Assessment of the Cattle and Hog Industries
Calendar Year 2001

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List of Acronyms and Abbreviations

AMS	Agricultural Marketing Service, U.S. Department of Agriculture
ASTM	ASTM International (formerly American Society for Testing and Materials)
BSE	Bovine spongiform encephalopathy
CME	Chicago Mercantile Exchange
Cwt	Hundredweight (100 pounds)
DOC	U.S. Department of Commerce
ERS	Economic Research Service, U.S. Department of Agriculture
EU	European Union
FMD	Foot-and-mouth disease
GDP	Gross domestic product
GIPSA	Grain Inspection, Packers and Stockyards Administration, U.S. Department of Agriculture
HHI	Herfindahl-Hirshman Index
HRI	Hotels, restaurants, and institutions
IBS	Integrated beef system
LMIC	Livestock Marketing Information Center
MDM	Mechanically de-boned meat
MPR	Mandatory price reporting
NAICS	North American Industry Classification System
NASS	National Agricultural Statistics Service, U.S. Department of Agriculture
NCBA	National Cattlemen's Beef Association
NPB	National Pork Board

NPD	National Pig Development Company
NPPC	National Pork Producers Council
P&S Act	Packers and Stockyards Act
P&SP	Packers and Stockyards Programs, GIPSA, U.S. Department of Agriculture
PSE pork	pale, soft, exudative pork
USDA	United States Department of Agriculture
USPB	U.S. Premium Beef
WAOB	World Agricultural Outlook Board, U.S. Department of Agriculture

Executive Summary

This is the Grain Inspection, Packers and Stockyards Administration's (GIPSA) second annual report to Congress on the general economic state of the cattle and hog industries, changing business practices in these industries, and areas of concern under the Packers and Stockyards Act (P&S Act).

Overview of Livestock and Meat Production in the United States

Since 1935, per capita consumption of meat and seafood has doubled. Over that time span, after adjusting for inflation, the cost of beef and pork has remained about the same, while the cost of poultry has fallen to about one-third of its 1935 level. Beef and pork were the principal meats in the American diet through most of the 20th century. Annual per capita consumption of each meat[1] averaged about 40 pounds until around 1950.[2] Per capita beef consumption then began a rapid rise, reaching 89 pounds in 1976. Per capita beef consumption declined to 62 pounds in 1993, and then increased to 66 pounds in 2000. Annual per capita pork consumption rose after World War II and has averaged about 48 pounds since 1950. Annual per capita consumption of chicken averaged about 10 pounds between 1910 and 1940. It increased during World War II, and in 1950 began a steady rise from about 15 pounds to 55 pounds in 2000. Chicken replaced pork as the second-most-consumed meat during the mid-1990s and per capita consumption of chicken approached that of beef by the end of the century.

General Economic State of the Cattle and Hog Industries

The beef industry has been experiencing a liquidation of the cattle inventory since 1996, and the trend is expected to continue over the next couple of years.[3] Drought and high hay prices had an adverse effect on many U.S. cow-calf and stocker operations in 2001, although strong feeder calf prices resulted in profitability for most cow-calf operations in 2001.[4] U.S. cattle feeders did not fare as well as feeder calf producers in 2001, in spite of fed-cattle price increases in the early part of the year, as prices declined sharply in the second half of the year.[5] Drought conditions have been forcing cattle into feedlots, and herd expansion may be delayed for another year. Beef production in 2002 is expected to be nearly unchanged from 2001. USDA's World Agricultural Outlook Board (WAOB) projects that fed cattle prices will fall in the second and third quarters of 2002 before rising in the fourth quarter, and should average \$3.00 - \$6.00 below the 2001 average.[6]

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[1] The per capita consumption measures presented in this paragraph are based on a boneless, trimmed equivalent definition.
[2] Consumption measures in this paragraph are from Economic Research Service, *Per Capita Consumption Data System*, January 2002. (See, also, Table 1.)
[3] Economic Research Service, *Livestock, Dairy and Poultry Situation*, LDP-M-95, ERS-USDA, May 15, 2002.
[4] Livestock Marketing Information Center, *Analysis and Comments*, Letter #40, October 12, 2001.
[5] Economic Research Service, *Livestock, Dairy and Poultry Situation*, LDP-M-93, ERS-USDA, March 13, 2002.
[6] World Agricultural Outlook Board, *World Agricultural Supply and Demand Estimates*, WASDE-386, WAOB-USDA, May 10, 2002.

