ization and
ol of the U.S.
System

Project 117
graph 9

st 1980

MARKET INFORMATION AND PRICE REPORTING IN THE FOOD AND AGRICULTURAL SECTOR

Proceedings of a Conference Sponsored by North Central Regional Committee 117
Madison, Wis., May 24-25, 1979

Agricultural Experiment Stations of Alaska, California, Cornell, Florida, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, New Mexico, North Dakota, Ohio, South Dakota and Wisconsin.

Published by the Research Division, College of Agricultural and Life Sciences, University of Wisconsin–

MARKET INFORMATION AND PRICING MECHANISMS IN THE LIVESTOCK AND MEAT INDUSTRY: ISSUES AND ALTERNATIVES

Kenneth E. Nelson
Economics, Statistics, and Cooperative Services, USDA
University of Illinois

INTRODUCTION

The topics "market information" and "pricing mechanisms" intertwine in the pricing of beef at the wholesale level. Much of the carcass beef traded is priced directly according to a specific published market news quote through a "formula."

The importance of the wholesale pricing stage in the marketing sequence from live cattle to retail was described by the National Commission on Food Marketing in this way: "The most significant and sensitive market in the livestock meat economy is for dressed meat at wholesale. It is on the basis of expected prices for dressed meat and on projected margins, that packers usually determine the top prices they can pay for live animals and the quantity they will need." [8, p. 55]

The wholesale market remains important, but the manner in which prices are determined at this level is receiving much criticism. This paper, therefore, concentrates on (1) the pricing mechanism and the price reporting system for wholesale beef in the United States; (2) examines some of the present criticisms of the system, and (3) describes selected alternatives to the present information and pricing mechanism.

PRICING OF BEEF AT WHOLESALE

The sale of carcasses to retailers accounted for most of the wholesale marketing of beef prior to the 1960s. Carcasses were broken or fabricated by the wholesaler or retail store. The present wholesaling of beef involves many types of firms and includes a wide variety of beef products and services. An increasing proportion of carcasses are being fabricated into primal and sub-primal cuts for sale to retail stores, as well as restaurant and institutional buyers. Some large food chain retailers operate centralized processing facilities, which convert carcass beef into boxed cuts that are shipped to many retail outlets. Slaughterers now purchase beef carcasses, as well as sell them, and engage in the sale of 60 or more standard fabricated beef products, in addition to selling sides and quarters of beef.

The participants in the wholesale market for beef, and the complexity of the products handled, have gone far beyond the relative simplicity of wholesaling carcasses to retailers in earlier years. Despite these innovations and complexities, the carcass market remains a central focus in exchange. The value of a carcass can be affected by many factors, such as type, sex, quality grade, yield grade, weight, trim, selection, method of payment, shipment time, packaging requirements, and temperature control. The carcass may be in sides or reduced to prefabricated units of six or seven boxes.

Discovery of price in the sale of beef carcasses falls into two general categories: (1) formula sales and (2) negotiated sales. Each includes several variations. Both require that the specifics of quality, quantity, delivery, credit, and other conditions of the transaction either be negotiated or understood from past dealings at the time the transaction is initiated between the two parties.

Negotiated and formula sales differ in one major respect. In negotiated sales, the price and conditions pertaining to the transaction are set through bargaining on each sale, similar to the way a consumer might bargain with a dealer for the purchase of an automobile. Thus, "offer and acceptance" sales fall into the category of negotiated sales. In formula sales, the conditions of the sale are negotiated, or understood from past transactions, but the price is left open. The price that will be used for carcass beef in a formula sale is nearly always from *The Yellow Sheet,* usually for the day prior to shipment. That price will be adjusted by previously agreed upon premiums or discounts that consider factors of importance in the transaction, such as freight, special trimming, selection, store delivery, discounts for bruises, grubs, yellow fat, and the like. The price quote, along with the premiums or discounts, constitute the formula for the transaction. Once agreed upon, a formula may be used for a long period of time, serving as the price base for standing orders of carcass and/or other beef sales.

Individual private treaties between buyers and sellers account for most of the pricing and title transfer of beef at the wholesale level. Repeat or standing order business is important. Most business, both new and old, is conducted directly between buyer and seller by telephone. Some transactions involve a third party, a broker, who matches buyers and sellers for a commission. Vertical integration and formal contracting account for only a small part of the wholesaling of beef.

THE PRICE-REPORTING SYSTEM

Three major formal sources provide daily price information for dressed beef. Two are private publications; one is public. Each collects and reports prices for negotiated sales by class each day.

The Yellow Sheet

The most widely used daily price information service for dressed beef is the private *Daily Market and News Service,* or *The Yellow Sheet,* which is published by the *National Provisioner* of Chicago. The *National Provisioner* is a weekly trade journal, established in 1891, which services the meat packing and processing industries. *The Yellow Sheet* began publishing daily price information for pork products in 1923; beef products were added in the 1940's. It is used by traders at all levels of the meat industry and is the report most frequently used as the base in the formula pricing of beef carcasses.

