

# Alternative Marketing and Stabilization Programs for the Beef Industry in Canada

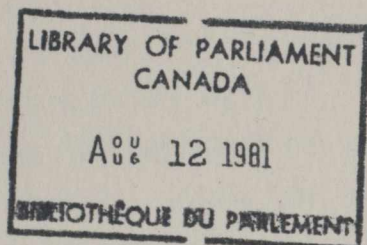
## EXECUTIVE SUMMARY

A Working Paper  
Prepared for

**The Standing Senate Committee  
on Agriculture**

The Honourable Harry Hays, P.C.  
Chairman

Br.B  
J  
103  
H7  
1980/83  
A3  
A13



# Alternative Marketing and Stabilization Programs for the Beef Industry in Canada

## EXECUTIVE SUMMARY

A Working Paper  
Prepared for

**The Standing Senate Committee  
on Agriculture**

The Honourable Harry Hays, P.C.  
Chairman



EW  
J  
103  
H7  
1980/83  
A3  
A13

FOREWARD

ALTERNATIVE MARKETING AND

This study was undertaken for the Standing Senate Committee on Agriculture as part of its ongoing investigations into the problems of stability in the beef industry in Canada. Since the report of the Committee on beef imports, the situation has not improved, and problems continue to beset farmers, ranchers, and feedlot operators associated with beef production.

As the Committee sees it, the purpose of this working paper, prepared by Roygold Marketing Systems, Ltd., is to forward a series of possible alternatives to the present marketing system, in the hope that it will provide a basis for discussion.

The Committee plans to hold hearings with all sections of the industry after sufficient time has elapsed for all concerned to examine this document.



The Honourable Harry Hays, P.C.  
Chairman



EXECUTIVE SUMMARY

1. Beef Industry Overview

a. Beef Production

ALTERNATIVE MARKETING AND  
STABILIZATION PROGRAMS FOR THE  
BEEF INDUSTRY IN CANADA

EXECUTIVE  
SUMMARY

A WORKING PAPER

PREPARED BY

**M.M. Roytenberg**

**Roygold Marketing Systems Ltd.**

for the

The Standing Senate Committee  
on Agriculture

The Honourable Harry Hays, P.C.

Chairman



## EXECUTIVE SUMMARY

### 1. Beef Industry Overview

#### a) Beef Production and Supply

Supply and price events for beef in Canada are dominated by the "Beef Cycle", varying usually from between six to ten years in duration. This results in extremes of supply and price which can visit hardship on both consumers and producers. During the last 15 years 1964-1979 slaughter in federally inspected establishments have varied from 3.2 million head to 4.4 million head, with extreme fluctuations sometimes occurring over as short a period as two years. Total farm output has been trending upward reaching a peak in 1977 of 4.7 million head of cattle and 1.1 million calves. Meat production has trended upward to peak in the same year of 2.6 billion pounds of beef and veal and 100 million pounds of edible offal.

Canadian demand trended strongly upward during most of the last ten years, in contrast with a relatively stable per capita consumption of pork. Per capita consumption rose to a peak of 118 pounds in 1976 and has since fallen rapidly to 91 pounds in 1979. This is expected to be less in 1980.

Trade has been variable. Live exports over this same period has ranged from about 200,000 head to 600,000, in recent years closer to the latter. Live cattle imports has shown an upward trend reaching a peak of about 200,000 head, in some years. Exports of beef and veal have been variable peaking at 129 million pounds in 1976 and usually in the area of 60 to 100 million pounds. Beef imports peaked at 316 million pounds in 1976, and are usually 200 million pounds over the last 10 years. Canada has usually run a net trade deficit on a dressed carcass basis which peaked in 1974 at 146 million pounds. In the 1977 to 1979 period Canada ran a positive trade balance of 30 to 60 million pounds. On this basis in value terms Canada has had both positive and negative net dollar





balances with peak deficit of \$104 million in 1974 and a peak positive balance of \$126 million in 1977. Canada has had a positive dollar trade balance in the 1977-1979 period.

Recent negotiation with the U.S. has lowered mutual tariffs. By January 1, 1982, tariffs on live animals will be lowered to 1¢ per pound on live cattle, from earlier levels of 1.5¢ for live cattle under 200 pounds and over 700 pounds, and 2.5¢ per pound for cattle from 200 to 700 pounds, for volumes over 400,000 head. Beef and veal tariffs have fallen from 3¢ to 2¢ per pound. Tariffs on portion cuts have fallen from 10% ad valorem to 4%. It is anticipated, that these developments, taken together with rapidly rising freight costs will encourage greater North-South trade and less of the traditional West-East movement. More Western shipment of live cattle South, and greater volume of carcass shipment North, are anticipated. This could increasingly reduce volume through the Canadian processing system. This could also tend to increase manufacturing beef imports. Abroad, markets are oriented toward manufacturing beef. Potential markets for finished and other beef are highly protected where they exist. Canadian experience has not been favorable outside feeder and cow marketings to the U.S.

The beef cycles of major producing countries have tended to be in harmony. This development tends to increase cycle extremes.

In Canada beef production has increasingly shifted to concentration in the West, compared with the East, in a 60/40 ratio. The major producing provinces are Alberta and Ontario. Beef cow numbers are concentrated in the West in an 80/20 ratio. The difference between these ratios reflects the continuing importance of movement of feeder cattle East for finishing. The East is important as a source of lower quality beef, providing roughly 50% of cow and bulls shipped for slaughter, by-products of an important dairy industry.

Production scale is small in Canada. Beef operations having 100 cows or less during the 1976 census, accounted for 96% of all farms



and 75% of beef cows. In the West, operations tend to be somewhat larger, and this figure was 62%. Feeding operations reflected this same pattern with 97% of farms having 100 steers or less, making up 60% of all steers on farms. The remaining 3% of farms held the 40% balance of feeder animals.

Beef operations may be based on a ranch operation using grazing land, or operations dependent on forage production, produced or purchased. Animals are sold as weaned calves, retained for summer grazing, overwintered on hay, and then sold, or maintained to the finishing stage. Approximately 50% of costs are feed, labor costs are between 15 and 20%, overhead over 20%, with the balance made up of other costs.

#### b) The Price Discovery Mechanism

The price discovery mechanism has more and more become dependent on a declining share of sales occurring at public stockyards, in recent years less than 25% of the total. There has been growth in sales through country auctions, particularly as a medium for transfer of feeder animals. About half of stockyard sales of slaughter animals take place at Toronto, with Calgary, Edmonton and Winnipeg also important. The largest feeder cattle public market, approaching 40% of market throughput, is in Edmonton, with Toronto, Calgary, and Winnipeg important, and all terminal markets significant.

Studies have raised concerns regarding the reliability of terminal markets as a basis for pricing at all times. This concern has increased as the proportion of cattle marketed directly to packers has increased. Some practices at country auctions have also been a cause of concern with regard to equity, and reliability. These were documented in a Royal Commission report in 1976. Concentration in the packing industry, particularly in Western markets, has added fuel to these anxieties. Studies have also indicated that the marketing mechanism is costly relative to available alternatives.

and 75% of best cows. In the West, operations tend to be somewhat larger, and this figure was 62%. Leading operations reflected this same pattern with 75% of farms having 100 steers or less, making up 62% of all steers on farms. The remaining 38% of farms held the 40% balance of steers on farms.

Best operations may be based on a ranch operation using grazing land, or operations dependent on forage production, produced or purchased. Animals are sold as weaned calves, retained for summer grazing, overwintered on hay, and then sold, or maintained to the finishing stage. Approximately 60% of costs are feed, labor costs are between 15 and 20%, overhead over 20%, with the balance made up of other costs.

#### b) The Price Discovery Mechanism

The price discovery mechanism has more and more become dependent on a declining share of sales occurring at public stockyards, in recent years less than 25% of the total. There has been growth in sales through country auctions, particularly as a result of transfer of feeder animals. About half of stockyard sales of slaughter animals take place at Toronto, with Calgary, Edmonton and Winnipeg also important. The largest feeder cattle public market, approaching 40% of market throughout, is in Edmonton, with Toronto, Calgary, and Winnipeg important, and all remaining markets significant.

Studies have raised concerns regarding the reliability of certain markets as a basis for pricing at all times. This concern has increased as the proportion of cattle marketed directly to packers has increased. Some practices at country auctions have also been a cause of concern with regard to equity, and reliability. These were documented in a Royal Commission report in 1976. Concentration in the packing industry, particularly in western markets, has added fuel to these anxieties. Studies have also indicated that the marketing mechanism is costly relative to available alternatives.

