ag-department-proposal-th_b_769717.html.}

**Status:** On November 3, 2011, when USDA submitted the final rule to OMB for review, USDA indicated that it would not finalize Section 201.212 of the proposed rule. Provisions in the FY2012, FY2013, FY2014, and FY2015 appropriations acts did not address the proposed provision on packer-to-packer sales.

### Revising Tournament Systems

The tournament system is a ranking system used by poultry processors to pay their contract poultry growers. At the end of a seven-week growing period, the quality of each grower’s flock of birds is ranked against a pool (settlement group) of other grower flocks. Depending on growing performance, a discount or a premium may be applied to the base contract pay for each grower. Section 201.214 of the proposed rule would have required live poultry dealers that use a tournament system to pay the same base pay to growers who raise the same type and kind of poultry. They would have been required to rank growers in settlement groups with other growers with like poultry growing facilities.

Proponents of the proposed rule, specifically some poultry producers, contended that the tournament system is “designed to appear like a method to allow growers to compete fairly for pay based on performance. However, because the inputs that determine a producer’s performance are supplied by the poultry company itself, the ranking system has become a back-door, anticompetitive mechanism for poultry companies to shift risks to growers and to discourage dissension.”\footnote{Rural Advancement Foundation International–USA (RAFI–USA), Comments from 26 Organizations for the Workshop on Poultry, letter submitted to Department of Justice, December 31, 2009, available at http://www.justice.gov/atr/public/workshops/ag2010/comments/255196.pdf.} Proponents argued that because poultry processors provide inputs, such as chicks and feed, the contract growers have little control over the performance of their flocks.

Opponents of the proposed tournament provisions, primarily processors, argued that the best contract growers would be penalized. Since the proposed rule prohibits discounts to base pay, poultry processors could reduce base pay below current levels to protect from paying poor performers more than if discounts were allowed. Premiums on base pay to the best growers might not match current levels. They argued that the current system already reflects the fundamentals of a free market that rewards efficiency. Also, opponents believed that under the proposed rule’s fairness provisions, differential pricing would invite increased litigation, further depressing the incentive to provide premium pricing to the best growers.

USDA indicated on November 3, 2011, that it intended to publish for comment an interim final rule on the poultry tournament pricing system.\footnote{Draft copy of interim final rule. Grain Inspection, Packers and Stockyards Administration, USDA, “Tournament Systems and Compensation,” unpublished.} The proposed rule required that poultry dealers using the tournament payment system to compensate growers must pay the same base pay to growers who raise “the same type and kind” of poultry, and growers must be ranked by “like house types.” The interim final rule clarified wording in the proposed rule by defining “the same type and kind” to mean poultry that is of “the same breed and shares the same target weight range.” “Like house types” is defined as growing houses that use “comparable production.
technology.” USDA estimated that the direct cost to the industry of the interim final rule would be $22.6 million.

**Status:** The final rule issued on December 9, 2011, did not contain a provision on tournament systems. Provisions in the FY2012, FY2013, FY2014, and FY2015 appropriations acts prohibited USDA from spending funds to implement provisions on the tournament system.

### Recordkeeping to Explain Pricing

In Section 201.94, the proposed rule would have required a packer, swine contractor, or live poultry dealer to maintain written records that provide legitimate reasons for differential pricing or any deviation from standard price or contract terms offered to poultry growers, swine production contract growers, or livestock producers.

According to USDA, producers who appear to be able to deliver the same product but currently receive lower prices than other producers have no means to capture higher returns that other producers receive. The department contended that better documentation would facilitate enforcement of the P&S Act, particularly regarding certain types of differential pricing or contract terms deemed to be unfair.

Opponents claimed that this recordkeeping rule was too vague about what documents and justifications would be suitable to maintain compliance. Combined with the belief that the proposed rule would lead to more litigation because a lower standard than harm to competition would be applied, opponents believed that buyers might no longer want to pursue alternative marketing arrangements (AMAs) that pay premiums for delivering livestock or poultry with particular traits. Opponents asserted that buyers use these and other contracting arrangements to ensure a steady supply of animals (as well as other agricultural commodities) to keep high-capacity plants operating efficiently; such arrangements also allow for necessary price adjustments for quality, grade, or other market-prescribed factors. The proposals for change would hurt producers too, opponents added, because many of them use contracts or other marketing agreements with packers to limit their own exposure to price volatility and to obtain capital. According to rule opponents, the result could be the loss of economic incentives to produce a higher quality of meat and could hurt “value-based marketing.”

Opponents wanted to know if specific documents or records would be deemed acceptable proof for price differentials in all cases. To gain industry-wide acceptance, this could be clarified so that companies could avoid uncertainty or error. Criteria could include feed/pasture information, genetics, and medical history, for example. Also, livestock that command market price premiums typically have identifiable physical attributes that distinguish them from “average quality” livestock. Top livestock producers may already keep records that would be suitable for enforcement of the rule. However, rule critics, in their comments, cited several examples of market situations where price differentials might emerge (for example, due to timing or geographic market conditions) for essentially the same livestock product.