The *Yellow Sheet* publishes prices on hundreds of commodity items other than carcass beef, but this discussion is restricted to the beef carcass quotes. *The Yellow Sheet* quotes *closing* prices for selected weight ranges, quality grades, yield grades, and sex designations for carcass beef. The publication states that "Prices represent F.O.B. Midwest River area at end of trading day on standard product, carlot basis loose unless otherwise stated."[1]

Variations from the standard quote include "bids," "asks," "nominals," and "unquotes." If trading is considered to be taking place at two prices simultaneously at the close, both prices are quoted. Neither market volume nor type of buyer is reported in the formal quotation, though information of this type may appear in the daily narrative.

Daily closing prices (rather than averages or ranges) are published, because closing prices are considered the best indicator of whether the market has moved to a new level. An attempt is made to reflect open market transactions by confirming trades with an opposite principle or broker, eliminating formula-based trades common with chain store transactions, recognizing and eliminating data from distress sale, and not using data on sales for shipment more than three days forward.

The Yellow Sheet is mailed first class to paid subscribers every weekday evening for morning delivery. In addition, subscribers may purchase market information during the day through telephone, wire service, and telegraph reports.

The Meat Sheet

The Meat Sheet, also known as the "Pink Sheet," is a private publication that began operation in 1974. *The Meat Sheet* is similar in operation to the *Yellow Sheet,* in that it publishes five days a week and its reporters make telephone contact with the meat trade to report prices on a wide array of meat items. Carcass beef quotes are F.O.B. "Midwest river points."[2]

The format of *The Meat Sheet* differs from *The Yellow Sheet* in several ways. First, *The Meat Sheet* reports volume of sales monitored (in tons). Second, packer-to-packer prices are quoted separately from packer-to-processor prices. Finally, *The Meat Sheet* reports daily high and low prices in addition to the closing price. The Meat Sheet, at times, quotes bids or asks, but never a nominal, because a zero volume informs the reader that no actual trades occured at that price.

The Meat Sheet is mailed daily to paid subscribers by first class mail. The entire *Meat Sheet Report* can also be received via wire service. Other special services are available, including remote copier service, recorded telephone synopsis of market trends, telex or TWX coded messages on major items, and summaries of prices for any item since 1976. The circulation and use of *The Meat Sheet* is thought to be much smaller than that of *The Yellow Sheet.*

USDA Market News

The public market news report is from USDA's Agricultural Marketing Service. Reports are issued for ten wholesale meat marketing areas, originating from nine locations: Des Moines, Iowa; Princeton, New Jersey; Los Angeles and Martinez, California; Greeley, Colorado; Moses Lake, Washington; and San Antonio, Fort Worth, and Houston, Texas. Reporters at each location contact packers, jobbers, brokers, fabricators, and retailers largely by telephone. Reporters also visit their contacts. Industry cooperation is strictly voluntary, and some of the largest buyers and sellers decline to cooperate.[3]

Carlot meat reports are released to news media three times daily for the central U.S., twice daily for the East Coast, once daily for the Los Angeles area and Colorado, three times a week for San Francisco, and once a week for the Portland, Seattle, and Tacoma areas. All reports reflect the *range* of prices being paid, with emphasis on late sales for the last report of the day. Reporters strive to report prices on open market sales associated with a full range of weight, quality grades, yield grades, and number of loads by class. Purchases that include product with special trim or other additional services are reported, but identified separately.

Daily dissemination of reports is through radio, television, newspapers, UPI, AP, Commodity News Service, and the USDA based wire network, for which any individual may purchase a teletype drop for the leased wire. Individuals may also get recorded reports by telephone 24 hours a day. Mailed reports are issued once each week and are free.

The absence of a daily mailed publication, the numerous geographical reports, the flexible format, and absence of a regular single valued daily close combine to make the USDA reports less suitable for formula pricing.

OTHER SOURCES

Price information on dressed beef is also available from other sources. Private advisory services, such as Livestock Business Advisory Services (LBAS) of Leawood, Kansas, provide clients with daily price information, as well as outlook, and management advice.

The wire services report USDA, *Meat Sheet, Yellow Sheet,* and "private source" market information. The Livestock Feed and Meat News of Commodity News Service is one well-known service. Complete *Meat Sheet* and *Yellow Sheet* information can be added to some services for an extra fee. In addition to these formal sources, traders obtain their own price information through transactions and communication with other market participants.

PROBLEMATIC ISSUES

Beef-pricing practices have been criticized by several sources. The two examples that follow are typical. The U.S. General Accounting Office stated:

> . . . The current beef marketing system functions largely in an information vacuum. Worse, many in the industry, such as producers, feedlot owners, and market economists, believe that what information is available is often unusable and unreliable and open to manipulation through incomplete and false reporting. Inaccurate information could be contributing to the growing noncompetitive trends and litigation in the beef industry. [11, 1978, p. 22].

