

Benavidez, Justin R.; Anderson, David P.; Fischer, Bart L.; Outlaw, Joe L.

Research Report

Analysis of S. 4030: Cattle price discovery and transparency act of 2022

AFPC Briefing Paper, No. 22-4

Provided in Cooperation with:

The Agricultural & Food Policy Center (AFPC), Texas A&M University

Suggested Citation: Benavidez, Justin R.; Anderson, David P.; Fischer, Bart L.; Outlaw, Joe L. (2022) : Analysis of S. 4030: Cattle price discovery and transparency act of 2022, AFPC Briefing Paper, No. 22-4, Texas A&M University, The Agricultural & Food Policy Center (AFPC), College Station, TX

This Version is available at:

<https://hdl.handle.net/10419/267857>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Agricultural and Food Policy Center
Texas A&M University

April 2022

Analysis of S. 4030 – Cattle Price Discovery and Transparency Act of 2022



AFPC

Department of Agricultural Economics
Texas A&M AgriLife Research
Texas A&M AgriLife Extension Service
Texas A&M University

TEXAS A&M
AGRI LIFE
RESEARCH | EXTENSION

College Station, Texas 77843-2124
Telephone: (979) 845-5913
Fax: (979) 845-3140
<http://www.afpc.tamu.edu> | @AFPCTAMU

© 2022 by the Agricultural and Food Policy Center

Briefing Paper 22-04

Photo courtesy USDA.

Agricultural and Food Policy Center
Department of Agricultural Economics
2124 TAMU
College Station, TX 77843-2124
Web site: www.afpc.tamu.edu
Twitter: @AFPCTAMU

04/22/2022__3

Analysis of S. 4030 – Cattle Price Discovery and Transparency Act of 2022

Justin R. Benavidez
David P. Anderson
Bart L. Fischer
Joe L. Outlaw



**Agricultural and Food Policy Center
The Texas A&M University System**

Agricultural & Food Policy Center
Department of Agricultural Economics
Texas A&M AgriLife Research
Texas A&M AgriLife Extension Service
Texas A&M University

Briefing Paper 22-04

April 2022

College Station, Texas 77843-2124
Telephone: 979.845.5913
Fax: 979.845.3140
Web site: <http://www.afpc.tamu.edu/>
Twitter: @AFPCTAMU

Introduction

On April 7, 2022, Sens. Deb Fischer (R-Neb.), Chuck Grassley (R-Iowa), Jon Tester (D-Mont.), and Ron Wyden (D-Ore.) announced a compromise cattle market proposal that was subsequently introduced as S. 4030, the *Cattle Price Discovery and Transparency Act of 2022*. This latest bill modifies an earlier version that was introduced in November 2021 as S. 3229. Table 1 highlights the key differences between the two bills.

This latest bill proposes to establish a regional mandatory minimum threshold for the percentage of cattle purchased under negotiated grid or negotiated pricing terms, to establish five to seven contiguous regions encompassing the continental United States for fed cattle reporting purposes, to establish a contract library, and to expand and change certain reporting requirements and data collection for cattle pricing and slaughter.

Senator John Boozman, Ranking Member, Senate Committee on Agriculture, Nutrition, and Forestry, asked the Agricultural and Food Policy Center (AFPC) to examine the impact of S. 4030 on the various segments of the beef and cattle supply chain.

Expected Impact of Negotiated Trade Volume Mandates on Forecast Negotiated Trade Volume

S. 4030 requires the Secretary of Agriculture (the Secretary) to establish minimum thresholds below which negotiated trade volumes cannot fall, allowing for public input and the review and modification of those thresholds. Section 259 establishes bounds within which the Secretary must establish minimum negotiated volume thresholds. The bounds dictate that:

- No regional minimum can be less than the average percentage of negotiated purchases and negotiated grid purchases made in a region between January 1, 2020, and January 1, 2022, and
- No regional mandatory minimum can exceed 50 percent of total weekly or total monthly trade.

In practice, had the bill been enacted on January 1, 2022, the minimum bounds of required negotiated trade are presented in Table 2. The methodology utilized in this analysis is discussed at length in *Analysis of S. 3229 – Cattle Price Discovery and Transparency Act of 2021* by the Agricultural & Food Policy Center.¹ As with that earlier report, this analysis excludes Colorado from the typical 5-area cattle region due to lack of consistent data.