To further illustrate, critics offered the example of a packer that needs an additional 1,000 head of cattle to run its plant at peak efficiency. In its first market price offer, it might be able to obtain only 500 head. As a result, it makes a second higher-priced offer to obtain the second 500 head, even though all of the cattle are of comparable quality. In responding to market conditions, the packer did not exert any undue market power in acquiring the 1,000 head. Yet it is not clear if this transaction would violate the law or what documentation would justify this type of price differential.
Status: USDA decided not to finalize the proposed provision on recordkeeping. In the final rule, USDA noted that public comments indicated that the proposed recordkeeping provision could have unintended consequences in reducing the use of premium payments. Also, the proposed provision would require creating new records, which was not the intent of the proposed rule. Provisions in the FY2012, FY2013, FY2014, and FY2015 appropriations acts did not address the proposed rule on recordkeeping.

Poultry Provisions Shifting Risk to Poultry Companies

Several provisions, Sections 201.215, 201.216, and 201.217 in particular, appeared to address poultry growers. The proposed regulations appeared to shift production risk from producers to poultry processors, in an attempt to alter the balance of power between processors and producers when negotiating and fulfilling contracts. For example, current business practices in the poultry industry sometimes require successive capital investment upgrades. USDA asserted that it needed authority to limit these practices because they could harm a producer’s financial position. Also, the rule would have required a production contract to be of sufficient length to allow poultry or swine growers to recoup 80% of the costs related to the capital investment. Some questioned whether the federal government should guarantee a certain rate of return for a producer. Critics contended that an underperforming producer would have an unfair advantage over a more efficient producer.

Also, the provisions guaranteed that poultry growers would receive a 90-day notice from a live poultry dealer before bird deliveries were suspended. Opponents argued that a 90-day period is excessive, since unforeseen events, other than the excepted catastrophic or natural disasters and other emergencies, could warrant a shorter notification period. An example would be market economic conditions that change rapidly.

Status: Most of these provisions were in the final rule in some form. Provisions proposed as requirements were adjusted to make them criteria that could be considered by USDA to determine a violation of the P&S Act. The proposed provision allowing growers to recoup 80% of the costs related to a capital investment was dropped.

Making Contracts Publicly Available

Section 201.213, requiring public disclosure of contracts, received less criticism than some other parts of the proposed rule because increased market transparency is considered by most to be a desirable goal. The provision would have corresponded with the transparency requirements for contracts in other sectors (e.g., insurance markets). However, opponents were concerned that not all proprietary information would be concealed or removed from public view. The concern expressed by critics was how it would be determined when an alteration or adaptation to an existing contract is sufficient to render it a “unique” contract such that it must also be posted. If every adjustment to a standard contract were posted, critics argued, they would reveal proprietary marketing strategy and sacrifice market advantage to competitors.


Economic Impact of the Proposed Rule

One of the primary concerns of opponents of the proposed rule was that it lacked a rigorous economic impact analysis. The rule was declared by the Office of Management and Budget
USDA’s "GIPSA Rule" on Livestock and Poultry Marketing Practices

(OMB) to be “significant,” meaning it would have an annual effect on the economy of more than $100 million. A rule declared significant requires that an agency explain the need for the regulation, assess potential costs and benefits, and undergo OMB review. The proposed rule was not determined to be “economically significant,” which requires an even more thorough cost and benefit analysis that includes a quantified assessment of the effects and possible alternatives to the rule.

Also, there was significant criticism over the cost-benefit analysis presented in the rule, which opponents said was incomplete and merited further discussion because it failed to account for potential market consequences under various scenarios.

On October 1, 2010, 115 Members of Congress sent a letter to Secretary Vilsack stating that the proposed rule went beyond the mandate of the 2008 farm bill and would cause major changes in livestock and poultry marketing. The letter stated, “The analysis contained in the proposed rule fails to demonstrate the need for the rule, assess the impact of its implementation on the marketplace, or establish how the implementation of the rule would address the demonstrated need.” The Members asked that USDA’s Office of Chief Economist provide a thorough economic analysis. In response to this request, Secretary Vilsack said in a letter to now-House Agriculture Committee Chairman Lucas that, “beyond the cost-benefit analysis we have conducted for the proposed rule, we look forward to reviewing the public comments to inform the Department if all factors have been properly considered, if or how changes should be incorporated, and to aid more rigorous cost-benefit and related analyses pursuant to the rulemaking process.”

Media reports stated that in a December 13, 2010, conference call with stakeholders, Secretary Vilsack said that USDA would review the public comments and conduct a more thorough cost-benefit analysis for the final rule. R-CALF USA, one of the leading proponents of the proposed rule, endorsed USDA’s move to conduct another cost-benefit analysis that R-CALF believed would show the proposed rule’s tremendous benefit for rural America and allow USDA to properly implement and enforce the P&S Act. Opponents noted that the proposed rule would have to be deemed economically significant in order for a meaningful analysis to be conducted. Secretary Vilsack’s comments that the rule would be redrafted after considering public comments raised the hope of rule opponents that the final rule would be more limited in scope.

