

August 7, 2023

## Fixing the Cattle Price Discovery and Transparency Act.

After years of depressed prices, we ranchers and cattle feeders are desperate for Congress to do something – do anything! It was in this context that the 50/14 concept was conceived. When the “negotiated spot market” for fat cattle got down to less than 20% of the total, it became a problem that obviously needs correction. Particularly since the prices derived in this very thin market are used by the packer cartel to buy the remaining 80% of cattle – the “captive supply.” Clearly, the cattle industry has a corrupt price discovery mechanism.

The idea is that if beef packers are required to buy more of the cattle on the “negotiated spot market” this market dysfunction would be corrected. Many felt that 50% of the fat cattle should be purchased on the “negotiated spot market” for delivery no more than 14 days in advance. Hence 50/14.

As a result of the advocacy of cattle producers and their organizations, a bipartisan group of Senators, led by Senators Grassley and Fischer have proposed “The Cattle Price Discovery and Transparency Act” which would put the 50/14 concept into law. Unfortunately, there is a big flaw.

First, we should more clearly understand that the “negotiated spot market” for fat cattle is a “negotiated” market. Whenever you have a “negotiated” market, you lose transparency because each transaction is made in secret from all of the other transactions being negotiated in the same time frame. Therefore, the party who has the most information has the most power. Packers clearly control the information and has the least to lose if an individual purchase is not confirmed.

Furthermore, in a recent op/ed “Please We Want No New Subsidies” Bill Bullard (CEO of R-Calf) demonstrates that the “negotiated spot market” transactions are all made at the end of the week all at the same time. A practice that looks suspiciously like packer collusion. The sellers, the ones who have the most to lose, are not allowed time to negotiate with each of the four potential buyers or even confer with one another about bids being offered. It is a matter of take the price offered or feed your cattle for another week.

Because of the Mandatory Price Reporting law, the results of these “negotiated” sales are eventually reported to USDA and the average price derived by this corrupt mechanism is then used to price the “captive supply” cattle committed to be delivered that coming week. What you have is a “Captive Market” pricing the “Captive Supply.” This can never work honestly, even if the “negotiate spot market” is substantially greater than 20%.

There is, however, a simple way to fix this. “The Cattle Price Discovery and Transparency Act” directs USDA to come up with a plan to increase the numbers of cattle purchased in the “negotiated spot market,” and directs USDA how they should proceed. However, the Act also

allows for packers to buy fat cattle through an electronic auction market, but does not require that this actually happens. The sponsors of the Act need to put teeth in this provision.

In general, auction markets are the best form of price discovery and electronic auctions are a very cost-effective way to buy and sell. There is no technical reason that an electronic market for fat cattle would not work very efficiently, just as they do for marketing feeder cattle. However, although there have been numerous attempts, no electronic market for fat cattle has been successful because the packers have no incentive to use it. From the packer's perspective, the "negotiated spot market" works just fine.

In order for the packer cartel to buy through independently operated electronic market auctions, Congress would have to specifically require that they do. If the sponsors of the "Cattle Price Discovery and Transparency Act" were to amend this Act to require that packers start purchasing fat cattle through independent electronic marketing platforms, we would finally be on the road to a truly competitive and transparent price discovery mechanism. This amendment need only set specific targets for its adoption. Private enterprise would do the rest.

We can have a price discovery system and market that is transparent and competitive - but only if we so demand and only if we convince Congress that this is the proper way to restore competition to the fat cattle market.

Gilles Stockton  
Grass Range, Montana