



Since 1894

September 22, 2000

Shannon Hamm
USDA
1400 Independence Avenue SW
STOP 3601
Washington, DC 20250-3601

RE: Comments of the Kansas Livestock Association relative to USDA public forum on captive supplies in the livestock industry.

The Kansas Livestock Association represents all segments of the beef industry – cow-calf producers; stocker operators; feedlots and their cattle feeding customers. Concerns about the changes occurring in how fed cattle are marketed – captive supply and formula selling arrangements – have been debated more than any other single issue in KLA during the past six years and there are many contrasting perceptions and opinions. We respect the rights and the opinions of everyone in the industry relative to this very emotional topic. KLA has tried very hard to sort the emotion from the facts and look objectively at those facts and economic data from the most credible sources available among market analysts and prominent livestock economists.

Our best interpretation of these findings is:

(1) The low prices and cattle market losses of the recent cattle cycle have been deemed by virtually every economic analysis to have been consistent with the market response that would be expected after several consecutive years of the highest beef supplies in the history of our industry.

Total annual beef tonnage has been approximately 26 billions pounds since the mid 1990's. This supply is at or near the previously established record level for total annual beef production during 1976. Additionally, the recent production was in competition with a tremendously greater volume of competing meats (pork and poultry) than during 1976.

Virtually every credible livestock economist in the U.S. today agrees that it was this volume of beef tonnage, in relation to consumer demand which was not strong enough to clear the market place at prices which were profitable to producers, that resulted in lower than breakeven prices and the resulting economic trauma for most cattlemen. We know of no research or investigation that has produced empirical evidence indicating that the general price decline of fed cattle from a trading range near \$80/cwt. down to a trading range near \$60/ cwt. could be attributable to captive supply or other changes in industry marketing practices.

(2) Numerous studies by prominent livestock economists and investigations by the Packers and Stockyards Division of USDA (the findings of which were peer reviewed by other independent economists) have not found evidence of price manipulation by packers. Specific investigations were done into fed cattle marketing's in both Texas and Kansas and no wrongdoing was found.

(3) KLA, along with our national association, NCBA, requested the Justice Department look at the packing industry for evidence of monopolistic actions or violations of antitrust laws. To date, no evidence worthy of further action has been found.

(4) Some cattlemen misperceive forward contracting as a coercive manipulation by packers. In reality, however, it is clearly cattle producers themselves who initiate this form of selling. It appears this is done for many reasons, but two of those reasons are:

- a. To have a predictable and timely outlet for the huge amount of tonnage which must be sold each week because processors have capacity for only so much product.
- b. Some cattle producers use this method of selling as a way to seek new and better methods of satisfying consumer desire for beef products with a greater degree of quality and consistency and to integrate upstream in the marketing chain hoping to participate in additional profit margins. Many new producer alliances have been formed with the goal of recapturing some of the market share beef has lost to pork and poultry during the past two decades.

The point is – these new formula marketing and carcass grid selling arrangements which depart from the traditional spot cash negotiated live animal pricing of live animals is an innovative marketing practice that has, in fact, been stimulated by and freely entered into by individual cattlemen exercising their freedom of choice. Any restriction on how packers must purchase their animals is also a defacto regulation narrowing the options for individual cattlemen to exercise their freedom of choice in the market place.

As an organization of beef producers, directed by beef producers, for the benefit of beef producers, KLA acknowledges and is extremely sensitive to the economic realities and financial pain experienced by cattlemen during this most recent cattle cycle. We also acknowledge and respect the many contrasting opinions concerns and fear about the changes that are taking place in the industry. However, we also believe in truth and honesty. There are some realities about the beef supply and the cattle cycle that cannot be ignored:

1) The genetic makeup of our cattle population is much different today then it was several years ago. Many ways, we're literally victims of our own increased efficiencies. We are producing the same amount of annual beef tonnage today from a cattle herd of slightly over a 100 million head as we were producing in the 1970's when the total U.S. cattle herd was near 130 million head. The point here is that beef tonnage – and that is what we sell to consumers, pounds, not numbers of cattle- is at approximately the same level as it was during the horrible cattle market decline of the mid 1970's. Furthermore, today we're competing against two or three times as much low priced pork and poultry as we were back then.

The beef industry came though an unprecedented period of profitability beginning in the mid 1980's and ending in the mid 1990's. As history shows, periods of profitability in the beef industry are always followed by increased production until total tonnage exceeds demand and lower prices result. During that same period, consumer spending for beef did not grow as fast as supplies increased.

Our association philosophy embraces the free market. The vast majority the membership represented by KLA believes in minimal government involvement in the agricultural commodity marketplace. Even though some beef producers find captive supply distasteful, the vast majority of these same people are extremely resistant to calling for government intervention into our business....believing such "solutions" will turn out to be "worse than the problem".

Therefore, the KLA membership has adopted the following two policies:

19. MARKETING (1999)

WHEREAS, the livestock industry is facing a changing marketing situation and many recognize the negative effects of non-negotiated sales, captive supply and cash selling on averages as evidence that the current fed cattle marketing system has broken down, and

WHEREAS, many in the industry see the practice of selling all cattle for one money without regard to carcass merit as a major impediment in the value discovery process, and

WHEREAS, too many consumer beef eating experiences today are unsatisfactory, and the beef cattle industry must move toward the production of a more consistent, higher quality beef product in order to recapture market share.

THEREFORE, BE IT RESOLVED, the Kansas Livestock Association supports changes to the current marketing system that improve the value discovery process.

BE IT FURTHER RESOLVED, the Kansas Livestock Association supports a marketing system free from government regulations.

BE IT FURTHER RESOLVED, the Kansas Livestock Association suggests to its members they consider the benefits of selling on a negotiated carcass merit basis, but shall continue to guard its members' freedom of choice to conduct their own business and utilize their own marketing program as they see fit.

20. LIVESTOCK INDUSTRY GROWTH (1998)

WHEREAS, a healthy and growing livestock industry relies on reasonable economic and regulatory conditions, free from government sanctions that interfere with private business decisions.

THEREFORE, BE IT RESOLVED, the Kansas Livestock Association opposes amendments to the Kansas Corporate Farming Statute that further limit livestock production.

BE IT FURTHER RESOLVED, the Kansas Livestock Association opposes state imposed moratoriums on new or expanded livestock production facilities.

The Kansas Livestock Association neither supports nor opposes any specific marketing method over another. It is our members' strong belief and policy position to strongly oppose any regulation that would narrow or remove their freedom of individual choice to market their animals as they see fit.

The beef industry has begun a process of adapting and realigning in order to respond to the realities of the consumer market place and the competition from competing meats and other food choices. If the beef industry is to stay relevant in the future and preserve and enhance cattlemen's chances of survival as independent beef businessmen, it is vital that their ability to adapt and to innovate by attempting new non-traditional marketing methods not be damaged by government restrictions and regulations...no matter how well intentioned or passionately advocated.

While we do believe that current laws should be vigorously enforced, we respectfully request that USDA not promulgate any additional regulations governing cattlemen's marketing choices.

Sincerely,



Mr. Alan Hess
President