

## **06/27/2002 Entry: "KCA and R-CALF USA Lead March to Defeat Captive Supply Arrangements"**

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R-Calf, KCA lead march to defeat captive supply arrangements

Cattlemen urged to 'Just Say No!' to non-negotiated pricing

Encouraging and supporting individuals to make marketing decisions that involve negotiating price, and continuing efforts to coax stricter laws from the legislative process, could reverse captive supply trends and save a diverse system of independent cattle producers, industry leaders said last week.

"Everyone put forth extra effort in attending this meeting where both sides of an issue were able to come together," said Ken Winter, an independent cattle feeder from Dodge City and current KCA president. "It is exciting to see producers step up on issues affecting the markets. The purpose of this meeting was to collectively give and receive information, the driving force for the Kansas Cattlemen's Association. Producers do have input with the KCA organization, a new group with growing membership that is gaining wide support across the industry".

The Kansas Cattlemen's Association and its national affiliate, the Ranchers-Cattlemen's Action Legal Fund, or R-Calf, recommended three solutions to the current crisis in beef cattle markets at a meeting June 20 in Dodge City, Kan.:

- Encourage cattle producers to forego non-negotiated pricing and limit the level of captive supplies that are available to the big packing companies;
- Support Congressional hearings by the Senate ag and judiciary committees, scheduled to begin in July, to collect evidence on the effects of market concentration on cattle producers;
- Consider any and all of the potential remedies available to the federal government for stopping the use of captive supplies and market concentration, and support providing federal agencies with the resources for more effective law enforcement.

R-Calf continues to push laws alive in Congress banning packer ownership of livestock and prohibiting the procurement of cattle using formula pricing

arrangements. Though a packer ban was dropped from the final version of the new farm bill, country-of-origin labeling provisions were approved which might help give producers an advantage in the domestic marketplace, said R-Calf CEO Bill Bullard of Billings, Mont.

"I know everyone always talks about avoiding government interference," said Mike Schultz, KCA's executive director and a cattle producer from Brewster, Kan. "But the government is also there to protect the innocent."

The audience of over 150 cattlemen agreed to define captive supplies as: all cattle except those cattle where the price is negotiated and delivered to the packer within 7 days. KCA was pleased to see at least 27 feedyards present representing one time capacity of 586,000 head of cattle. Though members of the gathering all agreed that captive supplies have become a serious problem, some participants were concerned that turning down formula pricing contracts would be equivalent to "shooting themselves in the foot" unless all industry participants followed the same rules, including the country's biggest feedyards.

"It's going to take organization and support," agreed Ken Winter, a Dodge City cattle feeder who currently serves as KCA president. "But we need to stop giving up by giving in."

Meeting organizers compared their effort to the "Great Nebraska Grid-Out," an informal summit held several years ago in that state. Cattle feeders voluntarily cut their captive supply numbers from 22 percent to 13 percent following that meeting.

Captive inventory, or cattle prior committed to a particular buyer without price negotiation, is the main culprit behind a steep decline in producer profitability, industry experts said during the meeting. Producer share of the retail beef price has plummeted 23 percent since 1979, a loss of approximately \$380 per head, according to commodity trader Les Messenger of Chicago, Ill. "In the spring of 1994, when captive supply contracts really kicked in, fed cattle prices broke from \$77/cwt. to \$62," he said.

Current low fed cattle prices are a direct result of the decline in producer share, he said. "Value-based pricing has nothing to do with formula pricing," he added. "Grid marketing can be done with competitive bids without committing the cattle in advance."

R-Calf was formed in 1999 to specifically address international trade and domestic marketing issues that many cattlemen believed were being neglected by the major farm organizations. Since then, R-Calf has helped shine a light on inequities in foreign trade agreements, the "radical departure" of live cattle prices from retail levels and a General Accounting Office study showing that USDA uses outdated and inaccurate models to assess the impacts of market

concentration. In addition, the organization was successful in elevating a proposed ban on packer ownership of livestock to the highest levels of the national political process.

As more and more cattle organizations are forced to address concerns about captive supplies, vertical alignment, and price manipulation, Winter believes that eventually groups like KCA and R-Calf will be able to build majority support against practices that destroy open and competitive markets. "We have record high retail beef prices at the same time we are losing \$50-\$75 a head feeding cattle, and I don't think it's a result of supply and demand," Winter said. "This industry needs to make a decision to do something. Cattle producers either need to get more active to turn their organizations around or join different organizations that better represent their interests."

For more information, call the Kansas Cattlemen's Association toll free (877) 694-2906.