GIPSA Cost Analysis

Since the proposed rule was deemed significant, it was reviewed by the OMB, and GIPSA was required to provide justification. In the proposed rule, GIPSA identified three categories of costs: (1) administrative costs, (2) costs of analysis, and (3) adjustment costs. Most of the costs estimates were not quantified in the proposed rule but were of a qualitative nature. For example, the cost of the record retention requirement to support differential pricing would depend on the

current level of recordkeeping. The stated benefit was that prices would be determined by supply and demand and that there would be increased transparency in the price decision-making process. For other provisions of the proposed rule, such as requirements for livestock dealers and the ban on packer-to-packer sales, the costs were “adjustment costs” associated with halting prohibited marketing practices. According to GIPSA, the costs to packers would increase because packers would have to pay higher prices to producers. The identified benefits were the prevention of monopolistic practices and a more fair and competitive market.

Beyond qualitative costs and benefits noted for provisions of the proposed rule, GIPSA quantified several costs as required under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 et seq.) for Sections 201.94, 201.213, 201.215, and 201.218. GIPSA estimated the cost of keeping records and conducting analysis for differential pricing to be $372,300 per year for the industry. The cost of submitting sample contracts was estimated at $24,083 per year for the livestock and poultry industries, and changing notifications for the suspension of bird deliveries for live poultry dealers was $12,500 per year. The estimated cost was $6,000 for administering the remedy to breach of contract provision.

Industry Analysis

In response to perceived weaknesses of GIPSA’s analysis, the meat and poultry industries released three studies of the proposed rule during the comment period that analyzed its impact on the U.S. economy and the livestock and poultry sectors. The studies were prepared for the American Meat Institute, the National Meat Association, and the National Chicken Council. Each study was conducted using differing assumptions and methodologies and resulted in considerably larger impacts than indicated in GIPSA’s analysis.

American Meat Institute

The first impact analysis of the proposed rule that the meat industry released on October 21, 2010, was the Economic Impact of Grain Inspection, Packers and Stockyards Administration Proposed Rule, prepared for the American Meat Institute (AMI). The analysis concluded that the proposed rule would result in increased litigation that would cause meat producers to move away from the use of marketing agreements and return to cash or spot market purchasing. The study contended that this would increase inefficiencies and raise retail meat prices and reduce meat demand. It projected that this would result in a $14 billion decline in U.S. gross domestic product (GDP) and a loss of more than 104,000 jobs.

National Meat Association

On November 8, 2010, Informa Economics, Inc. released An Estimate of the Economic Impact of GIPSA’s Proposed Rules. The study was prepared for the National Meat Association (NMA) in


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cooperation with the National Cattlemen’s Beef Association (NCBA), the National Pork Producers Council (NPPC), and the National Turkey Federation (NTF). The study’s researchers interviewed beef, pork, and poultry industry participants to determine expected responses to the proposed rule and expected costs and then used the information to determine impacts on the industries and the U.S. economy.

The Informa study made one-time estimates of the direct costs to the industries—costs associated with compliance to the proposed rule—at $136 million ($39 million for beef, $69 million for pork, and $28 million for poultry). Ongoing direct annual costs were projected at $169 million ($62 million for beef, $74 million for pork, and $33 million for poultry). The estimated indirect costs—losses due to reductions in product quality and/or efficiencies—were substantially higher. The annual losses were estimated at more than $1.3 billion ($780 million for beef, $259 million for pork, and $302 million for poultry). The Informa study estimated the economy-wide impact to be a reduction of $1.56 billion in GDP and nearly 23,000 lost jobs. The Informa study noted that it would take two to three years for the decline in efficiency to result in the losses, and that the costs would lessen over the long term as the industries adjusted.

**National Chicken Council**

The National Chicken Council released *Proposed GIPSA Rules Relating to the Chicken Industry: Economic Impact* on November 11, 2010.45 The report was prepared by FarmEcon LLC and focused only on the chicken industry. The study estimated that the proposed rule would cost the chicken industry more than $1 billion over five years, with costs increasing each year. Over the five-year period of 2011 to 2015, feed and housing costs would increase $794 million; costs associated with bird death loss from less efficient management and increased feed sampling and analysis costs would increase $225 million. In addition, the study projected a one-time administrative cost of $6 million for the industry during the first year. Furthermore, the FarmEcon study found that the proposed rule would lead to higher costs associated with increased litigation, which it said would cause the U.S. chicken industry to be less innovative.

**Congressional Interest and Oversight**

The 112th Congress showed considerable interest in GIPSA’s intent and implementation of the proposed rule. Immediately after the November 2010 election, Representative Frank Lucas, chairman of the House Committee on Agriculture, indicated that the proposed GIPSA rule could be of interest as part of the committee’s oversight responsibilities during the first session of the 112th Congress.46 Also, in a letter to Senator Debbie Stabenow, chairwoman of the Senate Agriculture Committee, and Senator Pat Roberts, ranking Member, Senator Mike Johanns stated...