Importantly, S. 4030 calls for the Secretary to establish five to seven “covered regions” that encompass the entire continental U.S. and that reflect similar fed cattle purchasing practices. Because the publicly avail-

¹ <https://afpc.tamu.edu/research/publications/files/712/BP-22-Cattle-Market-Transparency.pdf>

Table 1. Key Differences in S. 3229 and S. 4030.

| | S. 3229 | S. 4030 |
|---|---------------------------|------------------------------|
| Data Series to Develop Initial Mandatory Minimum Negotiated Trade Thresholds | July 2020 - December 2021 | January 2020 - December 2021 |
| Initial Mandatory Minimum Negotiated Trade Threshold – Maximum | 45% | 50% |
| Subjects all packers responsible for processing more than 5% of fed cattle to participate in the mandatory minimum negotiated trade rules | No | Yes |
| Establishes a cattle contract library | Yes | Yes |
| Requires Secretary of Agriculture to Establish 5-7 regions encompassing the continental U.S. | No | Yes |
| Mandates annual reporting of cutout yield | No | Yes |

Table 2. S. 4030 Negotiated Volume Mandatory Minimum Requirements Utilizing January 1, 2020 – January 1, 2022 Data.

| | Texas-Oklahoma-New Mexico | Kansas | Nebraska | Iowa-Minnesota |
|---|---------------------------|---------|----------|----------------|
| 24-month Average Weekly Negotiated Volume | 11,775 | 21,704 | 32,643 | 25,503 |
| 24-month Average Weekly Total Volume | 94,762 | 105,828 | 84,912 | 49,692 |
| 24-month Average Weekly Negotiated Volume as Percent of Total Volume | 12.4% | 20.5% | 38.4% | 51.3% |
| Minimum Weekly Negotiated Trade as Percent of Total Trade Allowed Under S. 4030 | 12.4% | 20.5% | 38.4% | 50.0%* |
| * This value represents the maximum initial mandatory minimum negotiated volume requirements set forth in Sec. 259. | | | | |

Table 3. Difference in Weekly Forecast Negotiated Volume and Weekly Policy-Imposed Negotiated Volume from Table 2, Forecast of 2022-2026.

| | Average Weekly Expected Deficit, Negotiated Volume | Maximum Expected Deficit, Negotiated Volume | Expected Weeks Negotiated Volume Deficit Compared to S. 4030 Requirement | Total Expected Additional Negotiated Sales as Result of S. 4030, '22-'26 |
|---------------------------|--|---|--|--|
| | <i>Head</i> | <i>Head</i> | <i>Percent</i> | <i>Head</i> |
| Texas-Oklahoma-New Mexico | 6,543 | 13,308 | 98% | 1,707,713 |
| Kansas | 1,195 | 7,937 | 53% | 311,983 |
| Nebraska | 859 | 6,442 | 42% | 224,257 |
| Iowa-Minnesota | 31 | 2,074 | 3% | 8,138 |

able data on fed cattle purchases outside of the current five-area region is largely presented in aggregate, we cannot reliably estimate the impacts of S. 4030 outside of the five-area region. Consequently, in this analysis, we again analyze the expected change in negotiated volumes as a result of the mandate in four of USDA's five major reporting regions which include Texas-Oklahoma-New Mexico, Kansas, Nebraska, and Iowa-Minnesota (as noted above, Colorado data is not included due to inconsistency in reporting). As a result, the following analysis should only be viewed as potential impacts on the included states, with the understanding that results could vary widely depending on the Secretary's designation of different regions.

Figures 1-4 show the expected unrestricted negotiated trade plotted against the negotiated trade minimums compelled by S. 4030 through December 2026, a 5-year outlook. Each figure represents one of four cattle sales regions, and each figure shows two different data series. The first series, plotted with a solid blue line, is a forecast of expected weekly negotiated volume as a percent of total weekly volume with no restrictions imposed. The second series, plotted with a dashed yellow line, is the minimum allowable threshold of weekly negotiated volume as a percent of total sales under S. 4030, had the bill in force on January 1, 2022. When the blue line falls below the yellow line, the difference in the two lines represents the percent by which unrestricted negotiated trade falls short of the minimum thresholds established by S. 4030.

The bounds for a mandatory minimum negotiated threshold set by S. 4030 change the expected deficits and expected costs of the bill when compared to S. 3229. Expanding the window utilized to establish the initial thresholds (from 18 months in S. 3229 to 24 months in S. 4030) incorporates data from an additional six months in which negotiated trade volumes as a percentage were lower in all regions. Incorporating that new data into the average utilized to establish parameters for an initial mandatory minimum requirement lowers the bound significantly for Texas-Oklahoma-New Mexico and Kansas, reducing the difference in expected "natural" negotiated trade and the minimum thresholds set by S. 4030 (Table 3). When compared to S. 3229, the number of additional head that would need to be marketed via negotiated sales would be lower under S. 4030 (2.3 million versus approximately 6 million).