These alternatives include a compulsory teletype system which would match the direct to packer system for cost while providing for improved independence in price discovery.

The packing industry has consolidated in recent years through plant closings. Fifteen plants have been closed since 1975, since the last sizable plant opened. The four corporate packing chains, with 20% of the plants, have over 50% of industry capacity. Half of Canada's large scale plants are in Alberta. Canada Packers is represented in all regions. Burns and Swifts (now amalgamated with Gainers) are located in three provinces, and Inter Continental in two Western provinces. Packers also act as wholesalers (60% of volume). Only in Montreal is there important independent wholesale activity, (65% of total wholesale volume), half of which is handled by independent brokers.

Concentration has also characterized meat distribution at the retail level. The five major chains, Dominion, Loblaws, Canada Safeway, Provigo and Steinberg dominate Canada's major urban centers. Both Loblaws (Westons) and Provigo extend their influence through operation of extensive wholesale facilities, provided for autonomous and related groups of stores. These companies have significant capacity to impact pricing through a concentrated packing industry.

Research has shown serious inequities in the prices producers receive, inadequacy in the information they receive, and unnecessary costs in the marketing system.

#### c) Income Shares

Pricing data show that the farmer share of the retail dollar is at about 70% (about 10% higher than in the U.S.). The wholesalers share about 10% and the retailers share about 20% through retail chains. An analysis of industry income flows which more fully takes processing into account, shows producers at about 40%, Packer-wholesalers at about 35% and retailers at about 25%. Total producer investment

These alternatives include a compulsory fairplay system which would  
match the direct to packer system for cost while providing for  
improved independence in price discovery.

The packing industry has consolidated in recent years through plant  
closings. Fifteen plants have been closed since 1975, since  
the last stable plant opened. The four corporate packing chains,  
with 50% of the plants, have over 50% of industry capacity. Half  
of Canada's large scale plants are in Alberta. Canada Packers  
is represented in all regions. Burns and Butter (now consolidated  
with Gainers) are located in three provinces, and Inzer Continental  
in two Western provinces. Packers also act as wholesalers (50%  
of volume). Only in Montreal is there important independent  
wholesale activity. (65% of total wholesale volume), half of which  
is handled by independent brokers.

Concentration is also characterized near distribution at the retail  
level. The five major chains, Dominion, Loblaws, Canada Safeway,  
Provigo and Steinhilber dominate Canada's major urban centers. Both  
Loblaws (Westons) and Provigo extend their influence through operation  
of extensive wholesale facilities, provided for autonomous and  
related groups of stores. These companies have significant capacity  
to impact pricing through a concentrated packing industry.  
Research has shown various inequities in the price producer  
receive, inadequacy in the information they receive, and unnecessary  
costs in the marketing system.

### c) Income Shares

Pricing data show that the farmer share of the retail dollar is at  
about 70% (about 10% higher than in the U.S.). The wholesalers share  
about 10% and the retailers share about 20% through retail chains.  
An analysis of industry income flows which more fully takes processing  
into account, shows producers at about 40%, Packer-wholesalers at  
about 35% and retailers at about 25%. Total producer investment

in 1979 was estimated at \$84 billion, while the processing sector stood at \$1.1 billion.

Data available on producer costs of production over the 1971-80 period, showed (particularly as a result of the 1979 experience when producers netted more than \$200 per head) that Western cow/calf enterprises received a return to management and labour of \$38 per head. This figure was \$31 in the East, and some \$37 nationally on a weighted average basis. Feedlot operators in this period averaged \$6 per head. This data implies net returns for the average cow/calf operation of 26.5 cows, with 85% yield, of only \$800 per year. For the operation of a herd of 100 cows, (96% of operations are of this size, or smaller,) this would yield about \$3000 per year. These returns cannot be considered a viable basis for maintaining a broadly based beef cattle industry.

#### d) Government Intervention

A variety of assistance devices have been developed at the national and provincial level. Aside from national programs of income stabilization, feed freight assistance, and farm credit, (and special programs such as appeared in 1976) provincial governments are providing supplementary credit, and income stabilization programs. Beef income assurance programs have been launched in British Columbia and Saskatchewan. Similar programs are being discussed in other provinces as a means of maintaining or gaining markets for producers in particular provinces. There is serious concern that competitive provincial programs will place the industry in a continuous state of oversupply.

## 2. System Critique

In summary, producers suffer from deficiencies in market information, are affected by problems in the price discovery system which foster inequity in prices between markets, between kinds of cattle, and based on whether sold live, or on a rail-grade basis. Innovation has



based on whether sold live, or on a half-grade basis. Innovation has recently in prices between markets, between kinds of cattle, and are affected by problems in the price discovery system which foster in summary, producer's suffer from deficiencies in market information.

#### 5. System Critique of oversupply.

Provincial programs will place the industry in a continuous state in particular provinces. There is serious concern that competitive provinces as a means of maintaining or gaining markets for producers and packers. Similar programs are being discussed in other beef income assurance programs have been launched in British Columbia providing supplementary credit, and income stabilization programs. programs such as appeared in 1976) provincial governments are stabilization, feed freight assistance, and farm credit, (and special and provincial level. Aside from national programs of income A variety of assistance devices have been developed at the national

#### d) Government Intervention

costs for maintaining a broadly based beef cattle industry. about \$3000 per year. These returns cannot be considered a viable of operations size of this size, or smaller,.) This would yield 2000 per year. For the operation of a herd of 100 cows, (95% average cow/calf operation of 55.5 cows, with 85% yield), of only period averaged \$4 per head. This data implies net returns for the nationally on a weighted average basis. Feedlot operators in this calf enterprises received a return to management and labor of when producers netted more than \$500 per head) this livestock cow) period, showed (particularly as a result of the 1979 experience Data available on producer costs of production over the 1971-80 stood at \$1.1 billion.

In 1979 was estimated at \$0.8 billion, while the processing sector

been slow in developing the industry, and industry consolidation has made facilities development not feasible. Trends in trade movement seem to indicate the danger of further bypassing of the Canadian processing system. Beef cycle instability coupled with a low level of average returns seem likely to reduce the agricultural base for beef production, and increase industry concentration.

These problems stem from a) a marketing mechanism whose cost discourages independent price discovery and whose nature, both as a result of concentration, and cycle instability, leads to inequity and economic waste. b) Small scale production which cannot support international competitiveness on a consistent basis, and, yields inadequate returns to all but a few of the participants of large scale who tend to dictate market returns. c) The small scale of the Canadian market, with built-in costs dictated by elements of the Canadian social welfare system and protection for Canadian industry; and , d) The historic desire of producers to seek their satisfactory returns from the marketplace who, while dissatisfied with the level of returns, are reluctant to consider other mechanisms. (This may be changing, as many producers are now looking for mechanisms which they can be confident have a reasonable chance for success.)

### 3. Problem Responses

#### a) Import Controls

While this device will safeguard the Canadian market for Canadian producers and permit the development of pricing adequate to the scale of the industry, this cannot be accomplished without the retaliatory loss of export markets both for beef and other products. Current developments tend to the removal of trade barriers, and the minimization of tariffs. However, recent U.S. legislation (1979) provides for counter cyclical restrictions to trade. When implemented this could have serious repercussions for Canadian producers, through impact on Canadian exports and diversion to Canada of manufacturing beef imports. Similar legislation is before Parliament in Canada.



The current legislation while providing protection for the Canadian market, does not address the major concerns of many producers in the areas marketing system, income distribution and income stability, and levels of returns relative to their cost of production.

b) Income Stabilization

Federal-Provincial programs have not been successfully developed. Provincial insistence on program enrichment run counter to the federal desire to establish a uniform intervention environment. Federal concern regarding incentive programs and the non-statutory nature of programs leads to provincial assessment of proposed programs as inadequate and unreliable. Another problem in current federal approaches is the long delay between market events requiring supplementary income and actual payments made to producers. This delay prevents assistance being provided when it is required. There is the overall concern that such programs could result in incentives to overproduction without specified limitation on production eligible for stabilization on an historical base. Even placing a limit on the number of cattle eligible to participate, using a full cost recovery program, could lead to unacceptable increases in production which would undermine the program.