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that hearings on GIPSA’s proposed rule should be one of several issues included in the Agriculture Committee’s oversight responsibilities.  

Eventually, Congress expressed its concern about the GIPSA rule through the appropriations process. The 112th Congress enacted an appropriations rider for FY2012 that placed restrictions on USDA’s ability to finalize and implement parts of the proposed GIPSA rule. The 113th Congress continued to enact the prohibitions in appropriations bills for FY2013 through FY2015, and included provisions to rescind parts of the finalized rule in FY2013 and FY2015. For the first time since FY2012, the appropriations bill for FY2016 did not contain a GIPSA rider.

The GIPSA rule was part of the farm bill debate, as House-passed measures in the 2012 and 2013 farm bill versions would have permanently prevented USDA from finalizing and implementing the GIPSA rule or issuing similar rules in the future. Senate farm bill versions did not include GIPSA repeal provisions. In the end, the farm bill conference report for the Agriculture Act of 2014 (P.L. 113-79) did not include a GIPSA repeal provision. If the farm bill provisions had been successfully enacted, the appropriations provisions would not have to be renewed annually.

Hearings

On February 17, 2011, during separate oversight hearings on the farm economy conducted by the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry, Secretary Vilsack was asked about the proposed rule and when USDA’s economic analysis would be completed and the proposed rule finalized. Without providing a time frame, he indicated that USDA was working on the economic analysis, using the numerous public comments, and would take the time necessary to complete a thorough analysis. The Secretary was also asked if USDA’s economic analysis would be peer-reviewed and made available for a public comment period, but no commitment was given. In a May 18, 2011, letter to Secretary Vilsack, 147 Members of the House of Representatives followed up the hearing by requesting that USDA allow for public comment on any revisions to the proposed rule and on the new economic analysis.

In addition to these initial hearings where questions and concerns about the proposed rule were raised, the proposed rule was questioned and discussed in several other hearings. Witnesses in three hearings on the state of the beef, pork, and poultry sectors conducted by the House Committee on Agriculture’s Subcommittee on Livestock, Dairy, and Poultry raised concerns that the proposed rule would hamper or damage the way they conducted business. A hearing on the state of the livestock industry held by the Senate Committee on Agriculture Nutrition and Forestry also aired concerns about the proposed rule by Senators and industry representatives,

while a witness from the National Farmers Union testified that farmers and ranchers needed the proposed rule to provide fairness in the marketplace.\footnote{U.S. Congress, Senate Committee on Agriculture, Nutrition, and Forestry, \textit{The State of Livestock in America}, 112\textsuperscript{th} Cong., 1\textsuperscript{st} sess., June 28, 2011. Video and testimony available at http://ag.senate.gov/hearings/the-state-of-livestock-in-america.}

In addition, the GIPSA proposed rule was the subject of oversight hearings by the House Committee on Small Business, Subcommittee on Agriculture, Energy, and Trade, and the House Committee on Oversight and Government Reform.\footnote{U.S. Congress, House Committee on Small Business, Subcommittee on Agriculture, Energy and Trade, \textit{Regulatory Injury: How USDA’s Proposed GIPSA Rule Hurts America’s Small Businesses}, 112\textsuperscript{th} Cong., 1\textsuperscript{st} sess., July 7, 2011. Testimony available at http://smbiz.house.gov/Calendar/EventSingle.aspx?EventID=249313. House Committee on Oversight and Government Reform, \textit{How a Broken Process Leads to Flawed Regulations}, 112\textsuperscript{th} Cong., 1\textsuperscript{st} sess., September 14, 2011. Testimony available at http://oversight.house.gov/index.php?option=com_content&view=article&id=1429%3A9-14-2011-qhow-a-broken-process-leads-to-flawed-regulationsq&catid=12&Itemid=20.} As in the earlier hearings, industry witnesses mostly expressed their concerns that the proposed rule would economically damage their operations. In the Small Business hearing, a witness from a Pennsylvania farm organization testified that the proposed rule would help protect poultry growers and hog producers from the loss of competition due to industry consolidation.

**FY2012 Appropriations**

In response to significant concerns by some Members of Congress, the FY2012 appropriations bill (H.R. 2112) that passed the House on June 16, 2011, contained Section 721, prohibiting USDA from using any appropriated funds “to write, prepare, develop, or publish a final rule or an interim final in furtherance of, or otherwise to implement” the proposed GIPSA rule.

During debate on H.R. 2112, Representative Marcy Kaptur opposed Section 721 in floor comments but did not offer an amendment to remove it. Instead, she argued that the proposed rule benefitted farmers and ranchers and that GIPSA should be allowed to proceed with the rulemaking process. Representative Kaptur also entered statements from the American Farm Bureau and a group of 140 farm organizations that supported allowing USDA to move the proposed rule forward.\footnote{Rep. Kaptur, \textit{Congressional Record}, June 15, 2011, p. H4261.}

The House Committee on Appropriations’ report on H.R. 2112 expressed concern that GIPSA’s proposed rule misinterpreted the intent of Congress concerning the regulation of livestock marketing practices and underestimated the cost of the proposed rule. The report also expressed concern that USDA might not have complied with the Administrative Procedures Act that governs rulemaking by publishing its “Farm Bill Regulations—Misconceptions and Explanations” document. In addition, by closing the comment period in November 2010 before holding the last of five workshops on competition held jointly with the Department of Justice in December 2010, the committee report stated that the Department might have limited the public’s ability to comment on the proposed rule.