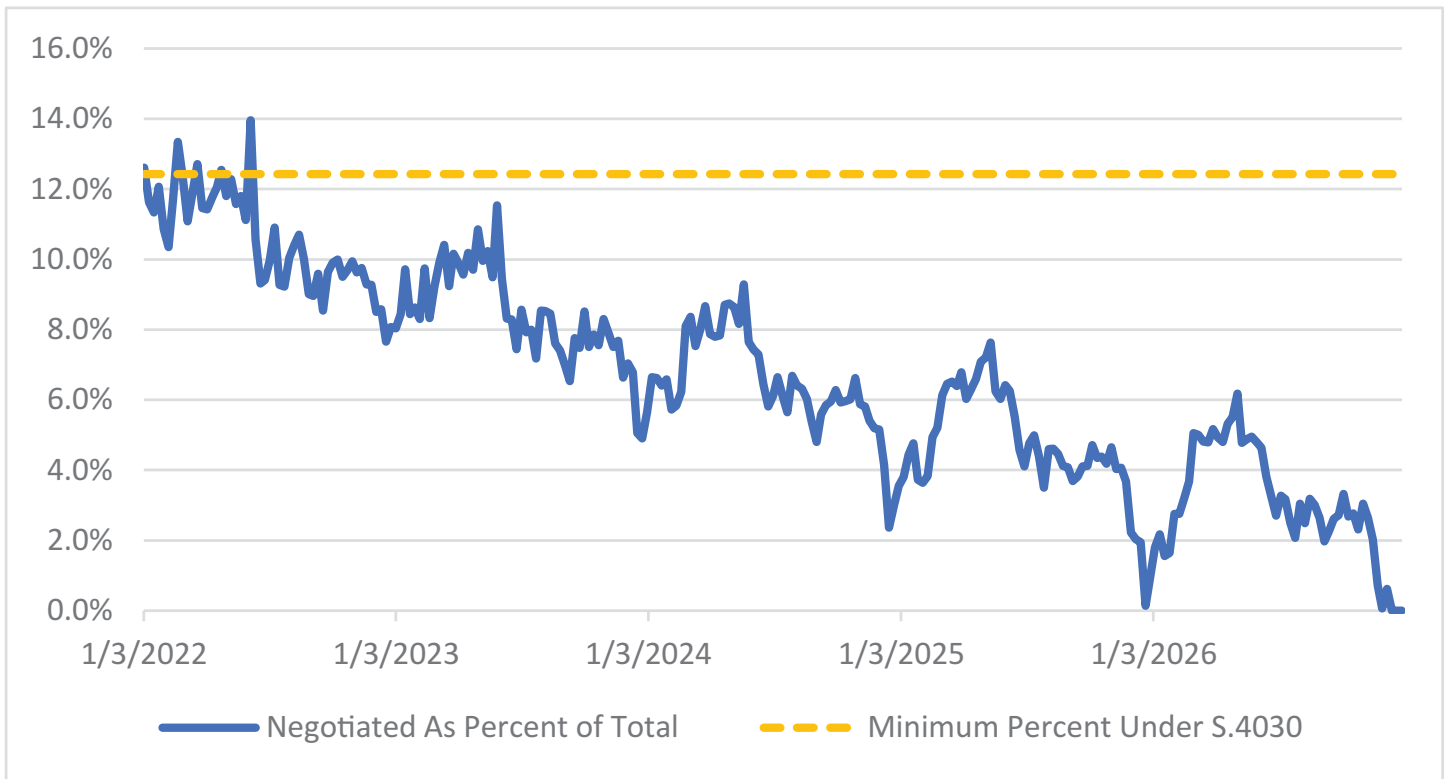


Figure 1. Weekly Unrestricted Negotiated Volume vs. Weekly Policy-Imposed (Restricted) Negotiated Volume, Texas-Oklahoma-New Mexico, Forecast of 2022-2026.

