



National Cattlemen's
Beef Association

October 15, 2020

Dear Fellow Cattle Producer,

Price discovery has long been a top priority for the cattle industry and the National Cattlemen's Beef Association (NCBA). The availability of current and accurate market information has a substantial impact on our ability to make informed marketing decisions as cattle producers. It is no secret that in recent years adequate price information has been in decline in the fed cattle marketplace. This is largely due to the decrease in negotiated trade across the cattle feeding regions. While Alternative Marketing Arrangements (AMAs), such as formulas, grids, and forward contracts, have been very beneficial to cattle producers, studies have shown that sufficient levels of negotiated trade must occur in each cattle feeding region to achieve robust price discovery.

In addition to the issue of price discovery, two major "black swan" events have rocked the cattle markets in a short period of time. The fire at Tyson Foods, Inc. Finney County plant in Holcomb, Kansas applied historic downward pressure on cattle prices and accentuated an already volatile market. These events led NCBA leadership to appoint a Live Cattle Marketing Working Group of NCBA members to evaluate the effects of the Tyson fire and make policy recommendations based upon their discoveries. At the same time, NCBA also requested that the Packers and Stockyards Division at the United States Department of Agriculture (USDA) conduct an investigation to ensure that all market participants acted fairly and equitably in the aftermath of the fire.

We certainly could not have known then that the volatility we witnessed in the aftermath of the fire would pale in comparison to the market impacts from the COVID-19 pandemic. In response, I directed the Working Group to expand their scope to include the unprecedented marketing environment forced upon us by the coronavirus, and NCBA made the same request to USDA's Packers and Stockyards Division. At the same time, we made a direct request to President Trump to look into potential anti-competitive behavior in the marketplace. Within hours of making this request, he directed the Department of Justice's Antitrust Division to open such an investigation, which remains ongoing.

The Working Group reported its findings to the Live Cattle Marketing Committee at the 2020 NCBA Summer Business Meeting, which included recommendations for policy on the subject of price discovery. During that meeting, which lasted over six hours, delegates from every one of NCBA's state and breed affiliates debated the path NCBA should take in addressing price discovery moving forward. Impassioned arguments were made on all sides of the issue, but following the discussion the industry came together to unanimously adopt a Fed Cattle Price Discovery policy. This policy directed NCBA to appoint a subgroup to construct a voluntary framework, which includes triggers based on regional levels of negotiated trade, to increase frequent, transparent, and measured negotiated trade to regionally sufficient levels to achieve robust price discovery determined by NCBA funded and directed research in all major cattle feeding regions, and established a deadline of October 1, 2020 to complete this work. In the event that the voluntary framework does not result in robust price discovery, NCBA is directed to pursue a legislative or regulatory solution determined by the membership to achieve robust price discovery in all cattle regions.

Shortly after Summer Business Meeting, I appointed seven producer leaders with diverse viewpoints to the Regional Triggers Subgroup. I am pleased to report that, after months of bi-



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weekly meetings, the Subgroup has delivered its framework to the Live Cattle Marketing Working Group and the NCBA officer team. I am proud of the work these individuals have put into this document, and commend them for working together to find common ground among disparate views.

Called “A Voluntary Framework to Achieve Price Discovery in the Fed Cattle Market,” this approach lays out a plan to increase negotiated trade and incentivize each of the major packers’ participation in such negotiated trade. The framework explains in detail what we are calling the “75% Plan,” which is designed to provide negotiated trade and packer participation benchmarks for the industry to strive toward. In essence, the Subgroup will evaluate the weekly negotiated trade information for each of the USDA Agricultural Marketing Service’s cattle feeding reporting regions on a quarterly basis in arrears. Eventually, the Subgroup will include in its evaluation an analysis of packer participation data, but this information is not yet published under Livestock Mandatory Reporting. To avoid tripping triggers, in any given quarter, each region will have to:

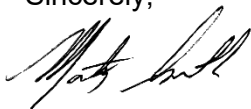
- Achieve no less than 75% of the weekly negotiated trade volume that current academic literature indicates is necessary for “robust” price discovery in that specific region,
- Achieve this negotiated trade threshold no less than 75% of the reporting weeks in a quarter,
- Achieve no less than 75% of the weekly packer participation requirements, to be determined in short order, and assigned to each specific region,
- Achieve this packer participation threshold no less than 75% of the reporting weeks in a quarter.

In the event that triggers are tripped in any two out of four rolling quarters, the Subgroup will recommend that NCBA pursue a legislative or regulatory solution to compel robust price discovery. The Subgroup will take into account black swans on a case-by-case basis, which are outlined in the *force majeure* section of the document, and may allow for flexibility within the 75% Plan if events disrupt the normal flow of cattle in a quarter. Periodic adjustments may need to be made to the framework in the event that academic literature is updated, technological advances are made, or other conditions of supply and demand have changed. The Subgroup will make these adjustments on an as-needed basis.

While certainly not a silver-bullet solution, I truly believe that this approach provides the industry a goal to strive towards and, perhaps more importantly, a path forward if progress is not demonstrated toward that goal. If you have additional questions or concerns about the framework, your state affiliate executive has additional resources. You can also always reach out to our NCBA staff in Washington, DC by calling 202-347-0228.

I am confident that the cattle industry will meet this challenge as it always does: head-on and at full steam. Together we can ensure price transparency and robust price discovery in our markets.

Sincerely,



Marty Smith
President
National Cattlemen’s Beef Association