The Senate version of H.R. 2112 that was passed on November 1, 2011 did not include a similar provision. However, the FY2012 conference report for H.R. 2112 included Section 721 with its conditions and prohibitions on USDA’s authority to finalize and implement certain parts of the proposed rule. (Sections 201.2(l), 201.2(t), 201.2(u), 201.3(c), 201.210, 201.211, 201.213, and 201.214); see Table 3). On November 18, 2011, the Consolidated and Further Continuing Appropriations Act, 2012 (P.L. 112-55) was enacted.
Proponents of the proposed rule characterized the considerable restrictions as a “mortal blow” to the proposed rule, and the “death knell” of the P&S Act. In a November 16, 2011, letter to Members of the Senate, the National Farmers Union noted that Section 721 blocked USDA action that would have helped independent farmers and ranchers.55 On the other hand, opponents of the proposed rule believed many of their concerns were addressed through Section 721. In its statement on the Agriculture Appropriations Act, the American Meat Institute said, “We also commend lawmakers’ action to prevent GIPSA from proceeding with the most disruptive and costly provisions contained in its 2010 proposed rule.”56

FY2013 Appropriations

The provisions that blocked USDA from implementing the majority of the GIPSA rule in FY2012 were continued in FY2013. Section 742 of the Consolidated and Further Continuing Appropriations Act, 2013 (P.L. 113-6), which was enacted March 26, 2013, included language from the FY2012 Agriculture appropriations bill that restricted how USDA could finalize its proposed rule on livestock and poultry marketing practices.

In addition, Section 742 included a provision that required the Secretary of Agriculture to rescind three provisions that USDA finalized in December 2011 (see “USDA's Final Rule”). The three provisions were the definition of the “suspension of delivery of birds” (§201.2(o)), the provision that made the rule applicable to live poultry (§201.3(a)), and the 90-day notification period required when a poultry company intends to suspend the delivery of birds to a grower (§201.215(a)). Under Section 742, USDA was required to rescind the three provisions within 60 days of the enactment of the bill.

The provision to rescind parts of the GIPSA rule that had already been finalized first appeared in Section 719 of the House-reported FY2013 appropriations bill (H.R. 5973). The only difference was that the House bill also would have rescinded the definition of “additional capital investment” (§201.2(n)). The Senate FY2013 appropriations bill (S. 2375) did not contain a provision similar to Section 719.

The rescinding provisions of Section 719 were not included in the FY2013 continuing resolution (CR; P.L. 112-175), which was enacted September 28, 2012, to provide appropriations through March 27, 2013. The extension of the appropriations and authorities from FY2012’s P.L. 112-55 in the CR resulted in the majority of the GIPSA rule remaining blocked.

In March 2013, the 113th Congress began addressing appropriations for the remainder of FY2013. The House-passed appropriations bill, Department of Defense, Military Construction and Veterans Affairs, and Full-Year Continuing Appropriations Act, 2013 (H.R. 933), did not include specific language regarding the GIPSA rule, but extended the prohibitions from FY2012 appropriations. However, Section 742 of the Senate-amended version of H.R. 933, the Consolidated and Further Continuing Appropriations Act, 2013, included language to continue the prohibitions on finalizing and implementing parts of the GIPSA rule, and rescinded three of USDA’s finalized provisions. Reportedly, Section 742 was included during negotiations between the House and Senate over Agriculture appropriations in December 2012.57

During the debate, proponents of the GIPSA rule sent a letter to the Senate Appropriations Committee objecting to the inclusion of Section 742 in the appropriations bill stating that it limited USDA's ability to “address anti-competitive and fraudulent practices in the livestock and poultry sectors.” The American Farm Bureau Federation also weighed in with a letter to Senators that expressed opposition to Section 742. Senators Tester, Johnson (SD), Brown, and Leahy proposed an amendment (S.Amdt. 75 to H.R. 933) that would have struck the GIPSA provisions from the Senate appropriations bill. However, the amendment did not receive a floor vote.

**FY2014 Appropriations**

Section 742 of the House-reported FY2014 Agriculture appropriations bill (H.R. 2410) included the same prohibition from the FY2012 and FY2013 appropriations acts that prevent USDA from using appropriated funds to finalize or implement certain provisions of the GIPSA rule. However, the section did not rescind the three finalized provisions as in P.L. 113-6. The Senate-reported FY2014 Agriculture appropriations bill (S. 1244) did not include a similar provision. The continuing resolution (P.L. 113-46) that ended the government shutdown and provided funding through January 15, 2014, carried forward the FY2013 authority for the GIPSA prohibitions. The Consolidated Appropriations Act, 2014 (P.L. 113-76) was enacted on January 17, 2014. Section 744 of P.L. 113-76 continued to prohibit USDA from finalizing and implementing certain parts of the GIPSA rule, but did not include language rescinding the three provisions that were in the FY2013 act.