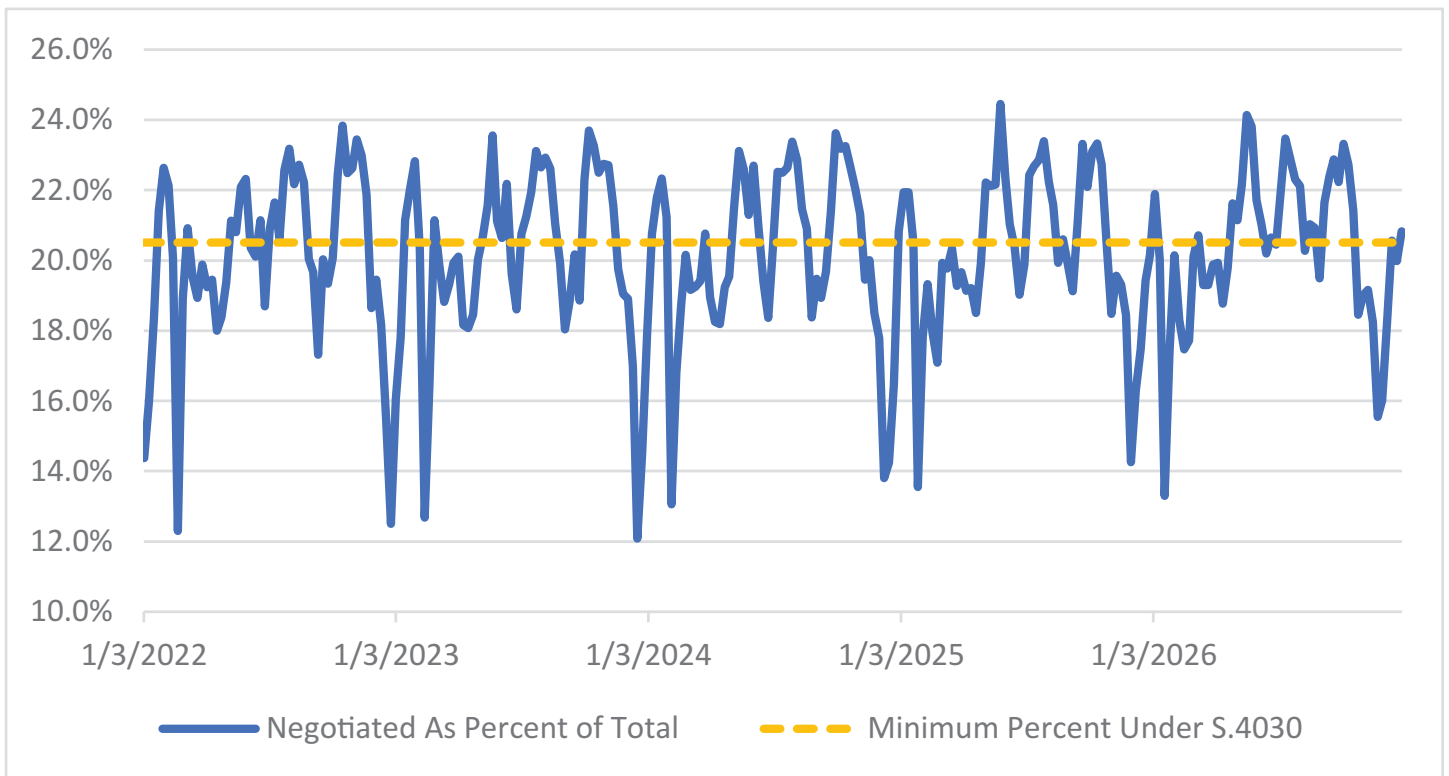


Figure 2. Weekly Unrestricted Negotiated Volume vs. Weekly Policy-Imposed (Restricted) Negotiated Volume, Kansas, Forecast of 2022-2026.

