

## **AMS LMR Swine and Pork Stakeholder Meeting – Summary Notes**

Swine and Pork Focus Group Meeting

August 21-22, 2024

On August 21-22, 2024, in Des Moines, IA, the USDA Agricultural Marketing Service (AMS) Livestock, Poultry, and Grain Market News Service (LPGMN) hosted a stakeholder meeting to seek feedback on current swine and pork marketing methods and the USDA AMS Livestock Mandatory Reporting (LMR) program. The meeting was attended by national livestock and meat industry associations representing swine producers, pork processors, and other market participants who participate in an open discussion of marketing methods, current challenges with reporting swine and pork market information, and needs of the industry regarding future revisions to LMR.

The first day of the meeting, August 21, provided an opportunity for both on-site and virtual attendees to participate. The meeting began with an opportunity for stakeholders to provide opening remarks while the rest of the day's session included a series of presentations by AMS staff covering a range of relevant topics including a discussion of the LMR auditing and report preparation process, data security, and overviews of swine and pork reporting. Dr. Lee Shultz from Iowa State University provided an overview of the current state of the U.S. swine and pork industry.

Recordings of the day's meeting are available at the following links and also on the AMS Industry Stakeholder Meeting website (<https://www.ams.usda.gov/rules-regulations/mmr/lmr/2024-stakeholder-meetings>)

### **Morning Session Recording:**

[https://www.zoomgov.com/rec/play/aD7-IfgyKPDtPRYAocCcq-NMZSduzXcb2sBowH0y5hNCi-n0aSDnvw30v7aAH\\_yGwyb2gUAAqbWqwKZZ.IRhyvU8eBD2m5EqI](https://www.zoomgov.com/rec/play/aD7-IfgyKPDtPRYAocCcq-NMZSduzXcb2sBowH0y5hNCi-n0aSDnvw30v7aAH_yGwyb2gUAAqbWqwKZZ.IRhyvU8eBD2m5EqI)

### **Afternoon Session Recording:**

<https://www.zoomgov.com/rec/play/qHANzilk36KFqLkGLBfoDb9zS9nSP0IRuFVvy2F1lZjZWpubOaiH9h0YcOZPAQFdNSylxTgdMgXQ1vBT.HZd2lkbku5kgmt8v>

The second day of the meeting, August 22, was limited to in-person attendance and provided an opportunity for an engaging, candid, and professional discussion of a range of topics related to LMR swine and pork. The following is a summary of the topics discussed during the session.

### **Swine Discussion Topics**

**Thinning Markets** - The problem of thinning negotiated (cash) spot market swine trading was a common theme from the stakeholder opening statements from the prior day and the subject quickly resurfaced to open the day's discussion. Attendees expressed concern about the declining volume of swine purchases comprising the CME Lean Hog Index and were looking for options to address the problem. The CME Lean Hog Index contains swine purchased through both

negotiated and swine pork market formula (SPMF) purchases, of which SPMF comprises the vast majority.

Stakeholders proposed considering swine purchased with a non-carcass merit premium as a potential solution to declining volume of the CME Index. For background, these swine do not fit the negotiated or SPMF purchase type category utilized by the CME Index, but instead are included in the Other Purchase Arrangement (OPA) purchase type category, essentially a miscellaneous purchase type category comprised of swine purchase that do not conform to the other LMR swine purchase type categories. The most notable example is purchases of swine that comply with Animal Confinement Legislation (ACL) such as Prop 12 or Q3. The emergence of ACL-compliant swine has contributed to an overall increase of volume to the OPA category in recent years.

Some attendees suggested that non-carcass merit premiums could be isolated and subtracted from the final net price, resulting in an intermediate “net” price that only reflects carcass merit premiums before any non-carcass merit premiums are applied. This intermediate net price could then be included in the CME Index while maintaining the Index’s consistency of pricing based strictly on carcass-based factors. However, AMS advised the group that such a change would necessitate changes to current LMR reporting requirements that would require changes to the Livestock Mandatory Reporting Act of 1999 that authorizes the LMR regulation.

