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TO: US Department of Agriculture
Captive Supply Forum

FROM: South Dakota Cattlemen's Association
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BY: Merrill Karlen, Jr.
President-elect

RE: Captive Supply

The South Dakota Cattlemen's Association (SDCA) does not have policy that deals specifically with the Western Organizations Resource Council's petition or its proposed rules. SDCA does, however, have policy enacted by the membership dealing with two of the three separate issues of the captive supply debate.

These resolutions are as follows:

SDCA Resolution No. 99-13 – Packer Feeding

Whereas, packer owning and feeding of livestock is damaging to the competitive pricing of harvest ready cattle: Therefore, be it resolved; that SDCA supports a national ban on packer owning and feeding of livestock acquired more than 14 days prior to slaughter, unless the packer is a cooperative where members raising the livestock maintain a beneficial interest in the livestock. Packers currently feeding livestock should have a reasonable length of time to divest themselves of their livestock feeding enterprises.

SDCA Resolution No. 98-07 – Negotiated Grid Pricing

Whereas, the SDCA believes that value-based marketing, wherein the value of individual animals is determined by their carcass merit, is a desirable objective. It will be one of the driving forces to bring about positive change in the industry; and
Whereas, there are many alliances and other arrangements that are doing an excellent job of providing information back to the producers to help him become more consumer focused, however, most of the alliances and grid formulas in use today require the producer to commit the cattle to a packer prior to the base price being set. Many grids use next week's top or next week's average in determining their price; and

Whereas, cattle that are sold in this manner are a major portion of the captive "supply" controlled by packers. Large captive supplies have a downward bias upon market price; and Whereas, SDCA believes that the alliances and grids would work even more effectively if the base price were negotiated prior to sale of the cattle.

Therefore, be it resolved that, SDCA believes that all cattle sold on formula and grid pricing structures should have the base price negotiated by the buyer and seller prior to the cattle being committed or scheduled.

Be it further resolved that, the SDCA requests the National Cattlemen's Beef Association make it a top priority to use its influence within the industry to insist that all grid cattle be sold with a negotiated base price.

Be it further resolved that, NCBA appoint a task force to meet with packers, alliances, and other grid sellers to bring about change as soon as possible.

SDCA believes that the USDA's definition of "captive supply" is not broad enough regarding non-negotiated grid marketing. Many of the cattle sold through these arrangements are harvested within two weeks of commitment and therefore do not fall under the USDA's definition. SDCA believes that the strategic use of these supplies in combination with other captive supplies can have a negative effect in the ultimate cash price paid for the week.

SDCA believes that the best solution would be for producers to voluntarily ban the use of non-negotiated sales. Such a ban has not been enforceable therefore some federal assistance is necessary.

The Secretary should rule that: **Committing cattle for slaughter prior to the price level being established is anti-competitive in nature and should not be allowed.**

The final part of captive supply is forward contracted and basis contracted sales. These arrangements are routinely used by many of our members as a risk management tool. In many cases forward contracting is a requirement of their lending institutions. When negotiating a contract, the reputation and abilities of the individual feeder for quality and for "hitting the target" could have a big effect upon the final success of the agreement. If the proposed rule requires packers to post their contract bids and requires them to contract with any feeder that desires to do so at that price, couldn't that lower their bids overall? Will packers try to recoup the losses from the contracts that will go "sour" by lowering bid prices?

The South Dakota Cattlemen's Association believes that private contracts and basis contracts should be allowed because they are a necessary risk management tool for producers.