The well-known agricultural economist, Harold Breimeyer, testified in Small Business Committee Hearings that:

> . . . I feel no constraint whatever to say that basing the prices for the whole livestock and meat economy on one man's judgement, which in turn rests on an even thinner volume of market trading is so flimsy, so insubstantial, that it simply cannot be regarded as satisfactory. Why livestock producer organizations haven't risen up in violent protest, and proposals for correction, I cannot understand [14, p. 17].

Several links form the chain from (1) negotiated market prices (2) to information made known to price-reporting services, (3) to published quotes, and (4) to the practical use of formulas. The chain, at least to an extent, is circular. A failure at any of these links can affect market performance.

Negotiated Sales

The discovery of transaction prices at the negotiated level is the primary link. The pricing system cannot report, quote, and use prices well unless they are discovered well.

There is often a trade-off between accurate price discovery and the cost of operating an exchange system. The unique negotiation of each and every trade probably wastes time and other resources. But a thin market arises when open negotiated trades are so scarce that a single trade can have an inordinate impact on price.

A good market process will sort sales in an efficient manner. Those trades which would take place throughout a wide range of prices, or for which the buyer and seller possess poor or unequal information, may be better left out of the negotiating process. Those trades which are sensitive to price, and are made by well and equally informed buyers and sellers, are most likely to contribute to efficient price discovery.

Estimates are available for the production of beef carcass sales that were negotiated and formula priced in recent years. The National Commission on Food Marketing [8] reported that 41 percent of the dressed beef and veal was sold on a formula basis in 1965 (p. 57). In 1968, Willard Williams [17] reported formula trading at 50 percent for Chicago, 60-65 percent for New York, 70 percent for Omaha, and 90 percent for Denver. Williams [16] later (1976) estimated the national average to be 70-75 percent (apparently for carcass beef). Hayenga [5] and the USDA *Meat Pricing Report* both indicated that about 70 percent of carlot steer and heifer carcass beef was formula priced in 1977.

Boxed beef sales have supplanted carcass beef. As a result, estimating the overall proportion of wholesale beef that is formula priced is more difficult. One-half or more of the market is boxed and some beef trades in both carcass and boxed form. Hayenga [5] has estimated that 80-90 percent of the boxed beef is priced by negotiation. So it is difficult to estimate accurately the proportion of negotiated and formula sales for dressed beef as a whole.

The optimal number or proportion of negotiated sales for carcass beef is unknown. Friedman [3] has suggested that 2 percent of some markets is sufficient. Others feel a very large number is necessary. Even 30 percent of the beef traded every day is a large amount of beef and a large number of trades.

Linking Negotiated Price Information to Price Reporting Services

There are many reasons why some negotiated sales may not be reported or considered reportable. Some market participants simply refuse to provide market information to market reporters at any time. Others provide information sometimes but decline at other times. Some transactions are distressed. A large quantity of sales, especially to large chain stores, are considered not reportable because they are non-standard, i.e., require that carcasses sold to them be trimmed different from "standard" specifications. Some say market reporters do not make aggressive enough efforts to locate negotiated sales that exist, but instead rely on a few favorite sources.

Estimates of the proportion of the market that is reported to reporting agencies have been made. An investigator for the Small Business Subcommittee found that, during a 25-day period, 3.8 percent of the carloads shipped were reported to *The Yellow Sheet* (S.B.A. Report, p. 27). The *Beef Pricing Report* suggests less than 2 percent of total FI steer and heifer slaughter is reported as carcass sales (p. 27).

The reported proportions of sales traditionally considered reportable is much larger however. A judgement sample of 35 large packing plants was used for the *Beef Pricing Report.* In July 1977, these plants slaughtered a total of 625,276 steers and heifers; 48.6 percent (304,010) were sold in carlot carcass sales (p. 15). The remaining 51.4 percent were sold as processed beef or less than carlot loads. Of the 304,010 carcasses sold in carlot sales, 14.8 percent (p. 32) were reportable standard negotiated sales. The others were either formula priced or unreportable because they were special trim, special delivery, special selection, or discounted for various reasons. Thus, only about 7 percent of the steer and heifer slaughter from these plants was reportable as standard carlot sales. So, the proportion of reported carcasses to total slaughter may be small, but the proportion of reported sales to sales traditionally considered reportable is much larger.

There have also been suggestions that price reporting services may be deliberately misled or manipulated. Catchy terms have been coined to describe several alleged manipulation schemes, even though, to my knowledge, no case of actual manipulation has ever been proven in the dressed beef market. These alleged manipulative schemes have been discussed in the *Wall Street Journal,* (Kwitney [6] 1974), Congressional Hearings, and G.A.O. reports. The gist of some of these follow.