Despite operating profitability in recent years, hog producers appear to be hesitant to expand operations. Commercial pork production in 2002 is forecast to be slightly above that in 2001, with the decline in hog numbers offset by heavier slaughter weights.[7]

Changing Business Practices

Cattle

Cow-calf producers produce calves that they either feed until the animals approach mature frame size and are ready to be placed in feedlots, or that they sell to stockers who raise them until they are ready to be placed into feedlots. Traditionally, feeder calves are sold to feedlot operators or to investors who place the animals in custom feedlots for fattening until the animals are ready for slaughter, at which time they are sold to a meatpacker. The meatpacker slaughters the animals, fabricates the carcasses into primal and sub-primal cuts, and sells the meat to wholesalers, retailers, foodservice firms, and others.

Cattle feeding operations have gotten larger in recent years. In 2001, the 10 largest feedlot firms had a total one-time feeding capacity of 3.1 million head, 53 percent larger than in 1988. The 20 largest feedlot firms increased their one-time feeding capacity by 39 percent between 1988 and 2001.

Cattle feeding has become more concentrated. The annual capacity of the 10 largest cattle feedlot firms equaled 24 percent of total steer and heifer slaughter in 2001, versus 16 percent in 1988. Annual capacity of the 20 largest firms equaled 35 percent of total steer and heifer slaughter in 2001 versus 25 percent in 1988.

Slaughter plants also have gotten larger in the last 20 years. Several plants can slaughter more than 5,000 head per day and can process 400 or more carcasses per hour. Between 1980 and 1999, the number of steer and heifer plants slaughtering 500,000 or more cattle annually increased from 8 to 21, with 14 of those plants slaughtering more than 1 million head each in 1999. In 1980, plants slaughtering 500,000 or more steers and heifers annually accounted for 24 percent of commercial slaughter; by 1999, they accounted for 82 percent.

Concentration in beef packing has increased over the years. The four largest firms' share of total commercial steer and heifer slaughter rose from 35 percent in 1980 to 72 percent in 1990 and 81 percent in 1993, but has remained relatively stable since then.

Traditionally, cattle were traded through spot market transactions at each stage in the production process. "Spot market" refers to transactions in which the animals are ready or available for delivery at the time the agreement is entered. Spot market transactions for fed cattle may be made on a liveweight, carcassweight, or carcass-merit basis. When purchases are made on a liveweight or carcassweight basis, packer buyers assess the

[7] Gustafson, Ron, "The Outlook for Livestock and Poultry," presentation at Agricultural Outlook Forum 2002, ERS-USDA, February 22, 2002.

quality characteristics of the live animals. When purchases are made on a carcass-merit basis, the final price for the animals is based on the actual quality characteristics of the carcasses. Cattle may be traded on the basis of the average quality of all animals in a lot, or prices among the animals may vary based on differences in carcass quality characteristics. Traditionally, fed cattle have been traded through liveweight or carcassweight spot market transactions in which a single price is paid for all animals in a lot.

Larger numbers of fed cattle are now being sold through non-spot market methods than was the case in the 1980s, and more cattle are being priced on the basis of the quality characteristics of the individual animals, rather than pricing all animals in a lot at a single price. Many transactions establish prices by using a formula that utilizes a reference price, such as an average price paid by a plant for animals obtained through the spot market, or a publicly reported price. Non-spot market methods generally provide greater information exchange between the trading parties than the information exchange that occurs through traditional liveweight or carcassweight spot market transactions.