**FY2015 Appropriations**

For FY2015, continuing resolution (P.L. 113-164) initially extended GIPSA funding prohibitions through December 11, 2014. Subsequently, Section 731 of the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235, Division A) continued to prohibit GIPSA from finalizing and implementing GIPSA rule provisions for the remainder of the fiscal year. In addition, Section 731 included language to rescind the three finalized provisions that were included in the FY2013 appropriations act (see “FY2013 Appropriations”), but not the FY2014 act.

On February 5, 2015, USDA issued a final rule that permanently removed the three rescinded provisions from regulations. The three were (1) the definition of the “suspension of delivery of birds” (§201.2(o)), (2) the provision that made the rule applicable to live poultry (§201.3(a)), and (3) the 90-day notification period required when a poultry company intends to suspend the delivery of birds to a grower (§201.215(a)).

(...continued)

03/big-agriculture-tom-vilsack-monsanto-89268.html.


61 80 Federal Register 6430 (February 5, 2015).
FY2016 Appropriations

The enacted Consolidated Appropriations Act, 2016 (P.L. 114-113) does not include a GIPSA rider prohibiting USDA from finalizing and implementing rules on livestock and poultry marketing. Neither the House-reported agricultural appropriations bill (H.R. 3049) nor the Senate-reported bill (S. 1800) included GIPSA riders.

Farm Bill Action

As stated above, any effort to prohibit implementation of the GIPSA rule in the context of the appropriations bill expires at the end of the fiscal year. Critics of the GIPSA rule sought a permanent solution through repealing and prohibiting GIPSA provisions in farm bill legislation. Both the 2013 House farm bills, H.R. 1947 and H.R. 2642, contained provisions that would have permanently prevented USDA from implementing the GIPSA rule or issuing similar rules in the future. The Senate-passed 2013 farm bill (S. 954) did not contain provisions similar to the House versions. In the end, the farm bill conference report for the Agriculture Act of 2014 (P.L. 113-79) did not include the GIPSA repeal provision.

On May 15, 2013, during the House Agriculture Committee markup of the 2013 farm bill (H.R. 1947), Representatives Conaway and Costa offered an amendment to repeal Section 11006 of the 2008 farm bill, and permanently stop USDA from finalizing or implementing eight sections of the GIPSA rule that were included in appropriations bills (Sections 201.2(l), 201.2(t), 201.2(u), 201.3(c), 201.210, 201.211, 201.213, and 201.214; see Table 3). In addition, the amendment repealed the existing regulation that defined additional capital investment (§201.2(n)), and prohibited USDA from enforcing the three existing regulations that were rescinded in the FY2013 appropriations bill (P.L. 113-6). These were the definition of suspension of delivery of birds (§201.2(o)), the applicability to live poultry (§201.3(a)), and the 90-day notification for suspension of the delivery of birds (§201.215(a)). The amendment also permanently prohibited USDA from issuing regulations or adopting provisions similar to those in the amendment.

The House Agriculture Committee adopted the Conaway-Costa amendment on voice vote and it became Section 12102 of H.R. 1947. After H.R. 1947 failed on the floor of the House on June 20, 2013, the GIPSA amendment was included as Section 11102 of H.R. 2642, which was passed by the House on July 11, 2013. On September 28, 2013, the House passed H.Res. 361, which inserted the House-passed Nutrition Reform and Work Opportunity Act of 2013 into H.R. 2642 as the Nutrition title (Title IV), making the GIPSA provision Section 12102 of the amended House farm bill.

The House-reported 2012 farm bill (H.R. 6083) also contained a GIPSA provision. The Senate-passed 2012 farm bill (S. 3240) did not include a GIPSA provision.

Proponents of the GIPSA rule provisions oppose Section 11102 of H.R. 2642. In a letter sent prior to the markup of H.R. 1947 to Chairman Lucas and Ranking Member Peterson, the National Farmers Union noted that the provision would “undercut the enforcement of farmer protections” that GIPSA provides under the P&S Act. Stakeholders that oppose the GIPSA rule support the inclusion of the provision. The Livestock Marketing Association (LMA), an association that

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62 Letter from Roger Johnson, president, NFU, to Chairman Lucas and Ranking Member Peterson, House Committee on Agriculture, May 14, 2013, http://d31hzlhkfofd2bs.cloudfront.net/20130514/e7/89/3f/50/3afe78a4c8d4d82fcb538df05_14_13_NFU_Positions_on_House_Amendments.pdf.
represents livestock marketing businesses, has expressed concern that the language in Section 11102(c)(3) prohibiting USDA from issuing or adopting policies “similar to” the GIPSA provisions could tie USDA’s hands in future rulemaking. LMA notes that the P&S Act could require future updates that are widely supported by industry, but if any future measure were deemed “similar to” provisions from the 2010 GIPSA rule, USDA could be prevented from addressing it. LMA recommends that the “similar to” language could be dropped without undermining the intent of the section.64