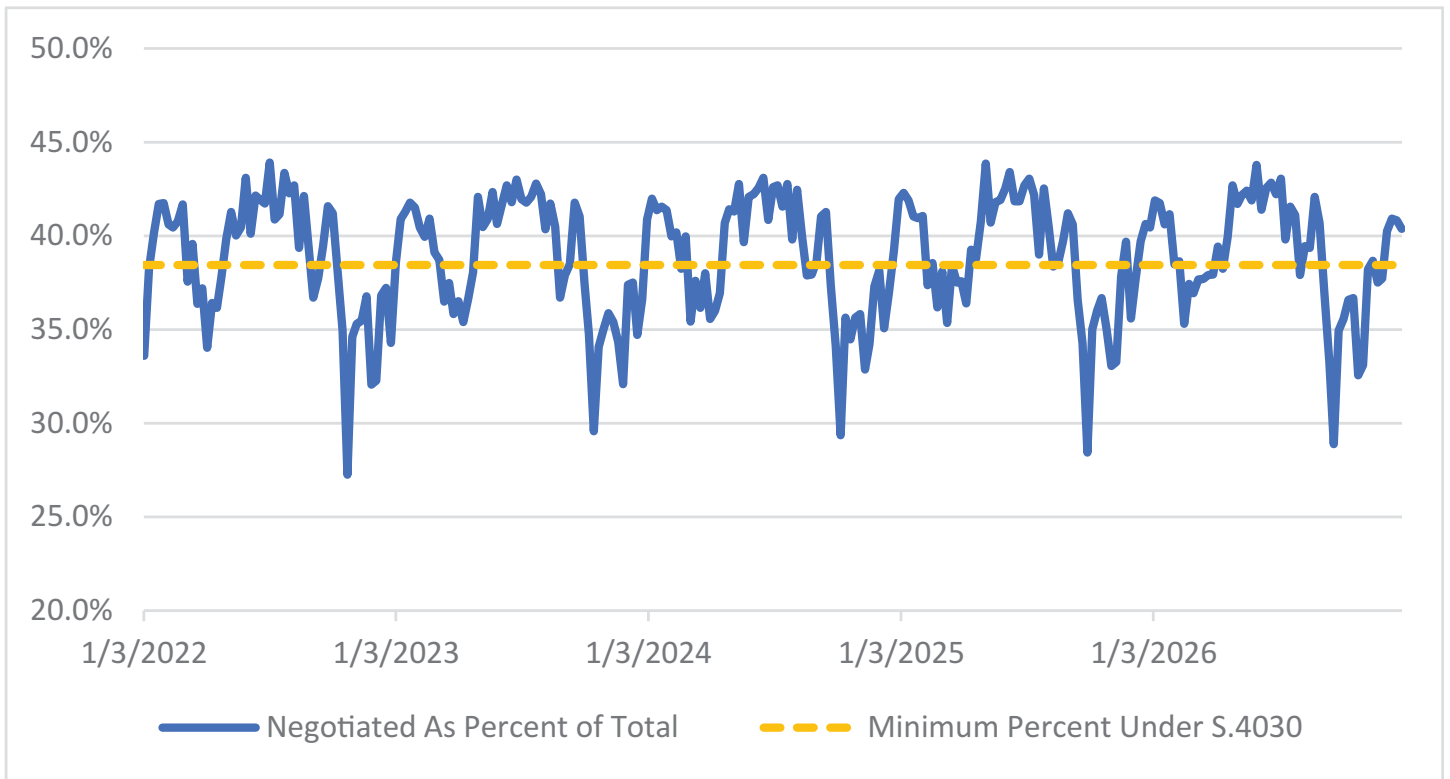


Figure 3. Weekly Unrestricted Negotiated Volume vs. Weekly Policy-Imposed (Restricted) Negotiated Volume, Nebraska, Forecast of 2022-2026.