Cattle producers, feedlots, packers and retailers have taken a variety of other steps to increase coordination between the ranch and retail levels. Some coordination is as simple as packers providing information to sellers about the carcass quality of individual animals. Other coordination involves forward sales agreements that establish ongoing relationships that increase the information flow and coordination of decisions between the parties involved. Some producers, feedlot firms, and packers have entered into joint ventures in which the parties jointly own cattle that are being fed and share costs and revenues.

Producers' use of cooperatives to market fed cattle also has increased in the last 10 years. Important characteristics of many newer cattle marketing cooperatives are that members are required to purchase shares that determine the number of cattle a member can sell through the cooperative, and that the cooperatives are closed to non-members. Most of these cooperatives have an agreement with a packer providing that the cattle be sold to the packer with the price based on the quality of the carcasses.

Developments in marketing, processing, and packaging technologies have enabled packers to produce case-ready, branded, and convenience products. One such development has been the creation of integrated beef systems (IBS), which control production decisions from ranch to retail. These are the most advanced vertical arrangements in the beef industry today. Many of the integrated beef systems are new entities, while others are spin-offs of existing firms. For example, one IBS owns a packing and processing plant and has an agreement to provide a specific grade of beef to a major retail grocer. In order to ensure a consistent supply of the product, the IBS has agreements with feedlots and ranches to produce cattle that meet certain grade specifications.

Hogs

Changing swine genetics and management practices have improved many aspects of production efficiency. Litter size, litters per sow, and carcass weights have all increased with genetic improvements. Hog production has moved toward fewer, larger, and more vertically coordinated operations. The number of operations with less than 100 hogs on hand has decreased from 96,730 (3.5 percent of the U.S. hog inventory) in 1995 to 46,012 (1.0 percent of the hog inventory) in 2001. Inventories held by operations with 5,000 or more hogs rose from 27.5 percent of the Nation's hog inventory in 1995 to 52.5 percent in 2001, while the total number of hog production operations declined by 87,320, a drop of 52 percent. Hog production has been shifting to farms that specialize in farrowing (breeding sows and producing piglets), nursery, or finishing operations, enabling producers to focus on improving production methods in a single type of enterprise.

Concentration has increased in the pork packing industry. The share of U.S. hog slaughter accounted for by the four largest hog packers rose from 34 percent in 1980 to 46 percent in 1995 and 55 percent in 1996, and has remained about the same since then.

To meet consumer preferences more effectively, and to measure carcass or meat value associated with quality improvements, packers are adopting several electronic devices to evaluate carcass or meat traits. Hog slaughtering and procurement practices have changed as a result. Instead of pricing hogs on a liveweight basis, as they have traditionally done, packers are pricing more hogs based on the carcass characteristics of the individual animals. The electronic quality-measurement technologies have resulted in the integration of evaluation devices into slaughter lines, requiring additional steps in slaughter procedures.

The majority of hogs are no longer traded on the spot market. Packers obtain a large portion of slaughter hogs from packer feeding operations, production contracts with producers, and marketing contracts. Packers produced about 27 percent of all slaughter hogs in 2001 and obtained about 56 percent of slaughter hogs through marketing contracts.[8]

As in the beef industry, pork packers have developed new case-ready products, many of which are branded and more convenient for consumers.

Market Operations and Activities Raising Concerns Under the Packers and Stockyards Act

A number of structural, organizational, and technological developments in the cattle and hog industries raise concerns under the Packers and Stockyards Act (P&S Act). This report identifies issues of concern in the areas of concentration and structural change, including changes in livestock pricing and procurement and changes in the form of

[8] Grimes, Glenn, "Hog Marketing Contract Study January 2001," University of Missouri and National Pork Board, March 2001. http://agebb.missouri.edu/mkt/vertstud.htm (March 12, 2001).

vertical and horizontal coordination; technological change in packing plant operations and marketing; and fair trade and financial protection issues.