The dilemma remains that, given current producer interest in finding some acceptable solution to the difficulties being faced by beef producers, provincial governments are developing competitive programs, and using provincial treasuries to change the economic climate in the beef industry. These programs more inevitably create the chronic oversupply situation in the marketplace that beef producers are anxious to avoid. This situation will eventually make most of these programs untenable and costly for producers as well as taxpayers

c) Income Averaging Approaches

Producers have at their disposal various programs aimed at deferring

Production will be... (faint text)

c) Income... (faint text)

... (faint text)

These programs... (faint text)

The... (faint text)

d) Income... (faint text)

and... (faint text)

taxation on income earned in good years so that it is available in years when losses are sustained. Aside from such programs as "Block Averaging"; and general averaging, R.R.S.P.'s, deferred cash purchase tickets, cattle loss absorption, capital cost allowance, farm incorporation, deferred sales and year end purchasing, and income averaging annuity contracts, it has been suggested that the latter be modified to permit producers to remove up to 50% of annual farm income, or up to \$100,000 annually, for placement into a trust account for between one and seven years. Such sums would be taxable when withdrawn, obviously during years when losses are experienced. Whatever, the merit of this proposal, it does not respond to many of the serious challenges faced by the industry, from an average income level point of view, from a marketing and industry concentration point of view, and from the challenge to maintain a broadly based industry. Redistribution of income over years is not an answer when there is little to redistribute, as is the case for most producers.

#### d) Market and Supply Management Programs

Four programs are offered for consideration which respond in varying ways to the challenges being faced by the industry. Aside from those problems of traditional nature, market concentration, income and industry instability and the cruelty it visits on producers and consumers alike, the weakness of the price discovery mechanism, and the level of returns earned by most producers in the industry, only a national program can replace the patchwork of provincial policies, being funded on a competitive basis by provincial treasuries which must eventually lead to chronic overproduction in the beef industry, these programs are examined for their effectiveness in dealing with problems identified and their feasibility of implementation.

##### 1. The Canadian Wheat Board Model

The focus of this model is the development of an orderly



marketing system with a minimum of intervention in market functioning. Essentially the Federal Government would establish a National Body by means of legislation to implement a central marketing system for beef. Federal appointees would administer the program, likely in a Western location, with advisory input from producers. The major thrust would be the establishment of a compulsory auction system, using an electronic medium for the marketing of slaughter cattle throughout Canada. Buyers would bid by Dutch Auction method, by major grade, and sex, with the highest bid establishing the price, and quantities tendered at that price. Only the first bidder could be assured of quantity. Standard discounts could be negotiated for various grades adjusted from time to time. Established prices would be announced and producers would commit for the following week delivery. Product could be delivered pro-rata, among buyers at the established price or allocated among producers pro-rata. If supplementary amounts are available, they could be offered at established prices, or on a supplementary bid basis. Producer registration and animal identification would be required as all product would be sold on a rail-grade basis. Producers would share the economies of regional assembly and shipping to buyers as directed by local and regional officers of the marketing body. Producers would receive the weekly average price by grade, or sales group, less the appropriate charges for transport and administration. The system would permit simultaneous bidding on each regional market from any major city in Canada. (The model could be extended to feeder cattle sales if considered desirable.)

Available research indicates the electronic auction method would be lower cost than direct to packer sales while enhancing competition for producers output. Gross estimates of net industry savings equal \$20 million per annum. Based on current estimates of intermediary costs in 1981 it is possible this



marketing system with a minimum of intervention in market functioning. Essentially the Federal Government would establish a National Body by means of legislation to implement a central marketing system for beef. Federal agencies would administer the program, likely in a Western Division, with advisory input from producers. The major thrust would be the establishment of a compulsory auction system, using an electronic medium for the marketing of slaughter cattle throughout Canada. Buyers would bid by Dutch Auction method by major grade and sex with the highest bid establishing the price, and quantities tendered at that price. Only the first bidder could be assured of quantity. Standard discounts could be negotiated for various grades adjusted from time to time. Established prices would be announced and producers would commit for the following week delivery. Product could be delivered pro-rata, among buyers at the established price or allocated among producers pro-rata. If supplementary amounts are available, the could be offered at established prices, or on a supplementary bid basis. Producer registration and animal identification would be required as all product would be sold on a half-grade basis. Producers would share the economies of regional assembly and shipping to buyers as directed by local and regional officers of the marketing body. Producers would receive the weekly average price by grade on sales group, less the appropriate charges for transport and administration. The system would permit simultaneous bidding on each regional market from any major city in Canada. (The model could be extended to feeder cattle sales if considered desirable.)

Available research indicates the electronic auction method would be lower cost than direct to packer sales while enhancing competition for producers output. Gross estimates of net industry savings equal \$20 million per annum. Based on current estimates of intermediary costs in 1987 it is possible this

could be doubled. The effects of enhanced competition could equal or exceed these estimates. There is substantial scope for such a National Body to engage in market intervention activity aimed at improving Canadian market results, although all this would be within a Continental or World Market context. Expected heavy supplies, or engaging in "Government to Government" sales, could have positive impact on producer returns. Quota controls are not envisioned owing to the basically domestic nature of the industry. Registration of producers and computerization of information inputs would provide industry information enabling more effecting projection of industry developments and rapid implementation of industry-wide programs of a support nature.

In summary this program will reduce marketing costs and enhance competition, thus improving the price discovery mechanism. While improving the producers returns marginally, this mechanism will not respond to income and industry instability, nor deal with producer income levels, competitive provincial support programs, nor the impact of industry economic forces that may be considered undesirable in their effects on the Canadian Beef Industry.

## 2. The Canadian Dairy Commission Model

The thrust of this model is the establishment of an income stabilization program for cow/calf producers within a supply management context. The Federal Government would establish a National Body by means of legislation to administer a National Income Support Program for the Beef Industry. Federal appointees and staff, with the advisory input from producers, would establish a cost of production formula for beef production maintained on a current basis. Marketings from the historic production base would be eligible for supplementary payments based on average returns compared with average cost of production plus a

could be doubled. The effects of increased competition could  
 equal or exceed these estimates. There is substantial scope  
 for such a National Body to engage in market intervention  
 activity aimed at improving Canadian market results, although  
 all this would be within a Continental or World Market context.  
 Expected heavy supplies, or engaging in "Government to Government"  
 sales, could have positive impact on producer returns. Quota  
 controls are not envisioned owing to the basically domestic  
 nature of the industry. Registration of producers and compar-  
 ison of information inputs would provide industry information  
 enabling more effective protection of industry developments and  
 rapid implementation of industry-wide programs of support  
 nature.

In summary this program will reduce marketing costs and enhance  
 competition, thus improving the price discovery mechanism.  
 While improving the producers returns marginally, this mechanism  
 will not respond to income and industry instability, nor deal  
 with producer income levels, competitive provincial support  
 programs, nor the impact of industry economic forces that may  
 be considered undesirable in their effects on the Canadian Beef  
 Industry.

3. The Canadian Beef Commission Model

The thrust of this model is the establishment of an income  
 stabilization program for country producers within a supply  
 management context. The Federal Government would establish a  
 National Body by means of legislation to administer a National  
 Income Support Program for the Beef Industry. Federal appointees  
 and staff, with the advisory input from producers, would establish  
 a cost of production formula for beef production maintained on  
 a current basis. Marketings from the historic production base  
 would be eligible for supplementary payments based on average  
 returns compared with average cost of production plus a

reasonable return. Market share quota could be allocated by province. Excess production relative to market share could be subject to penalty levies. Individual market share quotas would be administered by provincial agencies. To assist producers, supplementary payments could be organized on a quarterly basis to reduce lag time between sale of product and receipt of supplementary payments. The level of market quota available could be adjustable in relation to projected demand after allowance for a basic quota level. (equal, for example, to output from average herd size, 26.5 cows). Herd size eligibility for supplementary payments would have to be determined. Decisions would have to be made whether government or producers would retain ownership of quota if quota values are considered a problem. Holders of dairy quota would be excluded from participation.

Imports could be controlled under this regime without retaliation. However, basis import quotas would have to be negotiated. The federal body could be the sole importer, establish prices to minimize supplementary payment, or allow the open market to determine price by means of existing demand and marketing quota supply, plus negotiated imports. In the latter situation, the open market would continue to function essentially as it does now. The National Body could intervene to encourage exports as an intermediary, or as a direct participant to assist in supporting domestic market prices and minimizing supplementary payments. Supplementary payments could be a charge on Canadian taxpayers.

