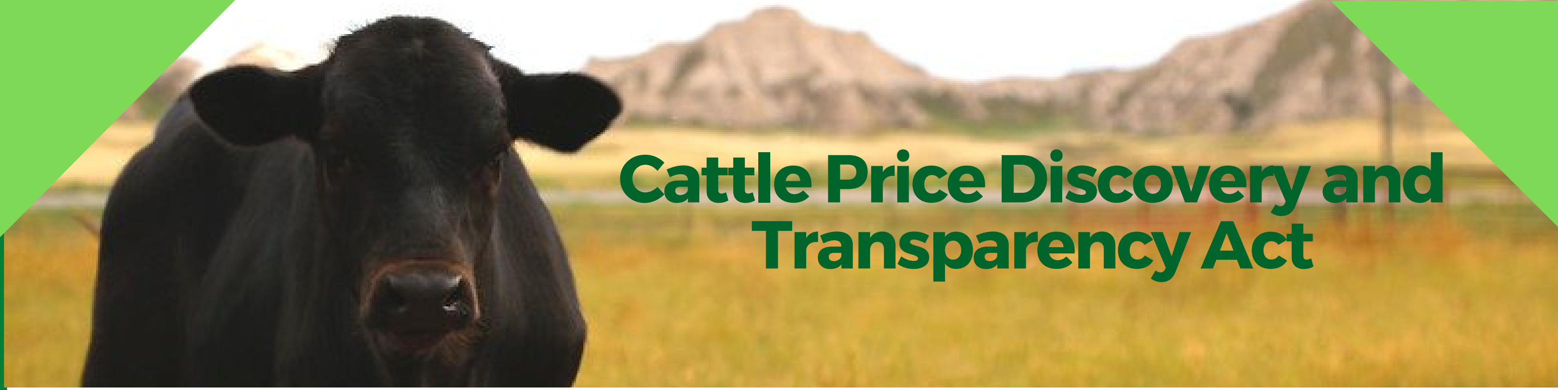

Cattle Price Discovery and Transparency Act

Issue:

A significant challenge facing the cattle industry is the declining number of participants in the negotiated cash market. In order to have robust price discovery that provides accurate information about market dynamics along the supply chain, you need a competitive cash market with multiple price discovery points. Negotiated trade, also called the “cash” or “spot” market increasingly has been replaced by formula pricing, forward markets, and longer-term marketing agreements—collectively referred to as “alternative marketing arrangements” (AMAs).

Cash transactions involve a bid and ask process. The cash market facilitates price discovery, which is the process of establishing the “going rate” of cattle based on market conditions at any given time. Formula pricing, where a reference price from a published report is used as the base price for the transaction, is becoming more common. The bulk of formula pricing uses negotiated cash prices as the base in the formula—meaning information from the negotiated cash market is being heavily leveraged by non-participants, even as it declines in volume.

Solution:

To address the declining negotiated cash market, and the resulting thinness of accurate price information, a regional approach is needed. The shift from cash sales to AMAs has been more dramatic in certain regions.

For example, from 2005 to 2018, there has been a 40% decrease in cash sales in the Texas/Oklahoma/New Mexico cattle region. Meanwhile, in the Iowa/Minnesota region, transactions in the cash market have dropped only 16% during the same time period. Absent government intervention, or any way to enforce a voluntary approach, cash market volumes are unlikely to return on their own—despite the fact that both parties in an AMA rely heavily on the information that is produced by cash market participants.

The Cattle Price Discovery and Transparency Act would address these issues by:

- Requiring the Secretary of Agriculture, in consultation with the USDA Chief Economist, to establish mandatory levels of negotiated cash and negotiated grid trade for each USDA AMS designated cattle region, seek public comment on those levels, then implement. Under this new program, covered packers—on a plant by plant basis—will be required to procure a certain amount of cattle from the cash market.
- Allowing USDA to periodically modify regional minimums after a public notice and comment period.
- Mandating that regional mandatory minimums proposed by USDA be not less than the current 18-month average for each region except in the case a region’s mandatory minimum exceeds 3 times that of the lowest regional mandatory minimum.
- Ensuring that no region disproportionately shoulders the responsibility of price discovery, this legislation prohibits any region’s mandatory minimum from being 3 times that of the lowest region’s mandatory minimum.
- Requiring a cost benefit analysis after 2 years to ensure the program is working as intended.