Memorandum

Part 2 of 3

Date: November 11, 2021

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

From: Bill Bullard, R-CALF USA

Re: Suggestions for Improving Price Discovery Provisions in Compromise Bill

In Part 1, grave concerns were raised regarding the regional approach incorporated in the compromise bill. Here, notwithstanding those concerns, suggestions are offered for improving the price discovery provision in the compromise bill.

Definition of Negotiated Grid Purchase: Negotiated grid purchases must be defined to ensure that the negotiated base price is, in fact, a negotiated price reportable on the day of the transaction, as opposed to a price pegged to some other index, such as an average weekly price, not known on the day of the transaction. If the definition of negotiated grid purchase is not tightened up, then many negotiated grid purchases will not contribute to price discovery, thus undermining the compromise bill.

Definition of Regional Mandatory Minimum: The definition of a regional mandatory minimum must be expanded to include all packing plants owned by packers with more than one plant. There are ~10 plants owned by multiple-plant packers located outside the 5-area regions currently defined by the USDA. If the purpose of the compromise bill is to improve price discovery, its reforms must include all regions where all packers procure cattle, not just in the regions now recognized by the USDA because the unbridled concentration and consolidation of the beef packing industry has caused ~75% of the nation's packing capacity and ~80% of the nation's feedlot capacity to centralize in the High Plains region of the United States. Not addressing the procurement by these outlier plants will essentially "lock-in" this unfavorable market structure and make any future reforms of that structure difficult. Congress should initiate an investigation to determine the extent to which the purchasing practices of these 10 or so outlier plants have created barriers to entry for new small- to mid-sized feedlots, which deprives rural communities of needed economic activity.

Academic Literature: The compromise bill suggests that USDA should examine only existing academic literature for determining appropriate negotiated minimums. R-CALF USA is unaware of any current academic studies that incorporate current market data – data generated after the 2015 cattle market collapse, but based on information and belief, is confident that such academic research likely is forthcoming. Congress should not limit the examination of only preexisting and potentially outdated academic literature in statute and should instead encourage more, and more current research into the functionality of the cattle market.

Regional Mandatory Minimum: Congress should not direct or otherwise allow the USDA to establish regional mandatory minimum purchase levels that are at or near the reported volumes of negotiated cash and grid purchases that occurred during the period when the cattle market was

more dysfunctional than during any time in history, such as the levels during the past 18 months or 3 years. Doing so will ensure that the compromise bill does absolutely nothing to improve price discovery.

Instead, Congress should act decisively to set mandatory minimums at levels that are no less than double the average volume of cash and grid purchases reported during the past 18 months, with a 50% cap for those regions that would exceed 50%. Starting from this statutory minimum threshold, Congress could then delegate to the USDA the authority to increase the mandatory minimums through public notice and comment as well as to regularly monitor the market.