The first *alleged* scheme, the "packer-to-packer highball," describes a packer's attempt to increase his profit margin by rigging the *Yellow Sheet* upward on days when heavy sales have been contracted in advance (meaning "formula pricing"). The packer, committed to a sizeable number of formula sales "at the Sheet," enters the open negotiated market to fill an alleged shortage. He supposedly purchases a minimal amount of beef, and deliberately pays a price above the prevailing market. The deal is transacted and reported to *The Yellow Sheet,* which (in order for the scheme to work) quotes at this level, thus raising the price for the seller's formula transactions that day.

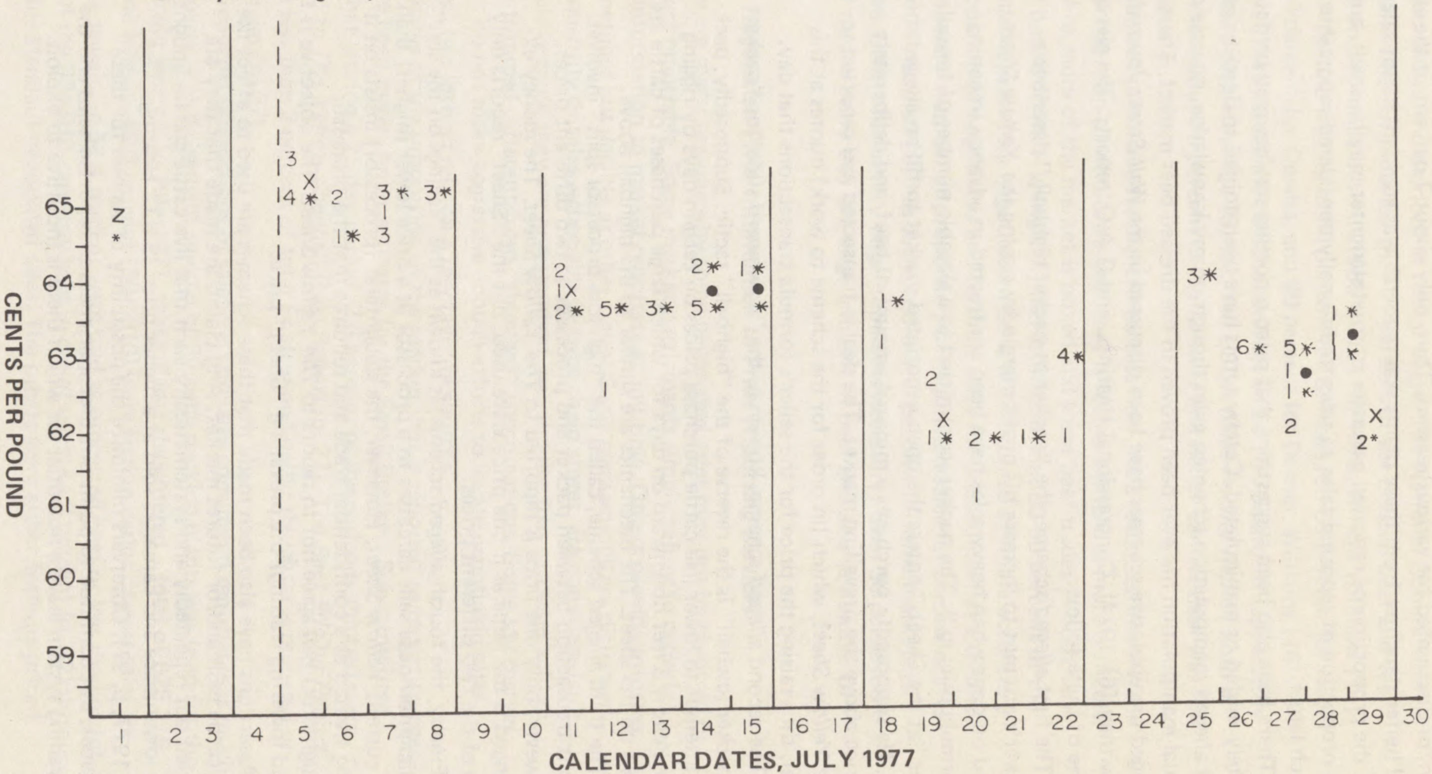
The second *alleged* scheme, known as the "downward slide" or "packer-to-packer lowball" is the reverse of the "highball" tactic. Supposedly, packers attempt to lower live cattle purchase prices on certain days by rigging *The Yellow Sheet* downward on days for which large purchases of cattle are based on the sheet. The mechanics are similar to the highball above.

The third *alleged* scheme, called the "high-low processor split" involves a split transaction between packer and processor at two different prices. However, only one price is reported to *The Yellow Sheet.* The money exchanged is the same as if one price were used, but the "Sheet" reports only one of the two different prices.