This program carried out effectively, with timely supplementary payments, would encourage producers to retain ownership of animals to the finishing stage. It may encourage the development of custom feeding operation. It would discourage "inners and outsiders" who would not have the production base eligibility. The processing industry would have a more stable and predictable

reasonable return. Market share could be allocated by  
 province. Excess production relative to market share could  
 be subject to penalty levies. Individual market share quotas  
 would be administered by provincial agencies. To assist producers,  
 supplementary payments could be arranged on a quarterly basis  
 to reduce lag time between sale of product and receipt of  
 supplementary payments. The level of market quota available  
 could be adjustable in relation to projected demand after  
 allowance for a basic quota level (equal, for example, to  
 output from average herd size, 50 cows). Herd size eligibility  
 for supplementary payments would have to be determined. Decisions  
 would have to be made whether government or producers would retain  
 ownership of quota if quota values are considered a problem.  
 Holders of dairy quota would be excluded from participation.  
 Imports could be controlled under this regime without retaliation.  
 However, dairy import quotas would have to be negotiated. The  
 federal body could be the sole importer, establish prices  
 to maintain supplementary payment, or allow the open market to  
 determine price by means of existing demand and marketing quota  
 supply, plus negotiated imports. In the latter situation, the  
 open market would continue to function essentially as it does  
 now. The National Body could intervene to encourage exports  
 as an intermediary or as a direct participant to assist in  
 supporting domestic market prices and financing supplementary  
 payments. Supplementary payments could be a charge on Canadian  
 exports.

This program carried out effectively, with timely supplementary  
 payments, would encourage producers to retain ownership of  
 animals to the finishing stage. It may encourage the development  
 of custom feeding operation. It would discourage "farms and  
 outers" who would not have the production base eligibility.  
 The processing industry would have a more stable and predictable

production base. It may be possible to implement effective counter-cyclical policies for production in Canada to match increases in Canadian production with low points in cattle output on a world import replacement. International market opportunities on a government to government basis could lead to contracts with large scale producers outside the quota system. Costs for such a program have been estimated as equal to 1.4% of total slaughter receipts over a period of years, or currently between 40 to 50 million dollars per year. One current program requires producer contribution of 3% to 4.5% on a 50/50 sharing basis with government. The actual cost seems likely to equal something between these positions.

In summary, while this vehicle would not address the serious problems existing in the current marketing system, it would make for greater stability of production, producer income streams, and industry throughput. At the cost of industry regulation and control and supplementary payments from the taxpaying public, it would encourage the maintenance of the Canadian Beef Industry, ensure satisfactory returns to producers on the average, and perhaps encourage export development, while not interfering with the existing open market system in any substantial way.

### 3. The Canadian Egg Marketing Agency Model

The objective of this model is the establishment of a producers corporation, made up of representatives from each province and government appointees, to administer a national price structure for beef designed to return to producers on the average their cost of production plus a reasonable return. This corporation could be established federally under the Farm Products Marketing Agencies Act if it was amended to include beef production, supported by a Federal-Provincial agreement detailing elements of the plan. Provincial referendums may be required.

production base. It may be possible to implement effective counter-cyclical policies for production in Canada to match increases in Canadian production with low points in cattle output on a world import replacement, international market opportunities on a government to government basis could lead to contracts with large scale producers outside the quota system.

Costs for such a program have been estimated as equal to 1.4% of total slaughter receipts over a period of years, or currently between 40 to 60 million dollars per year. The current program requires producer contribution of 32 to 4.5% on a 50/50 sharing basis with government. The actual cost seems likely to equal something between these positions.

In summary, while this vehicle would not address the various problems existing in the current marketing system, it would make for greater stability of production, producer income streams, and industry throughput. At the cost of industry regulation and control and supplementary payments from the taxing public, it would encourage the maintenance of the Canadian Beef Industry, ensure satisfactory returns to producers on the average, and perhaps encourage export development, while not interfering with the existing open market system in any substantial way.

### 5. The Canadian Egg Marketing Agency Model

The objective of this model is the establishment of a producers corporation, made up of representatives from each province and government appointees, to administer a national price structure for beef designed to return to producers on the average their cost of production plus a reasonable return. This corporation could be established federally under the Farm Products Marketing Agency Act if it was amended to include beef production, supported by a Federal-Provincial agreement detailing elements of the plan. Provincial referendums may be required.

The price structure established would be supported by management of beef supplies, by means of historical production quotas and negotiated import quotas, and a surplus disposal program for any product left unsold at established prices. The program is designed to support producer prices at the feeder cattle stage, and to influence finished cattle prices indirectly by affecting the numbers of animals available for finishing.

A full cost recovery program is projected based on study of actual operations by an independent third party, and the maintenance of study data by indices and regular surveys to permit outgoing establishment of operating costs. Basic cost parameters would be restudied every two or three years. These cost data would be translated into a regional price structure, adjusted at least monthly, designed to permit the automatic and normal operation of the market in the movement of feeder cattle from sellers to buyers. (Pricing would be monitored by established government bodies (N.F.P.M.C. and Provincial Government supervisory bodies.) The National Body would ensure any movement from surplus regions to deficit areas should this be required. Animals remaining unsold would be disposed of either in available export markets, live or processed, or domestically for manufacturing beef. Direct intervention is being provided for at the feeder cattle level to minimize disposal costs. This would necessitate the establishment of feeder grades. The possibility for direct intervention, and price setting activity at the finished cattle stage, perhaps only for cow/calf operators, could only be examined after experience with the system.

The costs of this program would be financed from a levy on all marketings collected from buyers (who would all be licensed) to cover administration costs and surplus removal costs. It is proposed that the central selling system described in the initial model be implemented in conjunction with this program.



The price structure established would be supported by management of beef supplies, by means of historical production quotas and negotiated export quotas, and a surplus disposal program for any product left unneeded as established prices. The program is designed to support producer prices at the feeder cattle stage, and to influence finished cattle prices indirectly by affecting the numbers of animals available for finishing.

A full cost recovery program is projected based on study of actual operations by an independent third party, and the maintenance of study data by indices and regular surveys to permit ongoing establishment of operating costs. Basic cost parameters would be restudied every two or three years. These cost data would be translated into a regional price structure, adjusted at least monthly, designed to permit the automatic and normal operation of the market in the movement of feeder cattle from sellers to buyers. Pricing would be monitored by established government bodies (N.F.P.C. and Provincial Government supervisory bodies). The National Body would ensure any government from surplus regions to deficit areas should this be required. Animals remaining would be disposed of either in suitable export markets, live or processed, or domestically for manufacturing beef. Direct intervention is being provided for at the feeder cattle level to minimize disposal costs. This would necessitate the establishment of feeder grades. The possibility for direct intervention, and price setting activity at the finished cattle stage, perhaps only for cowboy operators, could only be examined after experience with the system.

The costs of this program would be financed from a levy on all marketing collected from buyers (who would all be licensed) to cover administration costs and surplus removal costs. It is proposed that the central selling system described in the initial model be implemented in conjunction with this program.

This will provide a direct mechanism for collection of levies and monitoring of marketings and quota compliance. In addition, the economies to be realized from this system will minimize net consumer cost as a result of this program. All finished cattle would be sold on a rail-grade basis, and producers would ship only when prices had been established, and the buyer has been designated. Buyers would bid for finished cattle based on grade and sex, with standard negotiated differentials for various grades, and weight ranges.

Quota held by all regulated producers would confer a marketing eligibility related to the historic participation, excluding non-commercial operations (1-4 cows), holders of dairy quota and based on the individual situation, breeding herds. Provincial bodies would be responsible for ensuring compliance with quotas and would be financially liable for penalties on over-quota production. Producer registration numbers and quota eligibility would be associated with all marketings through the system. Quotas could be adjusted upward or downward relative to changes in demand. Costs of surplus removal needs over the basic quota associated with domestic demand and traditional export markets, might be a charge on producers' incomes. A basic quota equal to average producer size (26.5 cows) might be considered free of quota adjustments to ensure stability to small producers. Extra-quota production might be possible with larger producers to fill contractual export orders at specified prices outside the supply management system. If the development of quota values are a matter of concern, specific measures are available to ensure that this is minimized, and a mechanism is available to facilitate entry by new participants. Unused quota would revert to provincial bodies for reallocation. On a self-sufficiency basis, current production is in approximate balance with Canadian demand.

This will provide a direct mechanism for collection of levies and monitoring of marketing and quota compliance. In addition, the economies to be realized from this system will minimize net consumer cost as a result of this program. All finished cattle would be sold on a rail-grade basis, and producers would ship only when prices had been established, and the buyer has been designated. Buyers would bid for finished cattle based on grade and sex, with standard negotiated differentials for various grades, and weight ranges.