A stakeholder asked if this information could possibly be provided by packers on a voluntary basis. AMS suggested that this would be problematic as packers would not be required to provide the information – possibly leading to inconsistent provision and loss of confidence in the information. There was further discussion about how the proposed change would be reflected on the LM\_HG201 report and AMS offered to develop a mock-up version of an enhanced report for further review.

Another proposal to address thinning markets involved changes to how packer-sold swine are currently handled under LMR. Packer-sold includes swine sold from a packer (or an affiliate) to another packer and currently accounts for 7% of the total swine reported. Some participants indicated that packer-sold swine could be combined with producer-sold swine on all published reports, reasoning the industry has evolved since the packer-sold category was established at the beginning of LMR. Other attendees conceded the industry has changed, but still questioned whether combining the categories might significantly affect published prices. AMS has prepared a combined producer sold and packer sold August 2024 data set for industry to review in consideration of aggregating these categories.

The most extreme example of thinning markets remains the negotiated purchase type category, now less than 1.0% of the total swine reported. It was suggested that industry has evolved and more swine are scheduled beyond the current 0-14 day delivery window used to report negotiated purchases. Expanding this delivery window could allow AMS to capture a larger volume of negotiated swine. However, such a change would necessitate changes to current LMR reporting requirements that would require changes to the Livestock Mandatory Reporting Act of 1999 that authorizes the LMR regulation.

Finally, mandating a specific volume of negotiated trade, as has been proposed in the cattle industry, was briefly discussed but the topic gained no traction as the consensus of the room was mandating a negotiated volume level of trade activity would be detrimental to the industry.

### **National Daily Base Lean Hog Carcass Slaughter Cost report (LM\_HG213)**

The LM\_HG213 report contains base cost values originally generated to be an estimated net value. The report uses values from packers who price hogs based upon carcass measurements, something which, while once prevalent, has continued to diminish with only a few packers still pricing swine this way. As such, AMS asked meeting attendees if the industry makes use of the information in this report as the base lean hog the report references is no longer reflective of the current market swine population and needs to be updated – something which may not be necessary if the report is not used. As an alternative, AMS suggests that the report could be replaced by providing more relevant information, such as average weight distributions, into other swine reports more likely to reach a wider audience. Regardless, the future of the report is dependent on the current number of contributing packers not changing as even the loss of one would result in confidentiality issues which would cause the data to not be published.

### **Swine Contract Library**

The current Swine Contract Library (SCL) maintained by AMS's Packers and Stockyards Program was another topic of discussion with attendees indicating that, while it provides much detail, it can be difficult to use. Many would like the library to be updated to a more user-friendly format. Concern was also expressed regarding the frequency of updates to the SCL, which some believed are too irregular. There has been some suggestion that AMS move responsibility for the SCL to LPGMN which has current responsibility for the Cattle Contracts Library. The Livestock Mandatory Reporting Act of 1999 established both LMR and the SCL, however, the latter was assigned to Packers and Stockyards which, at that time, was part of the Grain Inspection and Packers and Stockyards Administration which has since become a part of AMS.

There was consensus among attendees that AMS should make the SCL more user-friendly and updated on a more regular basis. AMS is reviewing if authority exists to shift responsibility for the SCL to LPGMN with no decision at this point.

### **Expanding Swine Formula Purchase Types**

The Swine or Pork Market Formula (SPMF) purchase type is the largest purchase type category by volume of swine purchases (27% in 2023) and contains a broad assortment of pricing methodologies. As such, it has been suggested that the SPMF lacks sufficient transparency. To address this concern, it was proposed that the SPMF be segregated into three new purchase types: a swine market formula, a pork market formula, and a blended swine and pork market formula. However, this change would require a legislative change to the purchase types currently defined under the Livestock Mandatory Reporting Act of 1999 (Act). There was no consensus from attendees on pursuing this change.

The SPMF is defined as, “A purchase of swine by a packer in which the pricing mechanism is a formula price based on a market for swine, pork, or a pork product, other than a future or option for swine, pork, or a pork product.”

