Marketing and Competition Reform Talking Points

50-14 or SPOT MARKET BILL: Fewer and fewer cattle are sold on a negotiated cash basis, which reduces the ability for true price discovery in the cattle marketplace. Negotiated cash cattle make up less than 20 percent of the market yet set the price for the other 80 percent of cattle sold through formula contracts and or cattle futures market.

USCA supports S.3693 introduced by Senators Chuck Grassley and Jon Tester and H.R. 7501 introduced by Iowa Democrats Reps. Abby Finkenauer, David Loebsack and Cindy Axne. This legislation would require a minimum of 50 percent of each packer processing plant's weekly volume of beef slaughter to come as a result of purchases made on the open market or spot market, defined as those purchases which fall under Negotiated Purchase.

One of the main reasons the 50-14 bill was introduced is to eliminate anti-competitive packer-feedlot relationships where packers favor large feedlot operations who agree to sell only to that packer. The system rewards quantity over quality and gives the packer pricing leverage when large quantities of cattle are committed on formula-based contracts. We currently have a system where large feedlots with lower quality cattle receive a higher price than smaller feeders receive for their high-quality cattle filling the sale barns and yards in the upper Midwest. Family feeders should be rewarded for quality, not size.

As an example of how quality can be degraded, consider the hog market. After the pork industry vertically integrated, the incentive for producers became focused on throughput, and no producer incentive remains to develop genetics and animals that yield a higher quality, more flavorful product. The 50-14 mandate is great for producers wanting to raise quality cattle and provide an exceptional consumer eating experience.

WHAT WE NEED FROM CONGRESS:

- The Livestock Mandatory Price Reporting program expires this upcoming September 30, 2020. USCA would like to see changes made to this program to provide more accurate and transparent reports of daily prices and number of cattle purchased via the cash market.
- We need to host a Senate Agriculture Committee hearing on the state of the cattle market to bring forth the relevant experts, stakeholders, and other industry players to the table to discuss potential solutions for increasing transparency and true price discovery.
- We urge Members of Congress to consider joining the spot market bill as a cosponsor.

COMMON ARGUMENTS AGAINST THE BILL AND OUR RESPONSE:

1. **We don't need the government meddling in our free markets, or another government mandate weighing on us.**

   Price reporting in and of itself is a government mandate. And because government mandates restrict our access to selected data, we need to find ways to work around the confidentially clause that may curtail price reporting in any of the USDA reporting regions.

   We would accept the removal of the confidentially clause within the livestock Mandatory Reporting program as an alternative to the 50-14 bill. If we could remove the confidentiality clause, this legislation would not be needed.

2. **Requiring packers to purchase fifty percent of their weekly slaughter volume in the cash market is simply too much.**

   We understand that producers in Texas and other prominent formula regions may experience challenges reaching that threshold, but we do have to keep in mind that for states like Iowa, close to 50 percent of their total transactions occur in the cash market.

3. **Producers shouldn't be forced to give up their formula agreements or change the way they do business.**

   The large corporate feeders are the only producers benefiting from the current system. This legislation would shift market incentives away from being 'bigger', and toward being 'better'. The result would be a more competitive, efficient overall industry with participants who are rewarded for efficiently producing a high-quality product. Under this bill, Alternative Marketing Arrangements (AMAs), would still be allowed.

   We cannot allow the independent producer to go bankrupt in favor of supporting the large, corporate conglomerates. This year's market disruption and food shortages served as a stark demonstration of the critical importance of diverse cattle markets. When packing facilities began slowing production, the first ties they cut were those with independent producers. Corporate feeders went largely unharmed, due to their contract agreements, while independent producers were left with over-finished cattle and few, if any, marketing alternatives.

The below data table shows how just mandating even 30% would increase negotiated cash trade by approximately 9.4%.

Effect of 30% Rule On Total Cash Trade - Percent Cash Traded						
Year	2016	2017	2018	2019	2020 Jan-Apr	Average
Actual	30.6%	30.2%	28.5%	22.7%	35.9%	29.6%
30% Rule	38.4%	37.4%	38.5%	34.9%	45.6%	39.0%
Difference	+7.8%	+7.2%	+10%	+12.2%	+9.7%	+9.4%
Proportional Difference	25.6%	24.0%	35.1%	53.8%	27.0%	31.8%

This chart breaks down the effect of even 30% minimum cash trade by region.

