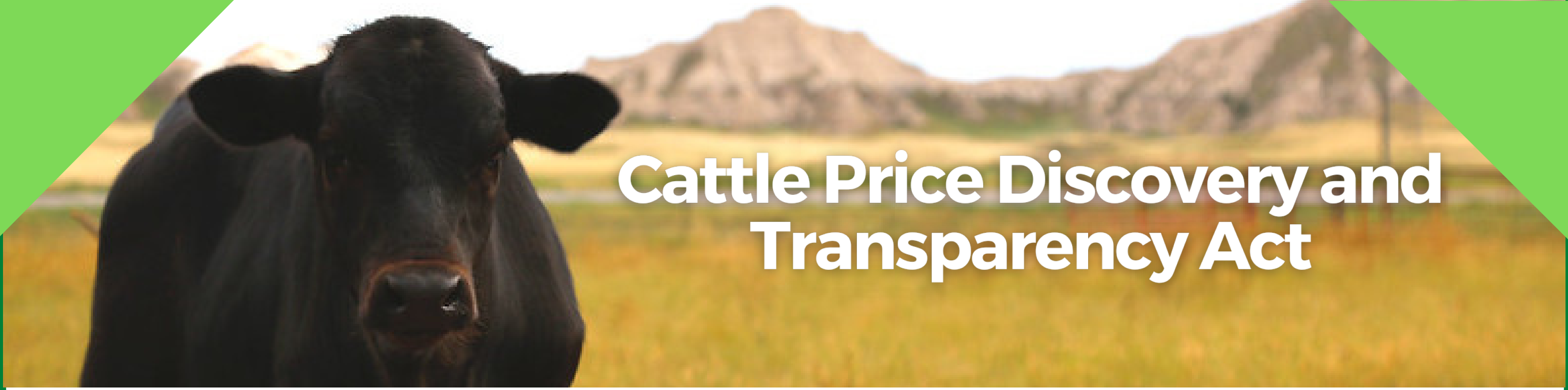

Cattle Price Discovery and Transparency Act

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 Negotiated trade, also called the “cash” or “spot” market increasingly has been replaced by formula pricing, forward contracts, and longer-term marketing agreements—collectively referred to as “alternative marketing arrangements” (AMAs).

Negotiated transactions involve a bid and ask process. The negotiated 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 negotiated purchases decline in volume.

If a packer relies on the negotiated market to set the price for a large portion of the cattle they purchase, they should actively participate in establishing the negotiated price.

Solution:

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

- Requires USDA to establish 5-7 regions covering the continental United States and that reasonably reflect similar fed cattle purchases.
- Designates a set of approved pricing mechanisms for covered packers that contribute to price discovery and transparency. These include fed cattle purchases through negotiated cash, negotiated grid, at stockyards, and through trading systems where multiple buyers and sellers can make and accept bids.
- Requires USDA to set minimum levels of purchases through approved pricing mechanisms that covered packers – those controlling five percent of more of fed cattle slaughter – must make.
- Mandates that each regional mandatory minimum be not less than the average of that region’s negotiated trade for the two year period of 2020-2021. Additionally, sets a maximum threshold for any region at 50 percent.
- Requires USDA to conduct an initial review of mandatory minimums after two years.
- Allows USDA to work with the cattle and beef industry to periodically review and modify regional minimums after a public notice and comment period.