Finally, the fourth *alleged* scheme, is known as the "savings on the sly." A slaughterhouse sells carcasses to a processor at a price lower (higher) than the current *Yellow Sheet.* However, the slaughterer (processor) insists on it being treated as a confidential trade and requires that the processor (slaughterer) will agree not to report to *The Yellow Sheet.* The objective is to avoid lowering (raising) the prevailing "Sheet" price.

Assertions have also been made that these schemes are used to affect the live cattle cash and/or futures market. And claims are made that they are carried out repeatedly and systematically such that live cattle can be bought at a lower price and carcasses sold at a higher price (S.B.C. Hearings, Oct. 17, 1977, p. 97). Observers minimize the possibility of success for these schemes, but continue to point out that sparseness of reported sales and the prevailing system leave a potential for which there is incentive to exploit.

Figure 1. Plot of Yellow Sheet daily log prices compared with published Yellow Sheet quotes for each day in July in July 1977. Prices are for Choice, Yield Grade 3, 500-900 pound steer carcasses (standard sales only). (Data from Packers and Stockyards Program, USDA)*



Plot key:

* indicates "Yellow Sheet" quote.

X indicates that the quote beneath it is an "ask." ask."

● indicates quotes at two levels simultaneously.

1,2,. . . indicates the number of daily log prices at that price level on each date.

Private trade, no price given.

Z = private trade, no price given.

Linking Available Information to Published Quotes

Accurate and representative published price quotes are always desirable, and even more desirable if they are to serve as the basis for formula pricing. Accuracy can be considered from two standpoints: (1) the accuracy with which quotes reflect information known to the price reporting service, and (2) the accuracy with which quotes reflect all open negotiated sales.

Data from USDA's Packer and Stockyards Program for July, 1977, allows comparison between *Yellow Sheet* daily logged prices and *Yellow Sheet* steer carcass quotes. Data for Choice 3, 500-900 pound steer carcasses, were compared. During the month of July, 1977 each daily *Yellow Sheet* quote matched at least one logged price except two (Figure 1). On July 1, a private trade with no price logged is listed. And on July 15, *The Yellow Sheet* quoted prices at two levels when only one logged price appears. This quoted range is unchanged from the July 14 quote.

The number of logged sales each day was quite small, from one to nine. The range of logged prices on most days was about 50¢/cwt, with the largest of any day being $1.25/cwt.

Packers and Stockyards data were also used to compare published *Yellow Sheet* quotes with sampled invoice F.O.B. plant prices from 18 large packing plants in the four-river area states of Nebraska, Kansas, Iowa, and Missouri. Only "standard," negotiated carcass sales of Choice 3 steers, 500-900 pounds, were included in the comparisons. On July 15, 20, 28 and 19, two, one or zero invoice prices were available for comparisons. The published quote deviates a small amount (∿ 25¢ per cwt.) from available sample prices on those days (Figure 2). On all other business days, the quote(s) lie within the range of sample invoice prices.