Effect of 30% Minimum Cash Trade By Region										
	Colorado	Kansas	Nebraska	Western Cornbelt	TX/OK/NM	North Central	Total 5-Region	Difference 5-Region	Total	Difference
2016 Total	1,301,583	3,963,021	4,188,391	1,814,388	4,030,957	828,441	15,298,340		16,126,781	
Cash Actual	203,755	1,031,373	1,895,187	1,061,999	292,176	450,246	4,484,490	29.3%	4,934,736	30.6%
30% Cash Minimum	390,475	1,188,906	1,895,187	1,061,999	1,209,287	450,246	5,745,854	37.6%	6,196,100	38.4%
2017 Total	1,482,037	4,378,694	4,452,906	1,968,053	4,117,995	795,249	16,399,685		17,194,934	
Cash Actual	271,349	1,051,329	1,938,553	1,121,719	426,014	376,663	4,808,964	29.3%	5,185,627	30.2%
30% Cash Minimum	444,611	1,313,608	1,938,553	1,121,719	1,235,399	376,663	6,053,890	36.9%	6,430,553	37.4%
2018 Total	1,595,487	4,944,592	4,789,730	2,331,749	4,830,010	870,663	18,491,568		19,362,231	
Cash Actual	160,681	997,495	2,111,298	1,466,434	316,521	471,302	5,052,429	27.3%	5,523,731	28.5%
30% Cash Minimum	478,646	1,483,378	2,111,298	1,466,434	1,449,003	471,302	6,988,759	37.8%	7,460,061	38.5%
2019 Total	1,621,177	4,917,344	4,446,997	2,314,315	4,937,476	845,241	18,237,309		19,082,550	
Cash Actual	41,030	820,289	1,507,137	1,290,165	253,737	417,466	3,912,358	21.5%	4,329,824	22.7%
30% Cash Minimum	486,353	1,475,203	1,507,137	1,290,165	1,481,243	417,466	6,240,101	34.2%	6,657,567	34.9%
2020 to Date	510,614	1,462,851	1,201,436	1,313,074	652,225	236,224	5,140,200		5,376,424	
Cash Actual	0	268,901	381,253	86,603	349,187	118,553	1,085,944	21.1%	1,204,497	21.1%
30% Cash Minimum	153,184	438,855	381,253	393,922	349,187	118,553	1,716,402	33.4%	1,834,955	34.1%
5-Year Average Cash	10.4%	21.2%	41.1%	51.6%	8.8%	51.3%	26.3%	10.1%	27.5%	9.6%

These charts provide historical data on negotiated cash trade by year and region.

Cash Trade by Year			
Year	Total	Cash	% Cash
2008	18,255,925	9,346,162	51.20%
2009	18,448,069	8,739,819	47.38%
2010	18,805,425	8,430,027	44.83%
2011	18,124,712	7,310,604	40.34%
2012	17,347,863	5,677,418	32.73%
2013	15,910,347	4,548,016	28.59%
2014	15,654,699	4,437,802	28.35%
2015	14,845,170	3,858,233	25.99%
2016	15,908,975	5,095,125	32.03%
2017	16,957,553	5,366,832	31.65%
2018	19,181,816	5,742,677	29.94%
2019	18,854,702	4,529,751	24.02%

Percent Negotiated Cash by Region					
Year	Colorado	Kansas	Nebraska	TX/OK/NM	Western Cornbelt
2008	29.51%	43.41%	64.95%	34.90%	79.57%
2009	29.22%	41.49%	63.33%	27.62%	67.28%
2010	19.98%	43.42%	58.70%	22.54%	69.62%
2011	18.96%	40.42%	51.51%	18.48%	67.14%
2012	13.90%	30.73%	42.18%	11.35%	60.59%
2013	12.07%	23.46%	38.92%	6.41%	59.58%
2014	12.93%	16.76%	41.08%	3.03%	61.74%
2015	8.78%	13.58%	34.85%	2.83%	62.73%
2016	15.65%	26.02%	45.25%	7.25%	58.53%
2017	18.31%	24.01%	43.53%	10.35%	57.00%
2018	10.07%	20.17%	44.08%	6.55%	62.89%
2019	2.53%	16.68%	33.89%	5.14%	55.75%