

Executive Summary

An Estimate of the Economic Impact of GIPSA's Proposed Rules

Informa Economics
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Background:

In September and October of 2010, Informa Economics conducted an economic impact analysis of the recently proposed GIPSA rules on behalf of the National Meat Association in cooperation with the National Cattleman's Beef Association, the National Pork Producers Council and the National Turkey Federation. The primary objective of the research was to discern how industry participants might respond to the rules if implemented and to estimate the economic impact that would result. The study utilized an approach that relied on extensive interviews with key personnel in all stages of the beef, pork and poultry supply chains. In addition, cost estimates were solicited from many of the major companies operating in the packing sector. This information was used to develop an estimate of industry-wide direct and indirect costs that might be expected as a result of the rule. Finally, this cost information was utilized in an input-output model of the US economy which enabled the research team to project how the rule might impact employment, GDP and tax revenue nationwide.

Findings:

Total Economic Impact of GIPSA's Proposed Rules	
Job Losses	22,800
Annual GDP Loss	\$1.5 billion
Annual Tax Revenue Loss	\$359 million

With Respect to the Rule Itself:

- Industry participants are nearly unanimous in assessing the rule language as being vague and poorly-defined.
- Affected companies have no guidance as to how stringently GIPSA will interpret and enforce the rule. This has created considerable uncertainty and fostered an environment where participants are predisposed to take extreme measures to minimize their exposure to the risks associated with the proposed rule.
- The provision that removes the burden for litigants to show competitive injury in order to seek damages is by far the largest area of concern. Informa finds that nearly 75% of the expected economic damage arising from this proposed rule can be tied directly to this provision.

With Respect to Costs and Losses:

- Direct costs associated with rule compliance are significant but considerably smaller than the indirect costs that are expected to materialize. Direct costs encompass spending on people and systems needed to comply with the rule. Indirect costs refer to losses suffered by the industry from product quality deterioration and efficiency reduction.
- Direct one-time costs are projected as follows: Beef Industry, \$39 million, Pork Industry \$69 million, Poultry Industry: \$28 million.

- Direct annual ongoing costs are projected as follows:

Direct Annual Ongoing Costs from GIPSA's Proposed Rules	
Beef Industry	\$62 million
Pork Industry	\$74 million
Poultry Industry	\$33 million

- Indirect costs are largest in the beef sector where packers are likely to significantly reduce the use of marketing agreements that are currently used to supply premium and specialty beef as well as permit efficient plant throughput.
- Pork industry indirect costs arise from the presence of both marketing and production contracts. Changes to market agreements are expected to diminish product value and hamper plant efficiency. Changes to production contracts will foster production efficiency losses.
- Indirect losses in the poultry sector arise from lost efficiency in bird production that is expected to result from modification or abandonment of tournament pay systems.
- Annual indirect losses are estimated as follows:

Annual Indirect Losses from GIPSA's Proposed Rules	
Beef Industry	\$780 million
Pork Industry	\$259 million
Poultry Industry	\$302 million

- Ongoing and indirect costs will eventually be borne by consumers and producers, not packers. Our analysis indicates the following percentages of costs borne by producers: Beef Industry, 82%; Pork Industry, 56%, Poultry Industry, 19%.
- The rule is expected to have a significant impact on livestock auction facilities and commission agents. We find that the rule may reduce buyer participation at auction barns to the point where 150-200 of the smallest barns in remote areas may go out of business.

With Respect to the US Economy:

- The added costs are expected to result in reductions in industry output that will impact not only the meat and poultry industries themselves, but support industries and entities that rely on spending by meat and poultry industry employees.
- This research finds the following industry contractions:

Industry Contraction Due to the Proposed Rules	
Beef Industry	-494,000 head (-0.6%)
Pork Industry	-1.25 million head (-1.9%)
Poultry Industry	-55.2 million birds (-0.6%)

- Our full-economy model suggests that overall annual GDP could fall by as much as \$1.56 billion, with the losses divided among the various industries as follows:

Lost Value Resulting From the Proposed Rules	
Beef Industry	-\$837 million
Pork Industry	-\$335 million
Poultry Industry	-\$341 million
Livestock Auction Markets	-\$45 million

- Total job losses as a result of the rule are expected to total just over 22,800.
- Job losses will be highest in the production sectors for beef and pork with cattle ranching expected to lose nearly 2900 jobs while pork production could lose over 1900 jobs.
- Other areas that will be particularly hard hit in terms of employment declines are agricultural support activities as well as the retail and foodservice sectors.
- As a result of the decline in economic activity, tax revenues are expected to decline by \$359 million, with 46% of that reduction occurring at the state and local level.

With Respect to Timing:

- The outcomes portrayed above will take time to reach their full levels. For example, it may take 2-3 years before the declining beef quality or poultry production efficiency reach the point that results in the economic losses described above.
- Industry participants will eventually find ways to adapt to the rules and thus the economic impact will be lessened at much longer time horizons. However, we expect lingering economic effects for ten years or more in all three industries.