

# NCA views on beef pricing and reporting systems told

WASHINGTON, D.C. — Beef pricing and reporting systems need certain improvements as the industry continues to change; but, in the main, the current systems have reflected changes in supply and demand and have served the industry and consumers well.

This was pointed out today by the National Cattlemen's Association. In testimony before the U.S. Department of Agriculture's Beef Pricing and Reporting Task Force.

No valid evidence has been presented to support allegations that beef prices have been illegally manipulated, NCA said, and proposed legislation imposing government controls on the beef marketing system would create more problems than they would solve.

NCA's views and comments, presented by Marketing Committee Chairman Tom Remington, were based on an extensive analysis of industry developments and allegations about beef pricing which have been made by politicians and others. The task force's Washington hearing was the last of a series held before the task force reports to USDA, which will use the information and advice in responding to legislative proposals.

NCA recommendations to the task force included:

The task force should note that there is no valid evidence that prices have been illegally manipulated or that prices reported by the reporting services have been inaccurate.

The task force should recommend against any attempt, legislation or regulation, to have government force new marketing, pricing or reporting systems upon the industry. It should oppose H.R. 91, introduced by Congressman Neal Smith—a bill which would put all aspects of meat marketing under government regulation.

As the wholesale beef market continues to evolve from a carcass to a fabricated (boxed) beef market, new price reporting tools need to be developed.

NCA will assume a leadership role in bringing industry together to develop an accurate method of determining a carcass equivalent price based on prices received in the fabricated beef market.

Voluntary cooperation by meat sellers and buyers in reporting wholesale beef prices should be encouraged. The task force should: (1) Point out the "chilling effect" upon voluntary reporting which results from civil suits alleging anti-trust activities and price fixing.

(2) Recommend that the USDA Market-News Service publish names of firms refusing to voluntarily confirm prices or to report prices when called.

New marketing innovations should be encouraged and tested. Electronic marketing is one possible innovation, and its refinement and testing should be encouraged, but not to the exclusion of other potential marketing systems.

Significant structural changes are occurring in the beef industry. USDA should do more to provide timely information to the industry—such as monitoring and periodically reporting the extent of formula vs. negotiated selling of beef carcasses and fabricated cuts.

Here are additional points brought out by NCA:

Despite actual or alleged shortcomings of the present pricing and reporting systems, the systems have reflected long and short term changes in supply and demand. Consumer beef supplies have been relatively dependable; changing supplies have been rationed or liquidated by changes in prices. The

current free market should be allowed to continue to evolve and operate with a minimum of government interference.

With a rapid increase in use of boxed beef and other fabricated products, the wholesale beef trade is becoming much more than just a carcass beef trade. Analysis of data on sales qualified to be used in reporting carcass beef prices shows that the reporting services are doing a creditable job of measuring that portion of graded carcass beef traded in carlots on a negotiated basis. Based on data from USDA's recent beef pricing report, the Yellow Sheet sample represented about 24 per cent of qualifying sales. However, the advent of central fabrication and formula pricing are diminishing the validity of carcass beef prices as the basis for the entire market. Meanwhile, USDA's beef pricing report does not substantiate the allegations of impropriety against the reporting services, including the Yellow Sheet.

The packing industry now has substantial excess capacity. With some plants much less efficient than others, plant closings and packer failures will present a significant problem. The possibility of growing concentration in the packing industry is a valid concern. However, current concentration of beef slaughter is less than existed in the 1950's and 1960's.

Approximately two-thirds of the carcass beef is sold on a formula basis (with prices based on reporting service quotations on day of sale). However, carcass beef now represents, at most, only half of the wholesale beef

trade. The other half is sold as fabricated beef, of which 85 per cent is sold on a negotiated basis. At a minimum, 55 per cent of the total wholesale beef trade involves negotiated pricing—or much more than some critics and politicians have claimed. For many smaller packers and buyers, formula buying or selling, involving standing orders, is an economical way to trade beef. At this time, NCA cannot support a ban on formula pricing, but feels that the basis for price reporting needs to be enlarged.

Within a few years, the carcass beef trade will become predominately a raw product market for fabricating operations. What will be needed most in price reporting is an expanded and comprehensive reporting system for fabricated cuts.

Mandatory reporting of all meat trade, with more government control and red tape, would create more rather than fewer problems for the industry and the public. Attempts to license private market new publications also would present problems. Establishment of an exclusive government reporting service would provide the potential for political manipulation of prices.

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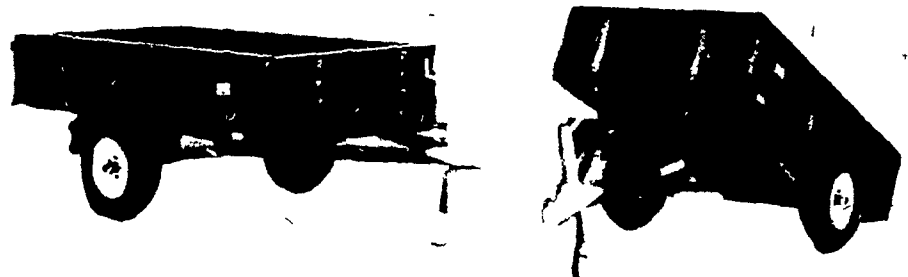
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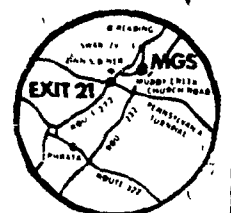
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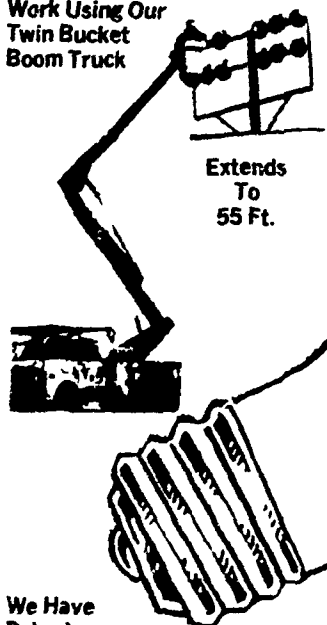
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