Quota held by all regulated producers would confer a marketing eligibility related to the historic participation, excluding non-commercial operations (1-4 cows), holders of dairy quota and based on the individual's situation, breeding herds. Provincial bodies would be responsible for ensuring compliance with quotas and would be financially liable for penalties on over-quota production. Producer registration numbers and quota eligibility would be associated with all marketing through the system. Quotas could be adjusted upward or downward relative to changes in demand. Costs of surplus removal needs over the basic quota associated with domestic demand and traditional export markets, might be a charge on producers' incomes. A basic quota equal to average producer size (28.5 cows) might be considered free of quota adjustments to ensure stability to small producers. Extra-quota production might be possible with larger producers to fill contractual export orders at specified prices outside the supply management system. If the development of quota values are a matter of concern, specific measures are available to ensure that this is minimized, and a mechanism is available to facilitate entry by new participants. Quota would revert to provincial bodies for re-allocation. On a self-sufficiency basis, current production is to approximate balance with Canadian demand.

A major effort would involve the projection of supply and demand requirements at established prices, given available information on other factors affecting demand for beef. Included in these considerations would be cyclical variation in international supply and demand, and efforts which might be made on a national and provincial basis to promote beef consumption. Federal industry research and industry advancement are within the scope of expectations from the institution.

The authorities vested in a producer board administering industry affairs, with broad control over an important segment of the Canadian economy, requires administration of the system in ways which are responsible, and are seen to be responsible, and are responsive, and are seen to be responsive, to the public trust granted producers. In addition to supervision and monitoring at both the federal and provincial levels, an effective and functioning industry consultative committee is a requirement, and professional management, taking its mandate from the legislation and the Federal-Provincial agreement governing the plan, as well as from the Board of Directors, is a necessity. The Signatories Group, which unites all parties to the plan, Ministers of Agriculture (and Intergovernmental Affairs), Supervisory Boards, and Provincial Commodity Boards, are responsible for annual review. A full-time Chairman representing the Board of Directors is a requirement. Continuity in management is important.

This model is controversial, owing to a number of factors. The substitution of administrative systems for the automatic market functioning which has been found unsatisfactory, makes the authors of any errors, oversights or failures to meet public aspirations, easy to identify. With market functioning, although adjustment requirements may be great, and economic waste, loss, and social disruption substantial, the "Economic Forces" which bring these about are thought to be impersonal. The covert decisions of participants in the market are overt in the administered system.

A major effort would involve the projection of supply and demand requirements as established in the past, given available information on other factors affecting demand for beef. Included in these considerations would be cyclical variation in international supply and demand, and efforts which might be made on a national and provincial basis to promote beef consumption. Federal industry, research and industry advancement are within the scope of expectations from the institution.

The authorities vested in a producer and administering industry effort, with broad control over an important segment of the Canadian economy, requires administration of the system in ways which are responsible, and are seen to be responsible, and are responsive, and are seen to be responsive, to the public trust granted producers. In addition to supervision and monitoring at both the federal and provincial levels, an effective and functioning industry consultative committee is a requirement, and professional management, taking its mandate from the institution and the Federal-Provincial agreement governing the plan, as well as from the Board of Directors, is a necessity. The Steering Group, which unites all parties to the plan, Ministers of Agriculture (and Intergovernmental Affairs), Supervisory Boards, and Provincial Commodity Boards, are responsible for annual review. A full-time Chairman representing the Board of Directors is a requirement. Continuity in management is essential.

This model is controversial, owing to a number of factors. The substitution of administrative systems for the automatic market functioning which has been found satisfactory, makes the authors at any time, oversight or failure to meet public expectations, easy to identify. With market functioning, although adjustment requirements may be great, and economic waste, loss, and social disruption substantial, the "Economic forces" which bring these about are thought to be inoperable. The covert decisions of participants in the market are overt in the administered system.

The income transfers, which may occur, from consumers, or distributors, to producers, are clearly and visibly made possible by monopoly powers granted the Board. Comparisons with prices on the residual open market are easy when costs are higher externally. No one is interested when open markets lead to extreme price changes in uncontrolled markets like beef, sugar, and coffee. This is not related to the stable prices of controlled commodities. The very objectives of administered systems which include stability and moderate change, which results from using average costs to determine prices, rather than marginal cost of production, are identified as encouraging inefficiency. The egg plan brought improved rates of efficiency compared with some periods under the open market regime, and these efficiencies were passed on to consumers. The egg plan also led to efficiencies in distribution and lower distributor margins, which paid for a substantial portion of the additional rewards to producers.

Particular concern has been voiced about quota values, with such values characterized as an indicator of overpayments to producers. While such values result from a whole complex of economic and administrative factors, they usually affect a tiny fraction of outstanding quota and represent particular psychological and economic value to certain individuals in certain economic and taxation situations which would not be relevant to the generality of producers. They also reflect the producers preference to produce and reluctance to sell his assets at these supposed market values. In any event, should there be the political will to do so, such values can be avoided.

Finally, operation of this system in the public forum, so uncharacteristic of business, creates substantial costs, for management, for consultants, for bi-lingual operation, for the maintenance of democratic consultation and decision making institutions, and for the cost of enforcing regulations, and intruding into and regulating the operation of individual enterprise.

The income transfers, which may occur, from consumers, or distributors, to producers, are clearly and visibly made possible by monopoly power granted the Board. Comparisons with prices on the residual open market are easy when costs are higher externally. No one is interested when open markets lead to extreme price changes in uncontrolled markets like beef, sugar, and coffee. This is not related to the stable prices of controlled commodities. The very objectives of administered systems which include stability and moderate change, which results from using average costs to determine prices, rather than marginal cost of production, are identified as encouraging inefficiency. The egg plan brought improved rates of efficiency compared with some periods under the open market regime, and these efficiencies were passed on to consumers. The egg plan also led to efficiencies in distribution and lower distributor margins, which paid for a substantial portion of the additional rewards to producers. Particular concern has been voiced about quota values, with such values characterized as an indicator of overpayments to producers. While such values result from a whole complex of economic and administrative factors, they usually affect a tiny fraction of outstanding quotas and represent particular psychological and economic value to certain individuals - in certain economic and taxation situations which would not be relevant to the generality of producers. They also reflect the producers' preference to produce and reluctance to sell his assets at these supported market values. In any event, should there be the political will to do so, such values can be avoided.

Finally, operation of this system in the public forum, so uncharacteristic of business, creates substantial costs for management, for consultants, for bilingual operation, for the maintenance of democratic consultation and decision making institutions, and for the cost of enforcing regulations, and including into and regulating the operation of individual enterprises.

This is a direct social cost of the collective action provided for by the legislation. The very characteristics of this model which make it effective for its purposes are those which are most subject to criticism and controversy. This is a continuing cost of this system.

On the other hand this model will respond to the reported need for an improved selling mechanism and enhanced competition. It could lead to a moderated beef cycle, stabilized and improved producer income in a broadly based industry, some recapture of markets lost to imports, with some opportunity to retain export markets; opportunities for stabilized and expanded Canadian processing industry, and improved markets information system with clear market signals, opportunities for substantial industry and export development based on central agency initiatives, and most important, market sharing in place of competitive-tax supported provincial policies to capture markets and create chronic oversupply. For consumers there is every reason to project relative price stability and guaranteed supply, and a continuing decline in the cost of beef as a percentage of personal disposable income at current consumption rates.

#### 4. Producer Income Stabilization Model

The objective of this model is to use the authorities of the National Farm Products Marketing Agencies Act to develop a producer agency to implement an income stabilization program for beef financed from the marketplace. The legislation would have to be amended to permit the establishment of associated market share quota allocations to provinces based on historical production patterns. Provincial institutions would be required and referendums may have to be held in some provinces to authorize the establishment of a quota regime. Structured in many ways as in the previous model, a producer corporation, made up of representatives from each province, and government



This is a direct social cost of the ineffective action provided for by the legislation. The very characteristics of this model which make it effective for its purposes are those which are most subject to criticism and controversy. This is a continuing cost of this system.

On the other hand this model will respond to the reported need for an improved pricing mechanism and enhanced competition. It could lead to a moderated price cycle, stabilized and improved producer income in a broadly based industry, some recovery of markets lost to imports, with some opportunity to retain export markets; opportunities for stabilized and expanded Canadian processing industry, and improved market information system with clear market signals, opportunities for substantial industry and export development based on central agency initiatives and most important, market pricing in place of competitive-tax supported practices; policies to capture markets and create chronic oversupply. For consumers there is every reason to project relative price stability and guaranteed supply, and a continuing decline in the cost of beef as a percentage of personal disposable income at current consumption rates.