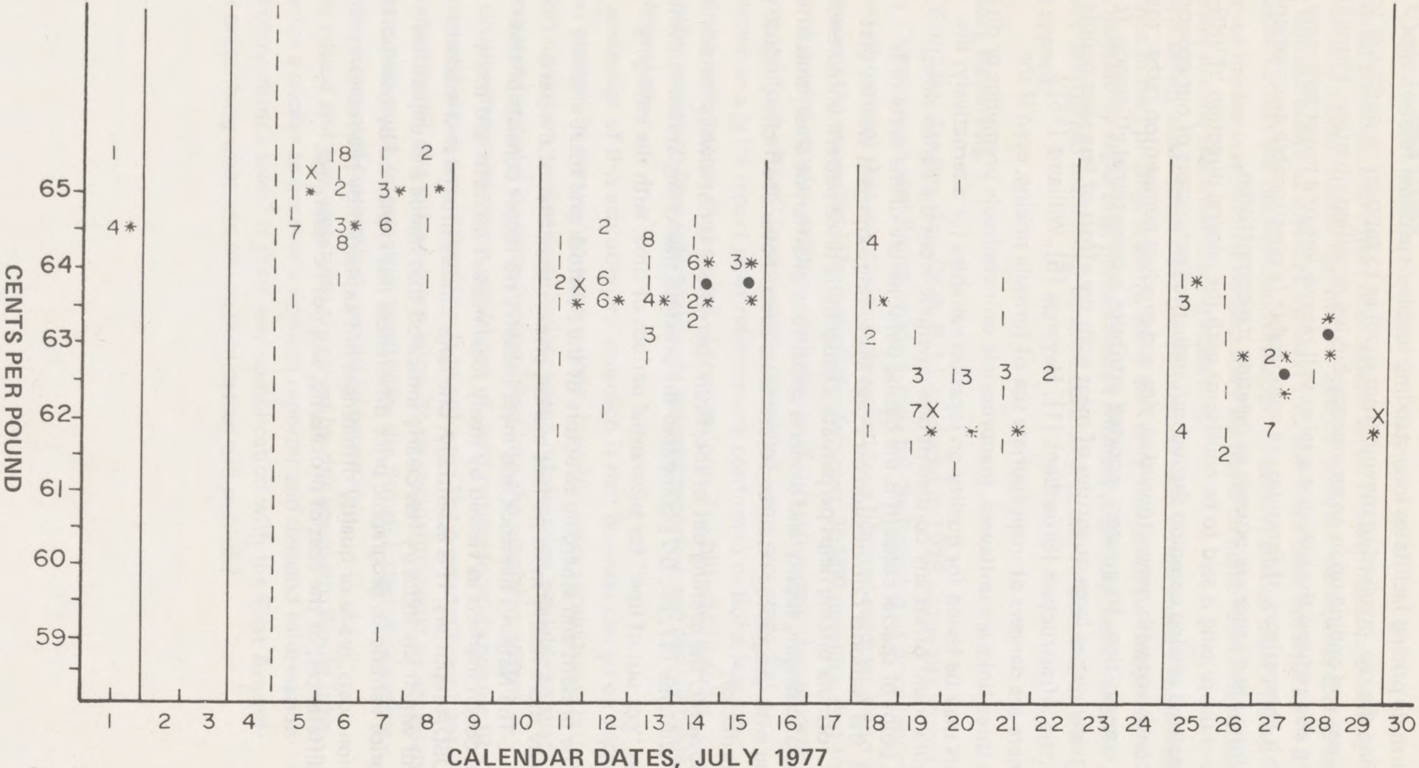
Price dispersion among sales within each day often ranges about $2/cwt and, on some days, is much greater, making it difficult to pinpoint the notion of a "correct" closing price. Some of the intra-day price variation may be due to transportation cost differences among plants in the four-state area. Some may be due to quality or specification differences not described on invoices. And some may be explained by normal price movement observed in most commodities during the day. Poor market information could also be a source.

One cannot conclude from this data that quotes are unrepresentative or inaccurate. However, given the small number of logged sales and the large degree of price dispersion indicated by sample invoice prices, neither can one eliminate the possibility of pricing errors.

Linking Quotes to Formula Prices

The final link in the chain is the actual application of formula pricing. Formula pricing has long been used and in commodities other than meat (especially eggs). It did not just appear, but rose to meet needs of the meat industry which, like others, has experienced larger orders and greater emphasis on consistent, specified product. These, in turn, require buyers to plan purchases and packers to line up sales further in advance. Formula pricing provides a means to reduce price risk on such sales.

Figure 2. Plot of sample invoice F.O.B. plant prices for plants located in Ia., Ne., Ks., and Mo. compared with published <u>Yellow Sheet</u> quotes for each day in July 1977. Prices are for Choice, Yield Grade 3, 500-900 pound steer carcasses (standard negotiated sales only). (Data from Packer's and Stockyards Program, USDA.)



Plot key:

* indicates "Yellow Sheet" quote on each date.

X indicates that the quote beneath it is an "ask."

● indicates quote at two levels simultaneously.

1,2, . . . indicates the number of sample invoice prices at that approximate price level on each date.

Formula pricing facilitates long-standing supplier-customer relationships, reducing the risk involved in moving from supplier to supplier or purchaser to purchaser and ending up in an emergency buying or selling situation. Formula pricing also reduces the risk that a seller will receive less or a buyer pay more than his competitors. If formulas are comparable (a questionable assumption), both buyer and seller are assured of meeting the competition.

Formula pricing is said to be consistent with the general direction of institutionalized pricing common throughout industrialized sectors of our economy. It is consistent with moves toward service and product competiton rather than price competition. Its greatest reported attribute is operational efficiency. It effectively moves large quantities of meat with the effort of few sales people and little infrastructure (Broadbent [1], Hayenga [5], Williams [16],).

There are dangers of inappropriate use of formula pricing, even if the prior three links are unflawed. Inappropriate or inequitable premiums or discounts may be levied for quality on location variables (or alternatively, the formula could offset any consistent bias emerging from the earlier links).

A point of special concern is the basing point nature of the system. In 1966, the National Commission on Food Marketing expressed worries that ". . . formula pricing helps perpetuate a geographic price pattern unrepresentative of changing supply and demand conditions in different areas, thus interfering with geographic resource adjustments toward overall efficient industry performance."

However, the evening out of short-run aberrations is not always considered bad. Williams [17, pp. 6-7] compared the previous marketing system, in which prices "got out of line" for substantial periods of time, with the emerging system:

> The present and emerging structure of the livestock and meat industry may more nearly meet perfect market criteria than that of the past. . . . The Nation's livestock and meat industry no longer consists of several dozen markets as viewed by many local market interests and many USDA reporters. It is essentially, one large closely interrelated market for which the industry has clearly indicated that minor and unjustified price variations, geographic price differences not explained by transportation costs, grade or quality differences not explained by production cost differences, or the cost of processing, will not be tolerated.