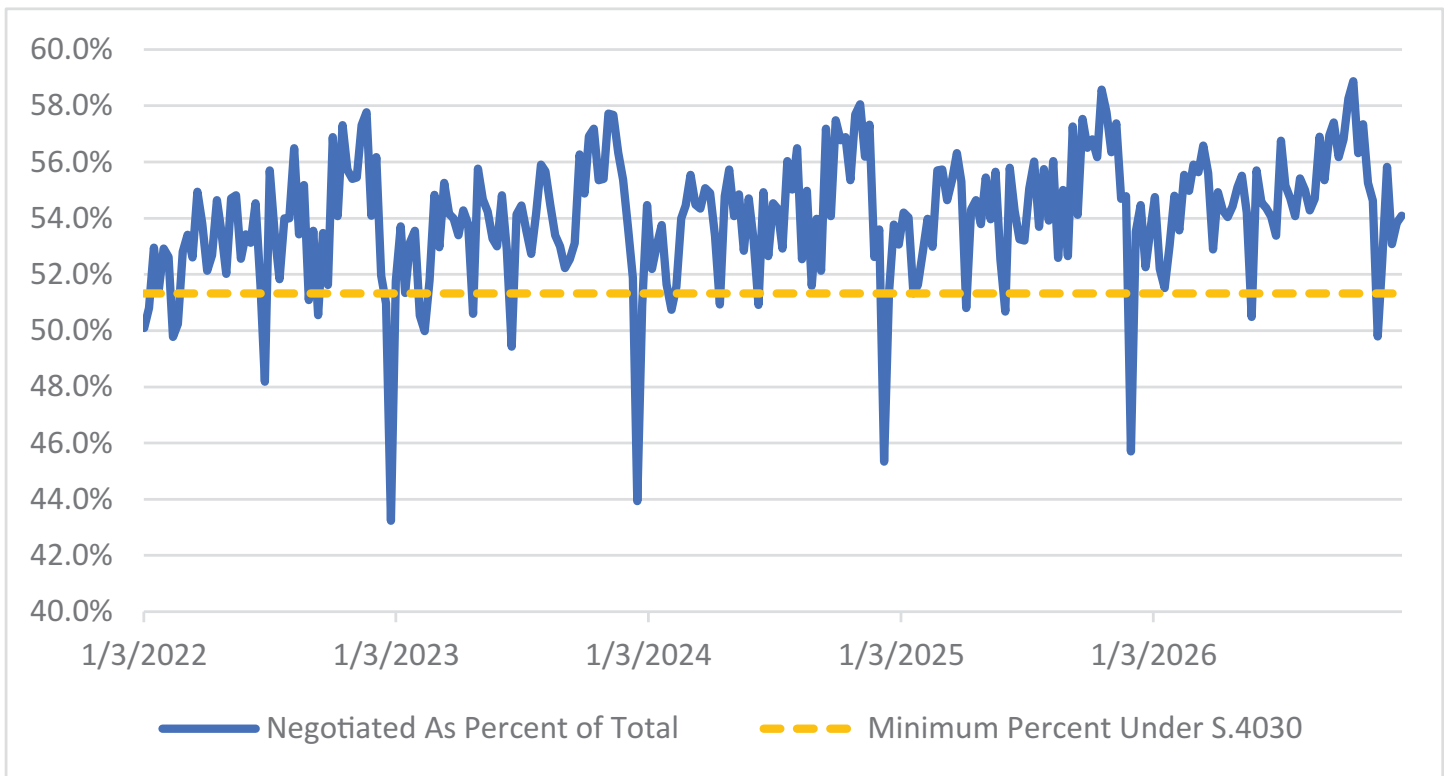


Figure 4. Weekly Unrestricted Negotiated Volume vs. Weekly Policy-Imposed (Restricted) Negotiated Volume, Iowa-Minnesota, Forecast of 2022-2026.

Importantly, while Tables 2 & 3 highlight the impacts of mandatory regional minimums reflecting the 2-year average, under S. 4030, the Secretary may set the initial mandatory minimum negotiated volume threshold as high as 50% across all regions. If that were to happen – in the Texas-Oklahoma-New Mexico region, for example – the total expected additional negotiated sales required as a result of S. 4030 would explode, increasing from roughly 1.7 million head (Table 3) to more than 12 million head from 2022 to 2026. In other words, the impact of S. 4030 could be far greater than the estimates in this report, depending on how the Secretary uses the discretion provided in the bill.

In our earlier analysis of S. 3229, we provided the expected cost of the bill assuming various costs per head (Table 3, *Analysis of S. 3229 – Cattle Price Discovery and Transparency Act of 2021*). While we would like to be able to present a similar table in this report for the sake of consistency, we do not replicate the same analysis here because of the additional uncertainty surrounding the new provisions established in S. 4030 (e.g. new reporting regions, packer-level data collection, etc.). While the reader may choose to draw their own conclusions (i.e. at a cost of \$50/head on 2.3 million head, the cost of S. 4030 would be \$112.6 million from 2022 to 2026), we believe the cost estimates could be significantly larger for the reasons noted above.

Forecast Comparisons

Since the publication of *Analysis of S. 3229 – Cattle Price Discovery and Transparency Act of 2021*, some have cited the forecast of negotiated volume for Texas-Oklahoma-New Mexico in Figure 1 of that publication as justification for imposing a negotiated mandate. Those parties have claimed that the figure shows that negotiated trade will fall to zero absent such mandate. Each of those sources ignore critical points.