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64 Letter from Tim Starks, president, LMA, to Chairman Lucas and Farm Bill Conference Committee Members, August 20, 2013.
## Appendix. Views on Proposed GIPSA Rule

<table>
<thead>
<tr>
<th>Section number and description of proposed changes</th>
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<tr>
<td>§201.2 Terms Defined. Defines terms for tournament system, principal part of performance, capital investment, additional capital investment, suspension of delivery of birds, forward contract, marketing agreement, production contract, competitive injury, and likelihood of competitive injury.</td>
<td>Two key definitions would allow USDA to address anticompetitive issues: A “competitive injury” occurs when conduct distorts competition in the market channel or marketplace. “Likelihood of competitive injury” means there is a reasonable basis to believe that a competitive injury is likely to occur in the market channel or marketplace.</td>
<td>These two definitions are vague and much broader than proving harm to competition. Because there are varying levels of competition, setting “perfect competition” is a very high standard.</td>
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<td>§201.3 Applicability of regulations. Conduct can be found to violate sections 202(a) and 202(b) of the P&amp;S Act without a finding of harm or likely harm to competition.</td>
<td>Congress did not intend these sections to be limited only to harm to competition. Congress amended the P&amp;S Act to specify instances of conduct prohibited as unfair that do not involve any inherent likelihood of competitive injury.</td>
<td>The proposed rule does not provide guidance on when proof of injury is required. This would invite significant litigation and discourage the use of marketing agreements that benefit the industry.</td>
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<td>§201.94 Record retention. Requires a packer, swine contractor, or live poultry dealer to maintain written records that provide legitimate reasons for differential pricing or any deviation from standard price or contract terms offered to poultry growers, swine production contract growers, or livestock producers.</td>
<td>No recourse is currently available for producers who appear to be able to deliver the same product but receive lower prices than other producers. Better documentation would facilitate enforcement of the P&amp;S Act, particularly regarding certain types of differential pricing or contract terms deemed to be unfair.</td>
<td>The rule does not define “standard price or contract terms” and the vagueness of requirements for justifying payments will discourage use of marketing agreements (and practices) that have increased product demand and value to producers and the marketing chain. The meat industry (particularly beef and pork) might return to a “commodity” business with all animals “sold on the average” to the detriment of producers and consumers.</td>
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<td>§201.210 Unfair, unjustly discriminatory and deceptive practices. Provides examples of conduct that would be considered unfair, unjustly discriminatory and deceptive practices to provide more clarity and allow improved enforcement under the act.</td>
<td>Court decisions that require proof of “competitive harm” have limited USDA’s enforcement capabilities. USDA needs authority to address unfair practices that do not have anticompetitive implications. Examples include not allowing producers to watch their birds being weighed and providing growers with poor quality feed.</td>
<td>The “open-ended” nature of the rule will result in packers being reluctant to pursue practices that have benefited the entire livestock and meat marketing chain for fear they may be sued. For example, it does not appear that timing or marketing conditions or historical performance by the producer will be considered sufficient reasons for price differences. The proposed rule will increase vertical integration across the industry as packers increase animal ownership to avoid potential litigation. Inefficient or unreliable producers could be rewarded.</td>
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<td>§201.211 Undue or unreasonable preferences/prejudice or advantages/disadvantages. Establishes criteria the Secretary may consider in determining if these actions have occurred under the P&amp;S Act.</td>
<td>USDA needs authority to address practices that can reduce business opportunities for producers if a packer or processor cannot provide a legitimate justification for price disparities. For example, a packer or swine contractor might offer better price terms to producers who can provide a large volume of livestock than to a group of producers who collectively can provide the same volume of livestock of equal quality. Smaller producers will have restored ability to compete with larger-sized operators.</td>
<td>See arguments in above two boxes. Certain industry groups, including the National Pork Producers Council, fear the rule will prevent contracts from addressing a producer’s unique situation and prevent packers from rewarding efficient producers. Also, these provisions fall outside the scope of the mandate of the 2008 farm bill. Finally, the rule does not prevent frivolous and unnecessary litigation that would disrupt normal business.</td>
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<td>§201.212 Livestock purchasing practices. Bans packer-to-packer sales and places restrictions on dealers (buyers), that is, they cannot represent more than one packer.</td>
<td>During packer-to-packer transactions, price information is exchanged, which creates a situation where packers may be able to manipulate prices to the detriment of producers. Also, the regulation opens livestock markets to more buyers in certain markets (e.g., cow/bull slaughter) by requiring each packer to have its own buyer and prevent collusion between multiple packers using one dealer as an exclusive agent to manipulate prices.</td>
<td>USDA has not provided any evidence (or pursued cases) that packer-to-packer sales have resulted in price manipulation. Banning sales and requiring buyers to represent only one packer would increase costs to the entire marketing chain, including producers, because livestock would need to be shipped further or a third-party dealer would need to be created as a “pass-through” agent. Overall, competition decreases and industry consolidation could increase.</td>
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<td>§201.213 Sample contracts. Requires packers, swine contractors and live poultry dealers to provide GIPSA with sample copies of contracts for public distribution.</td>
<td>Improved transparency of contracts puts producers on equal footing with packers/dealers and reduces misperceptions of unfair or preferential treatment. GIPSA has received complaints of preference or retaliation by packers and live poultry dealers in contracts and marketing agreements that, upon investigation, were found to be in compliance with the act.</td>
<td>In many cases producers have unique agreements with their packer, and the potential exists for requiring that each of those agreements be released publicly, creating a burden for the industry. The proposed rule seems to exclude producers from the decision on what information is confidential and would not be made public. A decrease in the variety of contracts that address various risk management strategies is possible.</td>
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<td>§201.214 Tournament systems. If a poultry company is paying growers on a tournament system (with some portion of the payment made to poultry growers based on a comparison of one poultry grower’s performance with that of other grower’s performance), dealers are required to pay the same base pay to those raising the same type/kind of poultry (with no one paid below the base). Live poultry dealers would also be required to rank growers with others with like house types.</td>
<td>Complaints from poultry producers indicate that current practices, including paying disparate rates to producers raising the same type and kind of poultry, injures individual producers. The new regulation would allow for better assessment of contract values at the time of contract negotiation, specifically by providing poultry growers with a more consistent benchmark to compare different contracts.</td>
<td>The tournament method of compensation may be unworkable if all producers receive the same base pay, raising questions about how to pay producers with different cost structures if they produce the same type and kind of poultry. Will the acceptable alternative result in compensating inefficient producers? Efficient producers may have difficulty obtaining additional credit to grow their business.</td>
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<td>§201.215 Suspension of delivery of birds. Establishes criteria the Secretary may consider when determining whether or not reasonable notice (at least 90 days) has been given for suspension of delivery of birds.</td>
<td>Poultry producers are currently not given sufficient notice of suspension in order to consider options for utilizing their facilities and for keeping up with any loan payments. Without sufficient information, a poultry grower is unable to protect his or her financial interests and make informed decisions.</td>
<td>Ninety days is too long given the potential for rapid changes in market conditions.</td>
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<td>§201.216 Capital investment criteria. Establishes criteria the Secretary may consider when determining whether a requirement that a poultry grower or swine producer constitutes an unfair practice in violation of the act.</td>
<td>Current business practices in the poultry industry sometimes require successive capital investment upgrades. USDA needs authority to limit these practices because they can harm a producer’s financial position or can require investments for some producers but not others as a way to “punish” certain producers.</td>
<td>The provisions are ambiguous and subject the processor to increased risk. Also, the type of investment is not specified, such as those required by the packer for efficiency (or other reasons) or by law (e.g., animal welfare) which are beyond the packer’s control.</td>
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### USDA's “GIPSA Rule” on Livestock and Poultry Marketing Practices