Concerns About Concentration and Structural Change

The P&S Act does not prohibit concentration, vertical integration or coordination, or other changes in the structure and organization of the cattle and hog industries, *per se*. While the four leading steer and heifer slaughtering firms account for over 80 percent of steer and heifer slaughter, and the four leading hog slaughtering firms account for 56 percent of total hog slaughter, at the time of this writing there is no evidence that these packers are using market power to engage in practices prohibited by the P&S Act. Absent evidence of a violation of the P&S Act, GIPSA does not have authority to stop concentration or other structural change. However, if firms use their increased market power to engage in behavior prohibited by the P&S Act, GIPSA will investigate and take appropriate action.

Concerns About Changes in Livestock Pricing and Procurement

Packers Acting in Concert To Restrict Competition–Industry members have expressed concerns about possible concerted action by meat packers to restrict competition. The market conditions that give rise to these concerns do not necessarily suggest that firms are acting in concert and instead may be attributable to normal supply and demand forces, competitive bidding processes, or personal relationships that have developed over time between packers and livestock sellers. Section 202 of the P&S Act makes it unlawful for packers to engage in any unfair, unjustly discriminatory or deceptive act or practice and, among other things, prohibits any action with the purpose or effect of manipulating prices or restraining commerce. Section 202 also makes it unlawful to "conspire, combine, agree, or arrange, with any other person (1) to apportion territory for carrying on business, or (2) to apportion purchases or sales of any article, or (3) to manipulate or control prices," or to "conspire, combine, agree or arrange with any other person to do, or aid or abet the doing of, any act made unlawful" by other subdivisions of Section 202.[9] Past analyses by GIPSA's Packers and Stockyards Programs (P&SP) of packers' livestock procurement patterns have not uncovered any evidence suggesting that packers engaged in such activities in violation of the P&S Act.

Short Trading Window–Producers allege that there is a short period of time, or "window," during which trading of fed cattle occurs. Some cattle producers and market observers contend that most spot market cattle transactions occur during a relatively short period each week, often described as a 15- or 30-minute window. The bidding process for fed cattle normally begins early on Monday mornings when packer buyers visit feedlots to view cattle available for purchase. The price discovery process continues during the week as buyers and sellers assess market conditions, followed by rapid consummation of many transactions once market participants believe the market price has been discovered. P&SP's investigations have found that, while more sales take place

[9] 7 U.S.C. 192.

on certain days of the week, some sales do take place on every business day of the week. Consummation of many transactions during a short time interval may be the result of normal competitive behavior in an environment in which market participants can communicate very quickly, and does not necessarily indicate collusive activities or other behavior in violation of the P&S Act.

Shared Agents–It is a common practice for one buyer to represent more than one packer at an auction sale, especially in sales involving cull livestock. Auction market owners and livestock sellers have raised concerns that the use of common buyers, or shared agents, reduces the number of competing buyers. P&SP investigates complaints about shared agents at livestock markets.

Pricing Methods–Cattle and hog buyers use a variety of methods to establish base prices in formulas used in marketing agreements and other contracts. Several of these pricing methods are based on publicly reported prices or internal computations of prices paid by packers. Producers have voiced concerns about the potential for packers to influence or manipulate base prices under these types of pricing arrangements. P&SP regularly monitors this issue in its investigations of livestock procurement by packers.

Thin Spot Markets–Increased use of various types of forward sales agreements has reduced the number of livestock sold through spot markets, especially in the hog sector. Producers are concerned that the potential exists for packers to manipulate prices in the spot market, resulting in lower prices for hogs traded on the spot market or under contracts in which the contract price is based on a publicly reported price. GIPSA monitors packer behavior in order to identify instances in which thin markets may facilitate price manipulation, collusion, or other anti-competitive behavior by packers in violation of the P&S Act.

Mandatory Price Reporting (MPR)–Congress enacted the Livestock Mandatory Reporting Act of 1999 and, in 2001, USDA's Agricultural Marketing Service (AMS) implemented a Livestock Mandatory Price Reporting System. Under the program, large packers and importers are required to report to AMS specified information about all transactions involving purchases of livestock and imported boxed lamb cuts, domestic and export sales of boxed beef cuts, sales of domestic and imported boxed lamb cuts, and sales of domestic lamb carcasses. GIPSA monitors adjustments packers have made and continue to make in their pricing formulas in response to AMS' price reporting changes to help assure that producers are properly notified of the changes and to guard against other possible violations of the P&S Act.