4. Producer Income Stabilization Model

The objective of this model is to use the authorities of the National Farm Products Marketing Agency Act to develop a producer agency to implement an income stabilization program for beef-financed from the marketplace. The legislation would have to be amended to permit the establishment of associated market share quotas allocations to provinces based on historical production patterns. Provincial institutions would be required and referendums may have to be held in some provinces to authorize the establishment of a quota regime. Structured in many ways as in the previous model, a producer corporation made up of representatives from each province, and government

appointees, would administer a cost of production model designed to identify beef producer costs on the average, plus a reasonable return on a continuing basis. While a compulsory selling mechanism is envisaged to minimize marketing costs and enhance competition and minimize consumer cost in implementing this program, open market function would continue to dictate prices. Adjustments up and down in market share quota could be made to affect supply in relation to demand. On a self-sufficiency basis, current production approximates current market requirements.

Program costs are controlled by management of beef supplies through the establishment of historical production quotas and negotiated import controls. All supplies would be cleared through the market. The costs of the program would be financed from a levy on all slaughter marketings collected from buyers (who would all be licensed). The central selling system described in the initial model would provide a direct mechanism for the collection of levies, the monitoring of marketings, and quota compliance.

A full cost recovery program is projected based on study of actual operations by an independent third party, and the maintenance of study data by indices and regular surveys. Basic cost parameters would be restudied every two to three years. The application of the cost formula would be monitored by the national supervisory body.

Quotas held by all regulated producers, would confer a marketing eligibility related to the historic pattern (5 year average) of beef cow numbers allocation on a provincial basis. Provincial allocations would be apportioned to individual producers based on their historic participation, excluding non-commercial operations (1-4 cows), holders of dairy quota, and based on the individual situation, breeding herds. Provincial bodies would be responsible for ensuring compliance with quotas and would

appointees, would administer a cost of production model designed to identify best producer costs on the average, plus a reasonable

return on a continuing basis. While a compulsory selling mechanism is envisaged to minimize marketing costs and enhance

competition and minimize consumer cost in implementing this program, open market function would continue to dictate prices.

Adjustments up and down in market share quotas could be made to affect supply in relation to demand. On a self-sufficiency

basis, current production approximates current market requirements. Program costs are controlled by management of best supplies

through the establishment of historical production quotas and negotiated import controls. All supplies would be cleared

through the market. The costs of the program would be financed from a levy on all slaughter-marketing collected from buyers

(who would not be licensed): The central selling system described in the attached model would provide a direct mechanism

for the collection of levies, the monitoring of marketing, and quota compliance.

A full cost recovery program is projected based on study of actual operations by an independent third party, and the maintenance

of study data by indices and regular surveys. Basic cost parameters would be restudied every two to three years. The

application of the cost formula would be monitored by the national supervisory body.

Quotas held by all regulated producers, would confer a marketing eligibility related to the historic pattern (5 year average) of

best cow numbers allocation on a provincial basis. Provincial allocations would be apportioned to individual producers based

on their historic participation, excluding non-commercial operations (1-4 cows), holders of dairy quotas, and based on the

individual situation, breeding herds. Provincial bodies would be responsible for ensuring compliance with quotas and would

be financially liable for penalties on over-quota production. A basic quota equal to average herd size (26.5 cows) might be considered exempt from quota adjustments, to ensure stability to small producers.

All quota marketings would be eligible for supplementary payment should average prices received for slaughter marketings be less than average costs plus a reasonable return, as established by the formula. Producer registration and animal identification which is part of the central selling system, together with quota eligibility, will follow animals through the system. Computer models will identify average costs on a quarterly basis. These would be compared with average returns during the quarters to generate quarterly payments on an automatic basis, to registered owners at the time of sale. This assurance of costs plus returns should encourage cow/calf producers to retain ownership of their output to the finished stage. It may also encourage the development of custom feeding operations for producer without the facilities of feed and fodder to finish cattle. This assurance could also be reflected in the feeder cattle prices which lot operators are willing to pay. Flexibility in establishing supplementary payment levels to encourage marketing at lighter or heavier weights could also provide an avenue for finetuning levels of finished cattle supplies in relation to demand. Direct intervention to encourage export development and stabilizing market prices by means of forward contracting, within and outside the quota framework, with large producers, could be within the central agency mandate.

The supplementary payment approach to ensuring acceptable producer returns, wedded to quota discipline to avoid overproduction which might be stimulated by implementation of a full cost recovery system, encourages cow/calf operators to fuller participation in finished cattle production. The elimination of the transport

be financially liable for penalties on over-quota production. A basic quota equal to average herd size (250 cows) might be considered exempt from quota adjustments, to ensure stability to small producers.

All quota holdings would be eligible for supplementary payment should average prices received for slaughter marketing be less than average costs plus a reasonable return, as established by the formula. Producer registration and animal identification which is part of the central tagging system, together with quota eligibility, will follow animals through the system. Computer models will identify average costs on a quarterly basis. These would be compared with average returns during the quarters to generate quarterly payments on an automatic basis, to registered owners at the time of sale. This assurance of costs plus returns should encourage low/cost producers to retain ownership of their output to the finished stage. It may also encourage the development of custom feeding operations for producer without the facilities of feed and fodder to finish cattle. This assurance could also be reflected in the feeder cattle prices which for operators are willing to pay. Flexibility in establishing supplementary payment levels to encourage marketing at lighter or heavier weights could also provide an avenue for finishing levels of finished cattle supplies in relation to demand. Direct intervention to encourage export development and stabilizing market prices by means of forward contracting, within and outside the quota framework, with large producers could be within the central agency mandate.

The supplementary payment approach to ensuring acceptable producer returns, would be quota discipline to avoid overproduction which might be stimulated by implementation of a full cost recovery system, encourages contract operators to fulfil production in finished cattle production. The elimination of the transport

costs and setback which accompany cattle transfers and the additional margin requirements of the multi-owner current system, could add to the efficiency of the Canadian production system. The quarterly payments system, should supplements prove necessary, is more likely to provide producers with cash flow when they require it, while the program in total will encourage bankers to provide the necessary credit. From the consumers point of view this direct payments approach is a simpler and less costly method of stabilizing producer incomes, and the beef cycle, through which they benefit from lower market prices. Processors should find it easier to plan their production and efficiencies could be enhanced. From the governments' point of view, producer needs can be met from the marketplace rather than from the taxpayer, and administration of the program by producers could break the log jam preventing the development of a national stabilization program and stimulating the development of competitive provincial programs which could lead to chronic over-production.

This approach would meet all the primary social objectives identified by this study, as does the previous model. The same remedies regarding quota values apply if they are judged to be important. The model eliminates the stress of operating a managed price system and a surplus removal program, but does not permit producers to take their total returns from the marketplace on an immediate basis.

## 5. Supply Management Impact by Size of Operation

### 1. Canadian Wheat Board Model (Compulsory Central Selling by Electronic Auction)

Producers would be registered. Operations would not be altered except that at time of sale producers would know the market prices effective for the week, and the destination, before shipping his cattle. He would learn this by radio, newspaper, or toll-free telephone line, through which he would indicate the number of cattle he had to ship, and their

costs and rebates which accompany cattle transfers and the additional margin requirements of the multi-owner current system could add to the efficiency of the Canadian production system. The quarterly payments system, should supplements prove necessary, is more likely to provide producers with cash flow when they require it, while the program in total will encourage bankers to provide the necessary credit. From the consumer's point of view this direct payments approach is a simpler and less costly method of stabilizing producer incomes, and the past cycle through which they benefit from lower market prices. Producers should find it easier to plan their production and efficiencies could be enhanced. From the government's point of view, producer needs can be met from the marketplace rather than from the taxpayer, and administration of the program by producers could break the log-jam preventing the development of a national stabilization program and stimulating the development of competitive provincial programs which could lead to chronic overproduction.

This approach would meet all the primary social objectives identified by this study, as does the previous model. The same remedies regarding codes, values and by-ways are judged to be important. The model eliminates the stress of operating a marginal price system and a surplus removal program, but does not permit producers to take their total returns from the marketplace on an immediate basis.

