



United States
Department of
Agriculture

Grain Inspection,
Packers and Stockyards
Administration

Stop 3601
1400 Independence Ave., SW
Washington, DC 20250-3601

AUG 10 2010

Ms. Rosemary Mucklow
Director Emeritus
National Meat Association
1970 Broadway, Suite 825
Oakland, California 95612

Dear Ms. Mucklow:

Thank you for your June 18, 2010 letter regarding additional information regarding packer-to-packer transactions.

In the preamble to the proposed rule that is currently open for comment GIPSA states: "Packer-to-packer acquisitions have historically been restricted to purchases from other packers of "off" animals that did not fit with the other packers' specifications but were procured in a larger lot of animals. The practice was primarily restricted to hog packers. Since 2006, GIPSA has observed that the practice has been expanded considerably and GIPSA believes it to be contributing to significant price distortions. In one instance, the price distortion was almost 3 percent of the reported base price for hogs. These price distortions in the swine negotiated cash market have larger price effects than just the cash market as many contracts including formula pricing often refer to the reported base price." Additionally, the price effects also influence the commodity futures market.

The negotiated hog market has moved from 9.6 percent in 2006, to 8.7 percent in 2008, to 5.7 percent for the first 8 months of 2010. The fed-cattle channel while not as thin, is on a steady trajectory of narrower negotiated markets. For example, the Texas-Oklahoma market was approximately 55 percent negotiated in 2001, and it is now roughly 30 percent, with some weeks seeing significantly thinner markets.

GIPSA has received complaints pertaining to packer-to-packer sales transactions with concerns that such practice is causing price distortions. In responding to these complaints, GIPSA analyzed daily hog procurement transaction data spanning 2 years. Based on the analysis of that data, in March of 2006, in a letter to the AMS Administrator, GIPSA requested that certain packer-to-packer transactions be reclassified from "Negotiated" to "Packer Sold" or "Packer Sold Negotiated" transactions in AMS price reports. AMS agreed with GIPSA and reclassified the hog transactions.

At the time, GIPSA thought reclassifying the transactions would resolve the price distortions. However, GIPSA continued to monitor hog prices. Based on this monitoring, GIPSA began to observe indications that certain packers may be influencing negotiated hog prices through a separate procurement mechanism. Statistical analysis of daily transaction data spanning two years indicated that the packer-to-packer transactions were affecting the negotiated base price an average of \$1.31 per cwt (approximately 2 percent) over the two year period. In some

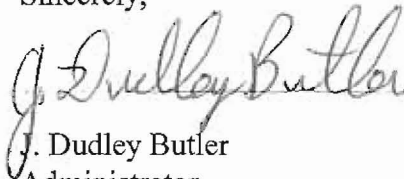
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months the effect on the base price was more and in some months it was less, but the pattern was statistically significant. Complaints regarding the practice of packer-to-packer sales continue to be received by GIPSA.

Again, thank you for your letter, and feel free to contact me on this or any other issue.

Sincerely,

A handwritten signature in cursive script that reads "J. Dudley Butler". The signature is written in dark ink and is positioned above the typed name and title.

J. Dudley Butler
Administrator