## **Pork Discussion Topics**

### **Pork By-Products**

Currently, sales of pork by-products are not included under LMR legislation. However, price data for pork by-products, collected by AMS under voluntary authority, are used in calculation of the pork carcass cutout value. With the growing use of the pork cutout value for purchasing swine, stakeholders have raised concerns that not having pork by-product sales included under LMR represents a critical weakness that should be addressed to ensure confidence in the use of the pork cutout as a reliable market value indicator. Adding sales of pork by-products under LMR requires a legislative change to the Act and there was no consensus among attendees to pursue such a change.

### **Animal Confinement Legislation**

Currently, sales of pork products complying with specific State legislated mandates (Prop 12 in California and Q3 in Massachusetts) are aggregated by AMS into the broader category of animal confinement legislation (ACL) for LMR reporting purposes. ACL product in turn is combined with other pork products exhibiting unique attributes into the [National Weekly Pork Report FOB Plant – Specialty](#) and [National Weekly Pork Report FOB Omaha – Specialty](#) reports. Sales of ACL pork products are not identified separately within these reports and it was proposed that AMS consider doing so due to their increasing presence in the marketplace. While such an action by AMS could be done administratively under current LMR authority, there are concerns that doing so could potentially lead to confidentiality issues that could limit the amount of information published. Also, if ACL products were identified separately, this could set a precedence for separating other categories of specialty pork cuts, such as organic and antibiotic-free, where confidentiality issues could further limit the publishing of data. The consensus among attendees is for AMS to continue to monitor further developments and report any status changes to stakeholders.

### **Pork Cutout Value Methodology**

The current pork carcass cutout does not include packaging and labor costs which are subtracted from the price of pork cuts prior to their being used in the calculation – resulting in a cutout that reflects a pre-fabrication value. This differs from the calculation of the beef carcass cutout which includes packaging and labor costs and represents a post-fabrication value. It has been suggested from some stakeholders in recent years that the pork carcass cutout should represent a post-fabrication value with packaging and labor costs not removed in the calculation. There was no consensus from attendees for a preference but AMS was asked if it could retroactively calculate a post-fabrication pork cutout value for comparison to the current model for further evaluation. AMS will explore doing so and will report results to stakeholders.

### **Pre-Priced and Labelled Pork Products**

Pre-priced and labelled product is currently included in the National Weekly Specialty Pork reports. However, as the pricing of this product is typically comparable to prices included in the commodity pork reports, AMS asked attendees whether these products should be included in the commodity pork reports. None of the attendees voiced support for this change with some

opposed to the change as production cost variability remains greater with pre-priced and labelled pork than with commodity products.

### **Product Refrigeration**

Under LMR, no age limit is provided in the definition of frozen pork product. In the marketplace, prices for product recently frozen and product held in frozen storage for a long period of time may vary considerably but are currently included together on the published report. AMS asked attendees whether this practice should continue or if an age limit should be included in the definition of frozen. There was no consensus from the group to make this change.

In a related issue, AMS asked if product that has been hard chilled to a temperature between 26 and 32 degrees Fahrenheit should be regarded as being fresh or frozen. One stakeholder said that such product should be regarded as frozen as the intent of hard chilling is to extend the product shelf life beyond that of fresh product. There was no consensus from the group to make this distinction.

### **Pork Product Sales to Mexico and Canada**

Currently under LMR, negotiated sales of pork products to Mexico and Canada are designated as domestic sales while beef product sales to these countries are designated as export sales. AMS asked attendees if such sales of pork products should continue to be designated as domestic or changed to reflect export sales as for beef products. The group consensus was that pork products sold to Canada and Mexico continue to be designated as domestic as changing would further reduce the already declining volume of reportable negotiated pork product sales.

### **Discontinuation of FOB Omaha**

Currently, sales of pork products are published both on an FOB Plant and FOB Omaha basis. FOB Omaha was once the industry standard and was included when pork product sales were added to the LMR regulations in 2010. Since that time, it has gradually fallen out of use and is of limited relevance. AMS asked the group whether this information was still needed and the consensus was that it is no longer necessary. FOB Omaha was not included in the Mandatory Price Reporting Act of 2010 (P.L. 111-239) which added pork products but was included in the LMR regulations during the negotiated rulemaking process. Discontinuing FOB Omaha would therefore require a regulatory update to the LMR regulations.