Memorandum

Part 1 of 3

Date: November 11, 2021

To: Drafters of compromised Cattle Market Price Discovery and Transparency Bill

From: Bill Bullard, R-CALF USA

Re: **Concern Regarding Regional Approach to Price Discovery**

The compromise rejects a national per-plant minimum negotiated volume requirement in favor of regional per-plant negotiated volume minimums.

This regional approach with varied minimums is based on three assumptions:

1. Maintaining a majority of Alternative Marketing Agreements (AMAs) is preferred over bolstering cash volumes because, *inter alia*, AMAs are needed to ensure beef quality.
2. A relatively small cash market volume in certain reporting regions is sufficient to maintain robust price discovery.
3. Having different minimum cash market volumes for each reporting region will have no adverse effect on the competitiveness of the overall U.S. cattle market.

The science is not at all settled regarding the correctness of these assumptions. Yes, there is a cadre of agricultural economists who embrace these assumptions; but some, if not many of them have long assumed a highly concentrated beef packing sector is preferable to one that is widely disaggregated. They are, in fact, among the economists who helped shape today's cattle market into what it is today – a dysfunctional market.

Assuming, *arguendo,* that these assumptions are valid, they nevertheless fail completely to address a critical element of the competitive process. That element is timely market access, which is arguably equally as important as price discovery. Timely market access is a huge problem in today's market. The concentrated beef packers have long been able to "back-up" cattle by denying timely market access to independent cattle feeders. This forces independent cattle feeders to either enter AMAs with packers or go out of business. Data suggest the majority of independent feeders chose the latter. Congress should commission a truly independent investigation to determine the extent to which this anticompetitive phenomenon contributed to the ultra-thin cash markets now prevalent in reporting regions such as TX/OK/NM, Kansas, and perhaps Colorado.

Empirical evidence reveals that today's region-by-region cash market volumes are woefully insufficient to provide either robust price discovery or timely market access for market participants, which itself contradicts the equivocal assumptions underpinning the compromise bill.

Congress should not now memorialize today's non-competitive cattle market in statute, which is, unfortunately, what the "Cattle Market Price Discovery" section of the compromise bill will do, albeit with some indeterminable prospect for gradual improvements over ensuing years.