MARKET ALTERNATIVES

Is change coming? There have been several series of hearings conducted by more than one Congressional committee. Special reports have been prepared by at least four government agencies. At least two bills have been introduced which would affect the beef price information system. A special Meat Pricing Task Force has been appointed by Secretary Bergland to make recommendations about meat pricing and meat-pricing reporting.[4]

Several policy alternatives have been advanced with a view toward improving confidence in beef pricing. It seems there are really five practical categories of action: mandatory reporting, prohibition of formula pricing, a move toward electronic centralized marketing, forward contracting, and refinement of the present system.

Mandatory Reporting

The Fair Meat Trading Act, (H.R. 91) introduced in 1978 and reintroduced in 1979 by Congressman Neil Smith of Iowa, calls for the licensing of price reporting agencies; requires that any trader approached by a licensed reporter about a trade be given the requested information (for lots over 35,000 pounds); that the reporter be furnished with written confirmation if it is requested; that reporters make a "good faith effort" to accurately sample all items reported; that prices shown in a price report must reflect every confirmed or bona fide sale; and that the report show the volume of transactions. The bill also includes penalties for reporting false information to licensed reporters and for publishing false information.

The advantage of this evolutionary approach is that business can go on without great changes in the way things are done. It would force recalcitrants into the reporting system, and perhaps make enough information available so that some non-standard sales could be incorporated into the reporting system.

The disadvantages are that it would not of itself reduce formula pricing (if that is desired) and it would be difficult to enforce. The permutations of possible characteristics of a given sale are large. Some standards would be necessary to indicate how much information constitutes the "truth." Certainly a more standardized language for products would be necessary.

Some ethical and legal questions are raised by this approach. Would it be possible for a packer to become a licensed reporter and demand information about a competitor's sales? Is there any complication with the First Amendment in prescribing what and how a publication will publish?

A Ban on Formula Prices

The Smith Bill also requires that a Meat Industry Marketing Standards Board be established to make recommendations concerning "the proscription of formula-based trading using only one market news reporting service." Some suggest that formula pricing be legislated out of existence in any form. It is argued that the real objective of any action is to bring back widespread open negotiation; that banning formula trading is the only real means to that end; and that a ban on formula pricing is the logical first step toward any of the other market alternatives.

The obvious drawbacks are that the industry would strongly oppose it, and that it would be a substantial shock to the industry. The shock could be lessened, if time for adjustment were allowed and if good alternative pricing mechanisms are available. It is always possible that an action such as this, taken to preserve competitive pricing, could actually hasten formal contracting and vertical integration.

Centralized Electronic Exchange

The technical feasibility of an electronic exchange exists (Engelman et.al.). There are several in operation for other commodities, and even the New York Stock Exchange is considering it. The desirability of linking many buyers and many sellers, along with the almost automatic market information dividend, makes the system theoretically attractive.

Pitfalls are problems with standardizing products, service, credit conditions and the need for full identification of traders contrasted with their inherent desire for privacy. If the system is successful, traders may want to formula price from it rather than use it.

There are many possible sets of trading rules that could be used. Those that most nearly meet the competitive norm may be most resisted by the industry. How many exchanges should there be? There are at least two systems now being set up. One is in an advanced stage and is already lining up trading clientele. Who will make the trading rules? Who will enforce performance? How will the exchange avoid suspicion of computer fraud? And, how will the system meet the need to make unpriced commitments for product?

Forward Contracts

It is difficult to judge which aspect of formula pricing is most important to its users. If it is to facilitate planning sales and purchases ahead of time, with specifications clearly understood by buyers and sellers, a forward deliverable contract (FDC) may be attractive. Unlike commodity futures contracts, which are designed to facilitate forward pricing through hedging and speculation, the FDC is designed to facilitate pairings of buyers and sellers for actual delivery of product to meet the specification of the buyer. Such a market could be a useful coordinative device for meat, and could even be an integral part of an electronic marketing system.

The FDC may not satisfy the needs of traders who desire to make unpriced commitments. The more traditional futures market performs that function better, in general, but the large number of products and relatively short unpriced period make meat cuts poor candidates for successful commodity futures contracts. There may simply be too many contracts with too little volume in each. One possibility, perhaps, would be a set of hamburger contracts against which other cuts could be cross hedged.

Refinement of the System

Revolutionary marketing changes are unusual, and it is possible that the system will continue to evolve. Improvements could be made in present reports. Increased volume and price dispersion information could be reported, and ways may be found to make use of more of the negotiated trades that occur, but don't find their way into the reporting system for one reason or another. Segments of the beef industry may gradually adopt alternatives available to them, both in hopes of improving pricing and of avoiding legislated remedies.