## 8. Supply Management Impact by Size of Operation

### 1. Canadian Wheat Board Model (Compulsory Central Selling by Electronic Auction)

Producers would be registered. Operations would not be altered except that at time of sale producers would know the market prices effective for the week, and the destination, before shipping his cattle. He would learn this by radio, newspaper, or toll-free telephone line, through which he would indicate the number of cattle he had to ship, and their

description, and would receive his shipping instructions. He would know his cattle would be valued on a rail-grade basis by government inspectors and the weight determined by automatic scales. He would know the standard negotiated discounts for various grades and weight ranges. He would know selling costs would be the lowest possible under maximum competition, and he would benefit from load consolidation in shipping direct to processors. Producers could continue to lose money relative to their cost of production.

a) Twenty-five to Hundred Cow Herds

Representing two-thirds to 96% of producers, this group would achieve the maximum benefits of such a change relative to the current system, through lower selling costs of direct shipment and load consolidation, and low per head selling costs, as well as the enhanced competition not affected by the small size of his shipment lot. Improved returns from the system should be reflected in prices for feeder cattle.

b) Five Hundred Plus Cow Herds

The relative gain for this group would be smaller. However, even this group could benefit from the enhanced competition that would result from this system. To the extent that they market through the auction system they would benefit from lower selling costs and the accuracy of rail-grade valuation. Producers selling weaned calves and feeder cattle would benefit in their prices from lower selling costs on finished cattle.

2. Canadian Dairy Commission Model (Government Income Stabilization)

Producers would be registered and hold subsidy eligible market



described, and would receive his shipping instructions.  
He would know his cattle would be valued on a rail-grade  
basis by government inspectors and the weight determined  
by automatic scales. He would know the standard negotiated  
discounts for various grades and weight ranges. He would  
know selling costs would be the lowest possible under  
maximum competition, and he would benefit from load  
consolidation in shipping direct to processors. Producers  
could continue to lose money relative to their cost of  
production.

a) Twenty-five to Hundred Cow Herds

Representing two-thirds to 95% of producers, this group  
would achieve the maximum benefits of such a change  
relative to the current system, through lower selling  
costs of direct shipment and load consolidation,  
and low per head selling costs, as well as the enhance-  
ment of the price received by the sale size of his  
shipment. Improved returns from the system should  
be reflected in prices for feeder cattle.

b) Five Hundred Plus Cow Herds

The relative gain for this group would be smaller,  
however, even this group could benefit from the enhanced  
competition that would result from this system. To the  
extent that they market through the auction system they  
would benefit from lower selling costs and the accuracy  
of rail-grade valuation. Producers selling market  
calves and feeder cattle would benefit in their prices  
from lower selling costs on finished cattle.

5. National Dairy Commission Model (Government Income

Stabilization)

Producers would be registered and sold through a public market

share quota based on historic participation. Producers, on the average, would be guaranteed cost of production plus a reasonable return. The open market situation and current marketing systems would be unchanged. Imports would be limited. This is primarily a self-sufficiency program, and current marketings approximate demand requirements. Producers would still have to finance any losses until supplementary payments arrived. Changes in market share quota could be used to affect supply to bring it in greater balance with demand. Herd size would be fixed unless expanded or contracted with demand.

a) Twenty-five to Hundred Cow Herds

Some producers would have costs above average costs and receive less than formula returns. Some could have below average costs and receive more than formula returns. Financing losses until receipt of supplementary payments could be harder on this group where financing may be more difficult to get. Changes in market share quota might affect this group less if the average herd (26.5 cows) were exempted from quota changes.

b) Five Hundred Plus Cow Herds

Herd size could be reduced to reduce costs of returns guarantee program. Upper limits on eligible numbers might or might not include output from 500 head cow herd. Most producers in this group could benefit from supplementary payment on a more than formula basis through below average costs and higher than average selling prices through current system.

3. Supply Management Model (Including Central Selling)

Producer would be registered and issued quota. Quota would be fixed unless market expanded or contracted. Self-sufficiency

share points based on historic participation. Producers on the average, would be guaranteed cost of production plus a reasonable return. The open market situation and current marketing systems would be unchanged. Imports would be limited. This is primarily a self-sufficiency program, and current marketing approximates demand requirements. Producers would still have to finance any losses until supplementary payments arrived. Changes in market share quota could be used to affect supply to bring it in greater balance with demand. Herd size would be fixed unless expanded or contracted with demand.

a) Twenty-five to Hundred Cow Herds

Some producers would have costs above average costs and receive less than formula returns. Some could have below average costs and receive more than formula returns. Financing losses until receipt of supplementary payments could be harder on this group where financing may be more difficult to get. Changes in market share quota might affect this group less in the average herd (500 cows) were expanded from quota changes.

b) Five Hundred Plus Cow Herds

Herd size could be reduced to reduce costs of returns guarantee program. Upper limits on eligible numbers might or might not include output from 500 head cow herd. Most producers in this group could benefit from supplementary payments on a more than formula basis through below average costs and higher than average selling prices through current system.

3. Supply Management Model (Including Central Selling)

Producers would be registered and issued quota. Quota would be fixed unless market expanded or contracted. Self-sufficiency

would approximate current marketing levels. Enhanced competition and lower selling costs would result from the central selling system. Producers marketing feeder cattle would be assured the average cost of production plus a reasonable return based on a regional price structure, taking cost of transport into account. Finished cattle prices would be supported indirectly. Producers, knowing the established price for feeder and finished cattle by grade and sex could make offerings by toll-free phone number and be directed where and when to ship his cattle. Producer would receive the average market price less applicable charges, or the established price for feeder cattle if a higher price was not available. Producers could only market numbers within quota.

a) Twenty-five to One Hundred Cow Herds

Producers of feeder cattle could be assured average cost of production or higher immediately from the marketplace. If producers costs are above average, he could receive less than formula returns. They could also receive more than formula returns if costs were below average. Returns from the finished cattle market would be indirectly influenced. Producers with this size operation would receive the maximum relative benefit from central selling operation. If average cow herd were exempted from quota changes, the production base of producers of this size of operation would be more stable. This group includes two-thirds to 96% of all beef operations.

b) Five Hundred Plus Cow Herds

Producers of this size operation would probably receive more than formula returns from price support operations if they market their feeder cattle through the central

would approximate current marketing levels. Enhanced competition and lower selling costs would result from the central selling system. Producers marketing feeder cattle would be assured the average cost of production plus a reasonable return based on a regional price structure, taking cost of transport into account. Finished cattle prices would be supported indirectly. Producers, knowing the established price for feeder and finished cattle by grade and sex could make offerings by toll-free phone number and be directed where and when to ship his cattle. Producers would receive the average market price less applicable charges, or the established price for feeder cattle if a higher price was not available. Producers could only market numbers within grade.

a) Twenty-five to One Hundred Cow Herds

Producers of feeder cattle could be assured average cost of production or higher immediately from the marketplace. If producers costs are above average, they could receive less than formula returns. They could also receive more than formula returns if costs were below average. Returns from the finished cattle market would be indirectly influenced. Producers with this size operation would receive the maximum relative benefit from central selling operation. If average cow herd were exempted from such changes, the production base of producers of this size of operation would be more stable. This group includes two-thirds to 95% of all beef operations.

b) Five Hundred Plus Cow Herds

Producers of this size operation would probably receive more than formula returns from price support operations. If they market their feeder cattle through the central

selling system, and be indirectly price supported in the sale of their finished cattle by the control on numbers into feeding exerted by the National Body. They would likely be assured more than formula return in the marketing of their feeder cattle as they are likely to have lower than average production costs. With their size of operation and lower than average cost, they should be well placed for profitable operations at the finished cattle level. They would be more affected by quota changes up and down. There is flexibility for export contracting for large scale producers outside the quota and price setting mechanism.

#### 4. Producer Income Stabilization (Including Central Selling)

Producers would benefit from the compulsory central selling system, but prices would be determined by supply and demand within a supply managed system without direct intervention. (Market share quota on an historical basis for individual producers, plus import controls. No price setting.) Market prices would find their own level, which could be below or above costs. Producers would be assured that they would receive industry costs on the average plus a reasonable return, for the finished cattle they have marketed.

Producers who market feeder cattle could transfer, through their registration number and subsidy eligibility, rights for buyers to receive supplementary payments, should this be called for. Computer models could be designed to provide for automatic quarterly payments, to the seller of record, should average quarterly returns be less than model costs for cattle marketed during that quarter. This would encourage feeder cattle buyers to reflect the assurance of a cost of production basis for finished cattle in the offerings which they make for feeder cattle. This program

selling system, and be indirectly price supported in the sale of their finished cattle by the control on quotas into feeding exerted by the National Body. They would likely be assured more than formula return in the marketing of their feeder cattle as they are likely to have lower than average production costs. With their size of operation and lower than average cost, they should be well placed for profitable operations at the finished cattle level. This would be more affected by quota changes up and down. There is flexibility for export contracting for large scale producers outside the quota and price setting mechanism.

