

Issue

The depressed and volatile markets caused by the BSE crisis have resulted in the industry looking at changes in how cattle are marketed. Central desk selling has been one of the suggestions the OCA Board has heard through consultations with producers across Ontario .

Background

Central desk selling may entail several functions including product assembly and delivery to packers, product pricing and final payment settlement. Under central desk selling, a marketing agency is formed to essentially determine the pricing mechanism for exchange of slaughter animals through their position as the sole seller. On behalf of producers, they negotiate sales and prices with meat slaughterers and packers. Thus, they play an important role in the price formation process.

Quebec is the only province in Canada that operates a marketing agency for cattle. The FPBQ (La Federation des producteurs de bovines du Quebec) operates the marketing agency in Quebec . All feeder cattle, fed cattle and veal calves must be marketed through the agency. In practice, virtually all fed cattle are sold either on the electronic auction, direct to packer or via a live auction. Producers need to call the FPBQ in advance to indicate where they intend to sell or where the cattle are going to receive an authorization number. All payments are centralized with the FPBQ receiving payment from buyers and issuing cheques to the producers regardless of the method of sale.

The price negotiation role of FPBQ is very limited with the majority of cattle in Eastern Canada being purchased by one main buyer. There isn't enough competition to allow serious price negotiations to occur and since May 20, 2003 discussions regarding price have been basically non-existent. The one main buyer is in a position to control and influence the market.

Quebec and Alberta are the only provinces with legislation in place to allow central desk selling. Ontario does not have the ability to implement central desk selling under the Beef Cattle Marketing Act (BCMA). Central desk selling could occur under the Farm Products Marketing Act, however, OCA has received direction from the Board and the Advisory Council to continue to operate under the Beef Cattle Marketing Act.

Provision of central desk selling is the primary service offered by all hog marketing agencies in Canada . The creation and subsequent development of provincial marketing agencies for slaughter hogs in Canada were primarily stimulated by concerns about competition in the market place. Packing industry concentration was thought to limit the price negotiation process and benefit packers, at the expense of hog producers, by lowering prices of hogs. As a consequence of these market and price concerns, marketing agencies were established in all provinces with the general mandate of improving the bargaining power of producers. Originally, prices were negotiated between each of the provincial hog marketing agencies and major packers within each province. Increasingly, however, these prices have been based on formulas that reflect U.S. (mid-west) prices and shipping costs from each province.

Central desk selling does not easily accommodate strategic alliances and contracting for processing system integration. Strategic alliances are seen by some as a way to stave off the competitive challenge of large integrated production systems in the United States and achieve the organizational economies necessary for continued industry growth. Some critics of central desk selling argue that individual liberty is critical and the right to market as one would like to is very important.

OCA Position

The OCA board and advisory council is not open to central desk selling at this time. The Beef Cattle Marketing Act does not include legislation to allow central desk selling in Ontario , to implement OCA would have to move under the powers of the Farm Products Marketing Act. OCA has received direction from the Board and the Advisory Council to continue to operate under the Beef Cattle Marketing Act.

Establishing central desk selling in Ontario will not assist producers in negotiating better prices due to the limited number of buyers in Eastern Canada . The main buyer will still be in a position to control and influence the market. Central desk selling may provide improved bargaining power on behalf of producers when there are a few main buyers but the drawbacks: loss of individual liberty, coordination of supply and delivery, increased marketing costs, price negotiations and the complexities of the cattle marketing system preclude any value central desk selling may provide at this time.