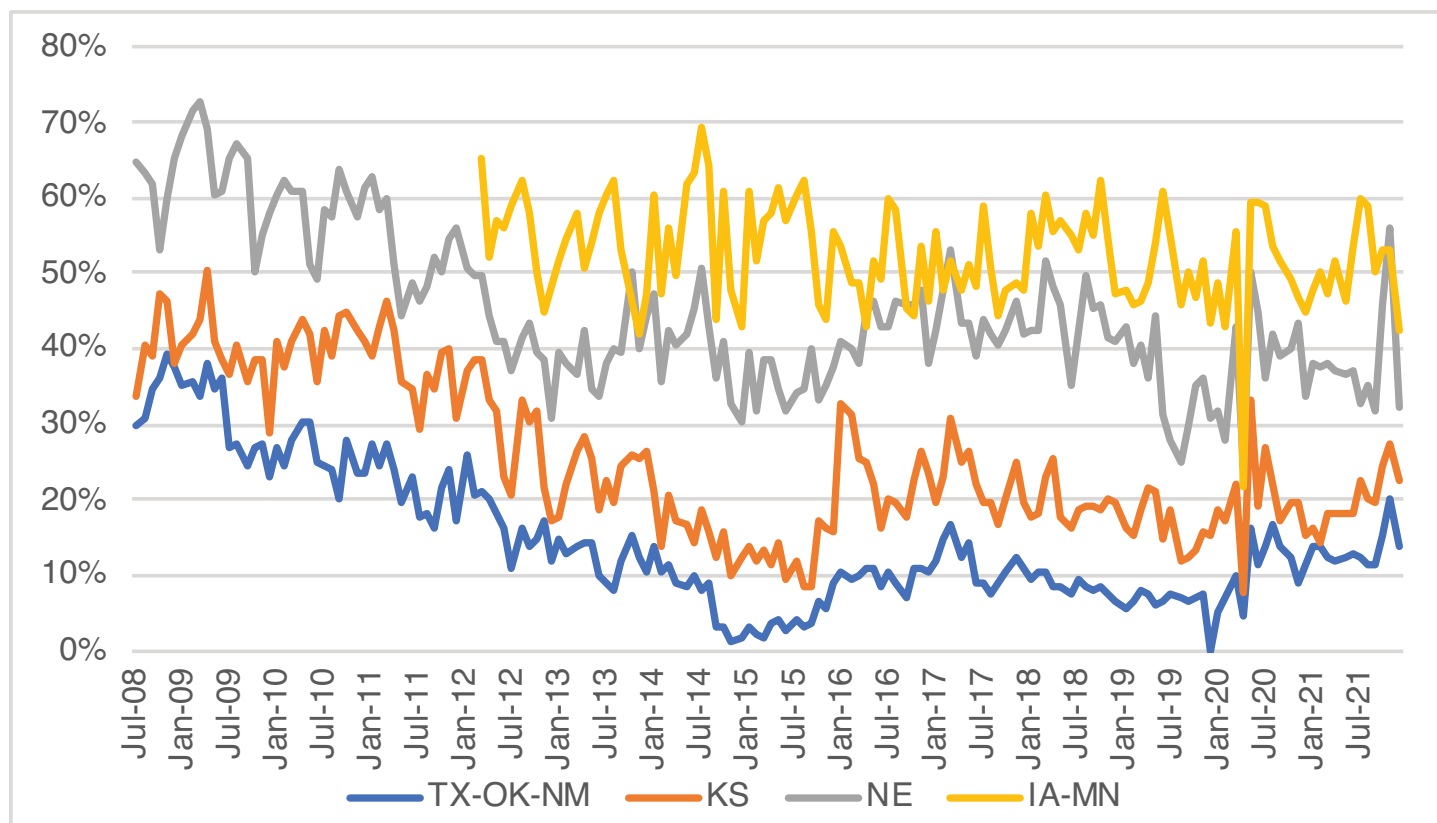


Figure 5. Monthly Average Fed Cattle Negotiated Sales as a Percent of Average Total Fed Cattle Sales by Region, July 2008 – December 2021.

For example, the publication explicitly states:

Importantly, though Figure 1 forecasts unrestricted negotiated trade falling to and remaining at zero, we do not expect that negotiated trade will fall completely to zero, but asymptotically approach a near-zero value over time.

That caveat was included because the authors chose to utilize the most comprehensive data series available for all regions, beginning in 2012 when Mandatory Price Reporting (MPR/LMR) began splitting negotiated and non-negotiated sales across all regions.² Though there are unique trends in each region, the length of the data series was maintained across all regions for consistency. The difference in those trends lends important context to the forecasts of negotiated volumes, particularly those in Texas-Oklahoma-New Mexico.

Negotiated trade as a percent of total trade fell at a more rapid pace from 2012-2015 in Texas-Oklahoma-New Mexico and Kansas than in Nebraska (Figure 5). Nebraska lost a significant amount of negotiated volume from 2008-2012, but volumes roughly stabilized between 2012-2021. Negotiated trade remained much closer to zero from 2014 to 2015 in Texas-Oklahoma-New Mexico than in all other regions. Because those data are included in the forecast, the mathematical rate of decline overpowers all other factors and, without explicit truncation in the simulation, drives expected negotiated volumes toward zero.

² Split negotiated and non-negotiated data are not publicly available for Iowa-Minnesota prior to 2012.