4. Producer Income Stabilization (Including Central Selling)

Producers would benefit from the compulsory central selling system; but prices would be determined by supply and demand within a supply managed system without direct intervention. (Market share quota on all historical basis for individual producers; plus import controls. No price setting.) Market prices would find their own level, which could be below or above costs. Producers would be assured that they would receive industry costs on the average plus a reasonable return for the finished cattle they have marketed. Producers who market feeder cattle could transfer, through their registration number and subsidy eligibility, rights for buyers to receive supplementary payments, should this be called for. Computer models could be designed to provide for automatic quarterly payments, to the seller of record, should average quarterly returns be less than model costs for cattle marketed during that quarter. This would encourage feeder cattle buyers to reflect the assurance of a cost of production costs for finished cattle in the offerings which they make for feeder cattle. This program

would encourage increased retention to the finished stage, and the development of custom feeding, as bank credit in this income supported environment would ease cow/calf producers cash flow problems. These supplementary payments after the fact, financed by levies at the marketing for slaughter stage, could take at least 90 days to process. Eligible quota could be adjusted upward or downward in relation to demand. Current marketings are about in balance on a self-sufficiency basis. The average herd size (26.5 cows) could be exempted from quota adjustments. The central body could enter into forward contracting and export arrangements on behalf of producers.

This program of a producer operated income stabilization program can be designed in a way more responsive to producer needs while permitting the open market system to operate. By taking the costs from the marketplace, this approach can relieve governments of the political burden of a tax supported plan, and break the log jam which has prevented the establishment of a national stabilization program. The National Body, under this program would retain the flexibility to seek forward contracting and international export opportunities.

a) Twenty-five to One Hundred Cow Herds

This group of producers would benefit to the maximum degree from the reduced selling costs and enhanced competition of the central selling system in spite of small size market lots. They would also benefit from the economies of load consolidation likely to occur with such a system. This size of operation could be less likely to suffer from downward quota adjustments if the average sized herd could be exempt from such adjustments. Some producers could have costs higher



would encourage increased retention to the finished stage, and the development of custom feeding, as bank credit in this income supported environment would base cow-calf producers cost flow problems. These supplementary payments after the fact, financed by levies of the marketing for slaughter stage, could take at least 90 days to process. Efforts quota could be adjusted upward or downward in relation to demand. Current marketing are about in balance on a self-sufficiency basis. The average herd size (25.8 cows) could be executed from quota adjustments. The central body could enter into forward contracting and export arrangements on behalf of producers.

This program of a producer operated income stabilization program can be designed in a way more responsive to producer needs while permitting the open market system to operate. By taking the costs from the marketplace, this approach can relieve governments of the political burden of a tax supported plan, and break the log jam which has prevented the establishment of a national stabilization program. The National Body, under this program would retain the flexibility to seek forward contracting and international export opportunities.

4) Twenty-five to One Hundred Cow Herds

This group of producers would benefit to the maximum extent from the reduced selling costs and enhanced competition of the central selling system in spite of small size market lots. They would also benefit from the economies of load consolidation likely to occur with such a system. This size of operation could be less likely to suffer from downward quota adjustments if the average sized herd could be exempt from such adjustments. Some producers could have costs higher

than average and would receive lower than average formula returns. Those with lower than average costs would receive higher than formula returns. Incentives to efficiency would remain. Producers would be encouraged to maintain calves to the finished stage. Producers would still have the cost of financing any shortfall until supplementary payments were received, which could be up to 90 days after the quarter in which sale occurred.

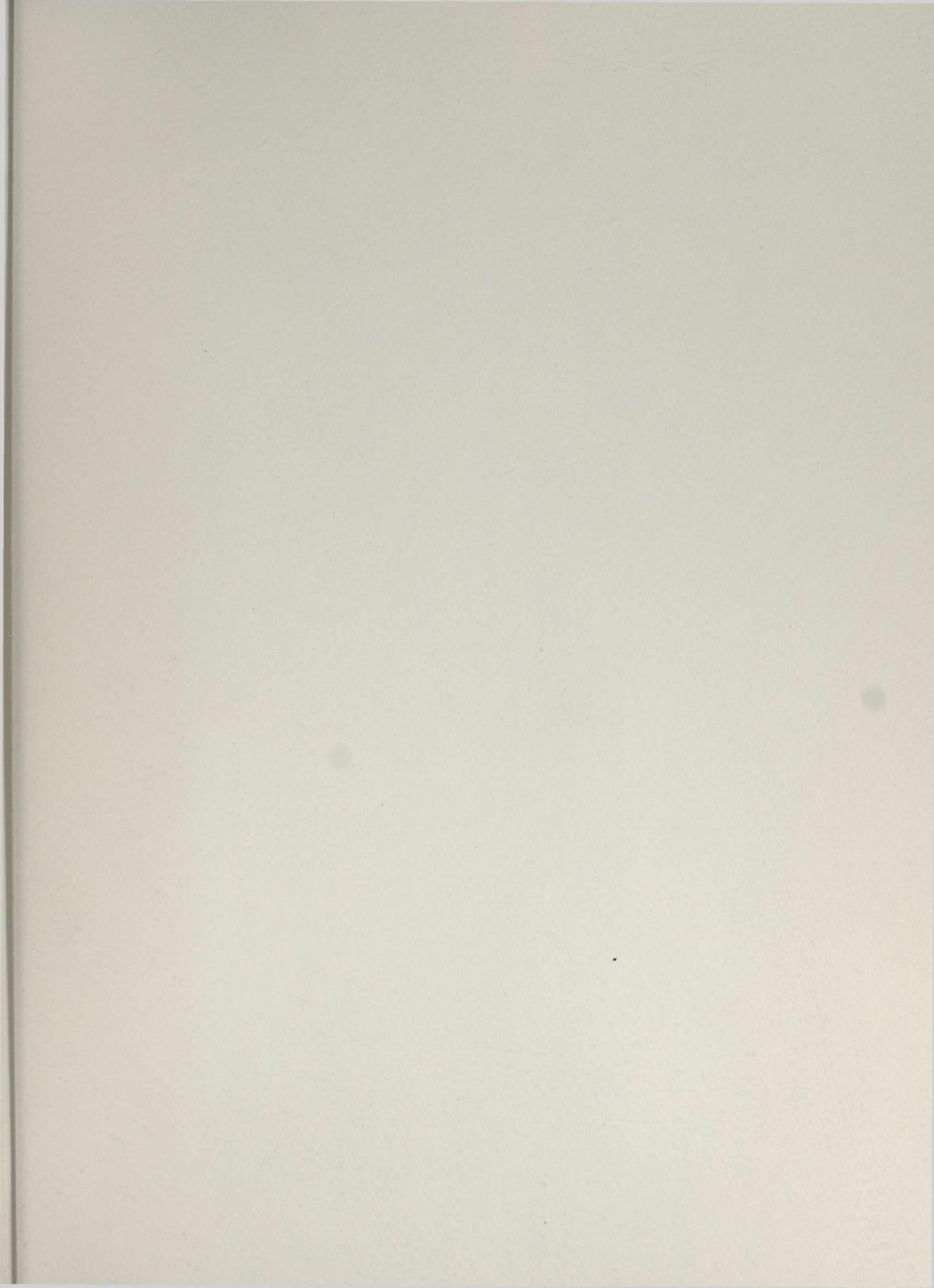
b) Five Hundred Plus Cow Herds

Producers might benefit from enhanced competition and lower marketing costs of central selling system. Market share quota could be adjusted upward or downward depending on changes in market demand. Ownership to the finished stage would be encouraged with the assurance of supplementary payments if required by market results. Producers of this size of operation could likely achieve lower than average costs, and with supplementary payments, achieve more than formula returns. While these shortfalls would have to be financed until received, credit should be available with the assurances under this program. National export programs, in collaboration with larger producers, within and outside the quota system, could be possible.

then average and would receive lower than average formula returns. Those with lower than average costs would receive higher than formula returns. Incentives to efficiency would remain. Producers would be encouraged to maintain calves to the finished stage. Producers would still have the cost of financing any shortfall until supplementary payments were received, which could be up to 90 days after the quarter in which sale occurred.

b) Five Hundred Plus Cow Herds

Producers might benefit from enhanced competition and lower marketing costs of central selling system. Market share quota could be adjusted upward or downward depending on changes in market demand. Ownership in the finished stage would be encouraged with the assurance of supplementary payments if required by market results. Producers of this size of operation could likely achieve lower than average costs, and with supplementary payments, achieve more than formula returns. While these shortfalls would have to be financed until received, credit should be available with the assurance under this program. National export programs, in collaboration with larger producers, within and outside the quota system, could be possible.





BIBLIOTHEQUE DU PARLEMENT  
LIBRARY OF PARLIAMENT



3 2354 00480 687 6