SUMMARY

This is a time of uncertainty in beef marketing. Policy decisions are going to be made and things are going to happen. Throughout the controversy, the phrase "lack of market information" pervades the discussion. In fact, it seems that momentum for change comes from things we do not know, things that "may" be happening, rather than any quantitatively proven poor market performance.

This discussion has not revealed final answers to stated questions or a solution to the controversy. It has shown that the problems are not simple; that the present price-information system is neither inherently good nor bad; and that suggested alternatives will present new problems.

REFERENCES

1. Broadbent, Emer. *Competition and Pricing Developments in the Beef Industry.* Staff Paper No. 78 E-33, Dept. of Agr. Econ. U. of Ill., February, 1978.
2. Engelman, Gerald, et. al. *The Feasibility of Electronic Marketing for the Wholesale Meat Trade.* USDA, AMS-ESCS. March, 1979.
3. Friedman, Milton, "Milton Friedman Responds" interview in *Business and Society Review.* No. 1, 1972. pp. 5-16.
4. Fuller, Paul, "USDA Meat Reporting" statement before USDA Meat Pricing Task Force, Omaha, Neb. Apr. 23, 1979.
5. Hayenga, Marvin L. "Vertical Coordination in the Beef Industry: Packer, Retailer and HRI Linkages," NC-117 Working Paper WP22, October, 1978.
6. Kwitney, Jonathan. "Keeping Score." Wall Street Journal. Dec. 6, 1974. p. 1.
7. Meat Sheet, Inc. "Look What the 'Pink Sheet' Offers Its Daily Subscribers" undated.
8. National Commission on Food Marketing. *Organization and Competition in the Livestock and Meat Industry.* Technical Study No. 1. June, 1966.
9. National Provisioner: "U.S. Subscription Rates," May 30, 1978.
10. USAGO, *Marketing Meat: Are there any impediments to free trade.* U.S. Gen. Acctg. Office. CED-77-81, June 6, 1977.
11. USGAO. *Beef Marketing: Issues and Concerns.* General Accounting Office, CED. 78-153, Sept. 1978.
12. USDA. *Beef Pricing Report.* USDA, AMS, Packer and Stockyards Program, December 1978.
13. U.S. House of Representatives. *Meat Marketing Reform Act,* Hearing before the Subcommittee on Livestock and Grains. (Sioux City, Iowa: August 6, 1977, and Washington, D.C.: October 4, 1977) Serial No. 95-DD.
14. U.S. House of Representatives. *Small Business Problems in the Marketing of Meat and other Commodities (Part I - Meat Pricing).* Report of the Subcommittee on SBA and SBIC authority and General Small Business Problems. No. 95-1787, Oct. 13, 1978.
15. U.S. House of Representatives. *Small Business Problems in the Marketing of Meat (Part I Meat Marketing).* Hearings before the Subcommittee on SBA and SBIC authority and General Small Business Problems. Washington, D.C.: October 13, 17, 18, 25, 31, 1977 and May 22, 1978.
16. Williams, Willard. "The Pink Sheet Vs. the Yellow Sheet." *Meat Industry.* Oct. 1976.
17. Williams, Willard. "The Pink Sheet vs. the Yellow Sheet." *Meat Industry.* porting: An Evaluation of Research Needs," Report to Marketing Research Division, USDA. Dec. 1968.

FOOTNOTES

1 All descriptions of the method of operation of *The Yellow Sheet* is taken from published statements in *The Yellow Sheet, National Provisioner* or from statements by Lester Norton, president of the *National Provisioner,* and government hearings and reports.

2 All descriptions of the method of operation of *The Meat Sheet* are taken from published statements of *The Meat Sheet,* statements by Bill Albanos, managing director of *The Meat Sheet,* and government hearings and reports.

3 Descriptions of the method of operation of USDA *Market News* is from Paul Fuller, AMS, USDA.

4 The *Report of the Secretary's Meat Pricing Task Force* was issued June 15, 1979. Among the many recommendations of the task force were these:

– The meat industry should be encouraged to proceed with development and pilot testing of an (private) electronic meat marketing system (with government monitoring).

– Reporting services should continue to report packer-to-packer sales but separately identified.

– Formula trading should not be banned.

– Action should be taken to increase reportable transactions.

– Market News services should include reporting of total daily volume.

– Mandatory price reporting, response or confirmation should presently be avoided.

– The Secretary of Agriculture should oppose H.R. 91 as presently written.

Secretary Bergland responded to task force recommendations on August 7, 1979. Among many actions, he established a USDA Meat Pricing and Consultation and Evaluation Group to monitor and evaluate, in July 1980, progress in solicitation and reporting beef sales data. At that time, the necessity of (1) USDA operation of an electronic marketing system, (2) mandatory price response or reporting, and (3) possible licensing of reporting services will be reviewed.