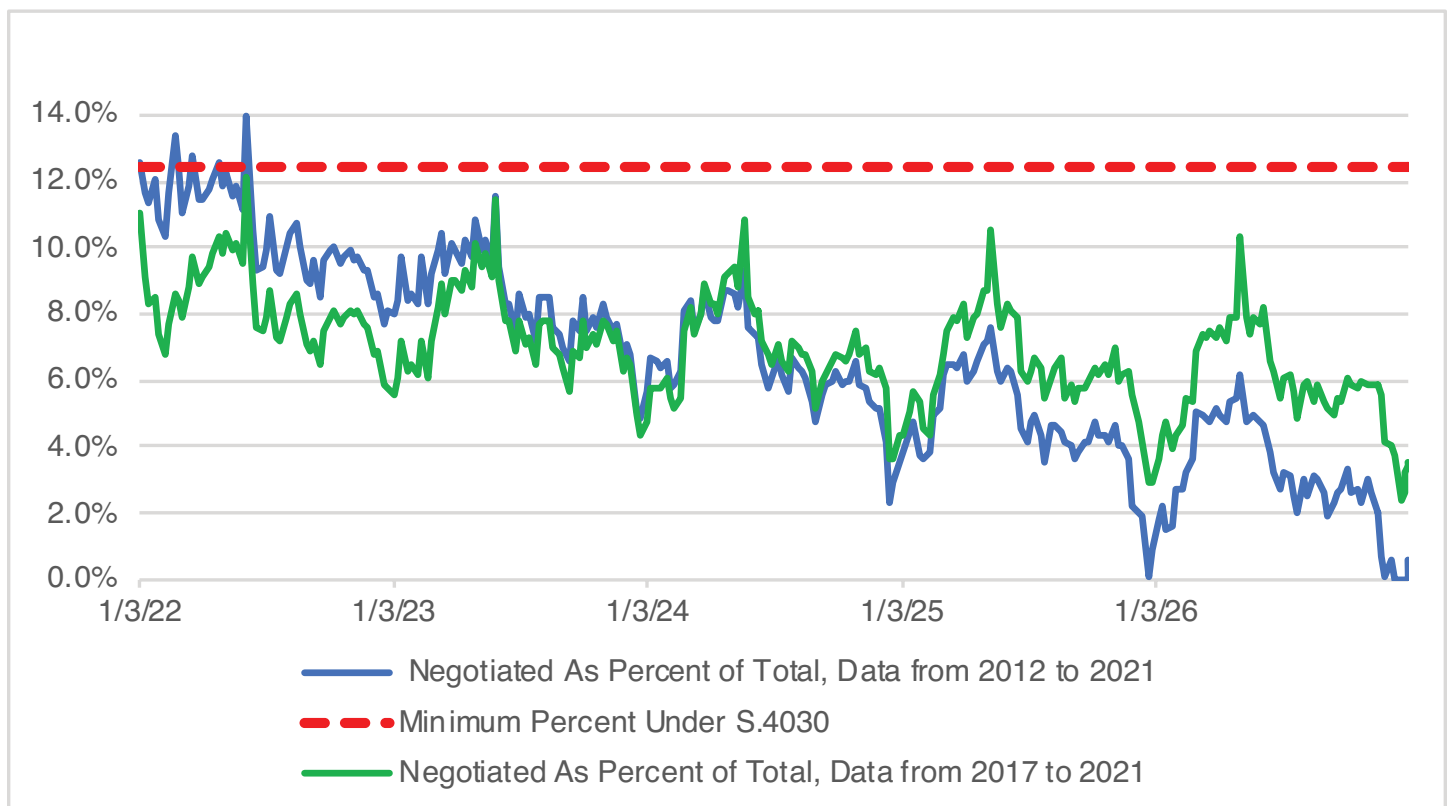


Figure 6. Comparison of Expected Negotiated Trade Volumes 2022-2026 Using (1) Data from 2012 to 2021 and (2) Data from 2017 to 2021.

However, a shorter data series representing more recent events yields different outcomes in Texas-Okla-homa-New Mexico. A five-year data set (2017-2021) yields higher average negotiated volume as a percent of total trade, and an increasing rate of negotiated trade for certain parts of the series (Figure 6). The resulting expected negotiated volumes still decline, but at a slower rate. Expected negotiated volumes also never reach 0% in a forecast utilizing data from 2017-2021. The results for the other regions are roughly consistent across data sets.

Conclusion

In this analysis, we estimate that an additional 2.3 million head of cattle will be required to be marketed via negotiated sales as a result of S. 4030. While that is considerably less than required under previous versions of the bill (i.e., S. 3229), it is still a significant burden that falls largely on the Southern Plains. Further, between the considerable discretion provided to the Secretary in S. 4030 and the uncertainty surrounding many of the key provisions, we are limited in what we can conclude. While we've restricted our work to using the regional framework that's currently in place with data that is currently available – and while we have purposely excluded overall cost estimates as a result – it's relatively easy to conceive of scenarios where the total cost associated with S. 4030 could end up exceeding that of its predecessor (S. 3229).