Concerns About Vertical and Horizontal Coordination

Captive supplies –Use of captive supplies has been a concern for several years. The term "captive supplies" refers to livestock that are owned by, or committed to, a packer more than 2 weeks before the animals are slaughtered. Concerns about the possible effects of captive supplies are complicated by questions about the accuracy of available captive supply data. In response to these concerns, the Conference Report on USDA's fiscal year 2001 appropriation directed the Secretary of Agriculture to conduct a comprehensive study on the issue of captive supplies. GIPSA released its report in January 2002 and announced that it will publish its definition of captive supply in the *Federal Register*, revise the Packer Annual Report form to clarify reporting definitions, audit future Packer Annual Report filings, and report captive supply information in more detail.

GIPSA identified the following points in its captive supply report:[10]

- Differences in captive supply statistics available from various organizations result from different definitions of what constitutes captive supply and variations in the geographical coverage of the data collection. P&SP defines captive supply as livestock owned or fed by a packer more than 14 days prior to slaughter, livestock that is procured by a packer through a contract or marketing agreement that has been in place for more than 14 days, or livestock that is otherwise committed to a packer more than 14 days prior to slaughter. P&SP's captive supply statistics are the only captive supply statistics based on a packer's forward commitment to purchase livestock before the animals are ready for slaughter.

- P&SP's analysis of the top four beef packers' 1999 procurement transactions data showed that the captive supply data the packers reported to P&SP in their Packer Annual Report filings included cattle procured from non-reporting subsidiaries, affiliates, owners, officers and employees to the extent those cattle were procured through a captive supply arrangement.

- P&SP's review of the top four beef packers' 1999 procurement transactions records found that captive cattle supplies accounted for 32.3 percent of the firms' total slaughter rather than the 25.2 percent originally reported by the packers in their annual report submissions to P&SP. Marketing agreement and forward contract cattle accounted for 23.9 percent of the top four packers' slaughter, and packer fed cattle accounted for 8.4 percent. The data discrepancies were attributed to misunderstandings about captive supply definitions.

Market Access and Price Inequalities–Changes in the organization of livestock production and procurement have raised a number of concerns about producers' access to markets. Some producers are concerned that few packing plants are available in their area, and that they may have difficulty obtaining a production or marketing contract. Some are concerned that some packers may not offer contracts to new producers because the packers already have enough animals under contract and scheduled for delivery. Others voice concerns that they are unable to obtain contract terms or prices that they believe are available to others. It is not a violation of the P&S Act for a packer to offer different contracts or different prices to different sellers, so long as the difference in contract or price does not give an unreasonable preference and is not unjustly discriminatory.

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[10] Grain Inspection, Packers and Stockyards Administration, *Captive Supply of Cattle and GIPSA's Reporting of Captive Supply*, GIPSA-USDA, January 11, 2002.

Fair Treatment in Contracts–Increased use of production and marketing contracts to procure slaughter livestock raises producer concerns about potential unfair treatment of livestock producers. For example, some production and marketing contracts may stipulate that the producer must keep the contract terms confidential. In deciding how to address producer concerns about contract terms, the P&S Act must balance the interests of producers against the need for regulation of packers so that contract terms are fair.

Concerns About Packing Plant Operations and Marketing

Carcass Evaluation–Sophisticated devices have been developed to measure animal carcass quality characteristics. Industry-wide standards have not been developed for these devices. P&SP is working with industry members and standardization officials to develop industry-wide standards. P&SP believes the development of these standards will reduce the vulnerability of producers to unfair and unjustly discriminatory practices associated with carcass evaluation.