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<td>§201.217 Capital investment requirements and prohibitions. Requires a production contract to be of sufficient length to allow poultry or swine growers to recoup 80% of investment costs related to the capital investment.</td>
<td>Currently, producers are often required to make capital investments as a condition to enter into or continue a production contract, which can send producers or growers into severe debt, potentially increasing loan defaults. Producers who make large capital investments will have basic protections from being forced further into debt.</td>
<td>Some question whether the federal government should guarantee a certain return for a producer. An underperforming producer would have an advantage over a more efficient producer. The word “opportunity” is missing from the language providing for the recovery of the investment.</td>
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<td>§201.218 Reasonable period of time to remedy a breach of contract. Establishes criteria for determining whether a processor has provided a producer a reasonable period of time.</td>
<td>Proposed regulation addresses directive on remedies for breach of contract provided in the 2008 farm bill. Producers often are not given sufficient information or time to remedy a breach of contract.</td>
<td>The criteria establish considerable leeway for favoring the producer over the packers, contractors, and dealers.</td>
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<td>§201.219 Arbitration. Establishes criteria the Secretary may consider when determining whether the arbitration process in a contract provides a meaningful and fair opportunity for the poultry grower, livestock producer, or swine production contract grower to participate fully in the arbitration process if he/she so chooses.</td>
<td>Proposed regulation addresses directive on ensuring producers have the opportunity to fully participate in the arbitration process if they so choose, as provided in the 2008 farm bill. Many contracts (unilaterally drafted by processors) contain provisions limiting the legal rights and remedies afforded by law to producers. Also, producers with contracts that require binding arbitration are often left with no means to resolve disputes if they lack resources to pay fees.</td>
<td>Procedures of the American Arbitration Association should be used instead of the criteria for “fair” arbitration contained in the rule.</td>
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**Source:** Congressional Research Service.


b. Summarized from statements by the American Meat Institute, National Cattlemen’s Beef Association, National Pork Producers Council, National Chicken Council, and others.

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