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Agriculture marketing agreements: A vital tool

By J. Patrick Boyle

It would be difficult to have grown up in modern America without hearing the urban legend about pet alligators that were flushed down the toilet by New Yorkers and have grown to enormous size in the city's sewer system. That legendary myth, although proven false, continues to live on throughout popular culture. But myth and legend do not reside only in New York City.

There are myths that pervade rural America as well, passed on from father to son, shading perceptions about life in rural America, farming and agribusiness. A recently released report from USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA) might finally lay to rest the myth that livestock marketing agreements and contracts spell bad news for producers. The GIPSA report found that restrictions on the uses of marketing agreements "for sale of livestock to meat packers would have negative economic effects on livestock producers, meat packers and consumers."

The benefits and utility of marketing agreements in modern agriculture cannot be ignored. In fact, to ban them or impede their use would unfairly hamstring producers who are trying to manage their risks, packers who are seeking to meet very specific customer demands, and young entrepreneurs looking to break into farming for the first time.

Agricultural contracts can greatly limit certain risks for producers in the marketplace. For example, many producers with marketing agreements limited their exposure to the difficult market prices for hogs in the late 1990s. Similarly, marketing agreements have helped some limit the problems attendant to the surge in the price of corn over the past 12 months. In both of these instances, the ability of producers to lock in market prices for hogs or feed prices in advance can mean the difference between seeing black, or red, for the year's bottom line.

The fact that 60 percent of the hogs slaughtered in the U.S. in 1999 were raised under various forms of contractual agreements is neither a coincidence nor a situation that developed in a vacuum. In fact, it's the modern and sophisticated consumer, and not the packer or producer, who is actually driving this process.

As the economy has changed, so have the needs and demands of consumers. Today's consumers are more pressed for time than ever before, and they have generally less food preparation experience than previous generations. These two factors drive consumers to seek meat products that are of high quality and value, consistent in quality, and easy to prepare. As the GIPSA report states, product quality and consistency are one of the key benefits of marketing agreements.

Marketing agreements can also be a critical tool for securing financing for young start-up farmers. Because these agreements can lock in income well in advance, they serve as a type of income assurance when seeking a financing package from a lender. In essence, they actually make entering farming much less of a risky business.

Amazingly, some in Congress seek to outlaw these risk management tools and turn back the clock on America's agricultural sector. The irony is that they're only going after agribusinesses, but would allow manufacturers of items ranging from vacuum cleaners to washing machines to continue to use supply contracts to manage their costs and secure their profits. So while some in Congress would outlaw a farmer's ability to enter into a marketing agreement to sell his hogs, it would remain perfectly fine for a washing machine maker to forward contract for the motors it uses to build its products.

One can laugh at the idea of alligators roaming the sewers of New York. What is not funny are

government actions that deny marketing agreements based on rural myths and legends. Proponents of policies that would limit a producer's and a packer's ability to enter into a contract say that the best way to reveal the truth is to shine a bright light on the issue of the value of marketing agreements. The just-released GIPSA final report does just that - using a high-beam spotlight. Hopefully, the members of Congress who ordered this report in the first place will now take the time to read it.

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