E-Commerce–A small number of Internet sites market hogs and feeder cattle today. Some industry observers project that the number of livestock sold electronically will increase in the future.[11] Many start-up entrepreneurs may not be aware of all of the legal requirements that must be met in order to operate subject to the P&S Act. All meatpackers and livestock firms that use e-commerce are subject to the P&S Act to the same extent as businesses that operate in a more traditional manner. P&SP monitors the Internet to ensure that Internet firms disclose all bidding rules and customs, and that parties are aware of and comply with the requirements of the P&S Act.

Concerns About Fair Trade and Financial Protection

String Sales–Some custom feedlots may attempt to require that a packer purchase less desirable livestock as a condition to purchasing more desirable livestock, or feedlots or packers may impose an "all or nothing" agreement in which the packer buys all (or a specified quantity of) livestock as a single purchase. Under either of these circumstances, known as "string sales," a single price is paid for livestock from multiple owners, regardless of variation in the quality of the livestock offered for sale by the individual owners. Critics of string sales point out that, when packers and custom feedlots negotiate string sales, individual livestock owners may not be aware of the conditions of the purchase or sale. This concern is potentially amenable to self-regulation. P&SP has not received complaints from producers that feedyards have refused to follow producers' instructions to sell their cattle on the merits of the producers' cattle.

Drug Residues–Packers are required by FSIS regulations to test for drug residues in meat that is destined for human consumption. Some animals, particularly cull cattle, may have drug residue levels that cause their meat to be declared unfit for human consumption, substantially reducing the value of the animals. Packers are required by the P&S Act to pay for animals by the close of the next business day following purchase, but

[11] Joiner, Harry, "E-commerce: Moving at the Speed of Sludge," *Meat Marketing & Technology*, August 2001.

packers do not have the results of drug residue tests until after payment is due. Although packers are required by the P&S Act to pay for these animals by the close of the next business day following purchase, they may seek restitution or other relief from the sellers of animals with the drug residues.

Retaliation–Many producers have expressed concerns about possible retaliation by packers if producers challenge the terms offered to them by a packer or file a complaint against a packer with P&SP. Although P&SP takes a strong stand against retaliation and vigorously pursues credible allegations of retaliatory behavior in the livestock industry, producers are concerned that they could be out of business before receiving relief. This situation poses a difficult dilemma for producers and for P&SP, because P&SP cannot bring a successful action against a packer on an allegation of retaliation without the cooperation of the target of the alleged retaliation.

Auction Market Stability–The financial stability of livestock auction markets has been a concern for many years. Financial failure of auction markets could result in some livestock sellers not receiving payment for their livestock. P&SP reviews auction markets' annual reports and conducts site investigations of auction markets to monitor financial stability.

Conclusions

Substantial changes are occurring in industry structure and the behavior of firms in the livestock and meatpacking industries. Technological developments, changes in consumer demand, and other competitive forces drive many of the changes. Many of the changes are healthy for the industries involved, for consumers, and for the Nation as a whole. However, the changes also bring the potential for packers, dealers, and market agencies to engage in activities that are prohibited under the P&S Act.

P&SP regulates industries comprised of thousands of firms that handle over $100 billion worth of products per year. P&SP has about 185 employees throughout the United States. In the late 1990s, USDA restructured Packers and Stockyards Programs to strengthen its capacity to investigate possible anti-competitive behavior in the livestock, meatpacking, and poultry industries and to improve its efficiency and effectiveness in enforcing the provisions of the P&S Act. P&SP has changed its staffing mix to add more employees with economic and legal expertise. P&SP is continuing its restructuring initiative by developing new investigative procedures, working more closely with the Office of the General Counsel at the initial stage of case development and during investigation of complex cases, incorporating economists and legal specialists in the investigative process, training new employees, and making other adjustments to strengthen its capacity to monitor and investigate the structural and behavioral changes in the livestock, meatpacking, and poultry industries.

P&SP's investigations reflect the industry's concerns under the P&S Act. P&SP conducted 1,619 investigations during FY 2001. About 400 of these investigations resulted from complaints filed with P&SP, and the remaining investigations were initiated by P&SP as a result of monitoring industry behavior, following up on problem areas, responding to questionable items on P&SP reports, or other activities revealing information about the industry.

Twenty-seven investigations were conducted in FY 2001 on allegations of potential anticompetitive practices, including attempted restriction of competition, failure to compete, buyers acting in concert in the purchase of livestock, apportionment of territory, price discrimination, price manipulation, and predatory pricing. Nine of these were completed with one finding of a conflict of interest and the other eight finding the Act had not been violated.

P&SP conducted 877 trade practice investigations in FY 2001. Some of these investigations involved concerns about poultry growing arrangements, poultry contract settlements, failure to adhere to the terms of poultry contracts, operating without bond or with inadequate bond, buying or selling livestock on the basis of false weights, misrepresenting the weight and price of livestock, or false weighing of livestock. Some other trade practice investigations involved the checkweighing of poultry and livestock at auction markets, dealer buying stations, or meatpacking and poultry processing plants in order to determine the accuracy of the scales and the propriety of weighing procedures by industry personnel. In FY 2001, P&SP conducted 304 checkweighing investigations and found incorrect weighing requiring corrective action in 5 percent of them. Complaints were issued against four entities, and several poultry integrators changed their weighing procedures.

P&SP conducted 715 financial investigations in FY 2001 to investigate complaints and monitor the financial integrity of the livestock, poultry, and meat markets. These investigations include alleged failure to pay for livestock, meat, or poultry; failure to pay when due for livestock, meat, or poultry; operating subject to the P&S Act while insolvent; failure of market agencies to properly maintain trust accounts; and enforcement of the packer trust provisions of the P&S Act.

Auction markets maintain custodial (trust) accounts for the benefit of livestock sellers. Markets are required to maintain specified levels of funds in the accounts, depending on the markets' business volume, to ensure the markets have sufficient funds to pay livestock sellers. Financial investigations in FY 2001 resulted in $6.3 million being restored to custodial accounts that lacked the required level of funds. Livestock sellers recovered over $844,000 under the packer trust provisions of the P&S Act. Livestock sellers were paid $276,000 from bonds maintained by dealers and market agencies. Additional claims of $556,094 are pending.

P&SP will address the concerns discussed in this report by continuing to monitor changes in industry structure and behavior, and by examining practices that raise concerns in the industry and are within P&SP's authority under the P&S Act. In addition to monitoring, P&SP's actions may include formal investigations, regulatory initiatives, and research and other analyses to assess the economic, competitive, trade practice, and financial implications of the structural and behavioral changes that are taking place in the industry.

Introduction

This report describes the cattle and hog industries in terms of their general economic state, their changing business practices, and their activities that may raise concerns under the Packers and Stockyards Act of 1921 (P&S Act). The report has been prepared in response to a requirement in the Grain Standards and Warehouse Improvement Act of 2000 (Pub. L. No. 106-472), enacted on November 9, 2000, which amended the Packers and Stockyards Act of 1921. Specifically, the Grain Standards and Warehouse Improvement Act of 2000 states:

> "Not later than March 1 of each year, the Secretary shall submit to Congress and make publicly available a report that
>
> (1) assesses the general economic state of the cattle and hog industries;
>
> (2) describes changing business practices in those industries; and
>
> (3) identifies market operations or activities in those industries that appear to raise concerns under this [P&S] Act."

The purpose of the P&S Act is to promote fair competition and fair trade practices in the livestock, meat, and poultry industries, and to protect consumers and members of the livestock, meat, and poultry industries from unfair business practices that can unduly affect meat and poultry distribution and prices.

The Secretary of Agriculture is responsible for the administration of the P&S Act, and has delegated that responsibility to the Administrator of the Grain Inspection, Packers and Stockyards Administration (GIPSA). Packers and Stockyards Programs (P&SP), part of GIPSA, monitors economic and trade practice developments in the livestock, meatpacking, and poultry industries, and it administers and enforces the P&S Act.