MINIMUM NEGOTIATED CATTLE TRADE

American Farm Bureau supports robust markets that have the best chance of delivering the highest value to producers for their cattle. Increased government mandates and regulations pose the risk of not only injecting regulations on producers where they don't exist but potentially depressing future prices.

In an effort to capture value for livestock producers, American Farm Bureau is working aggressively, particularly during the coronavirus pandemic, to make sure that there is no market manipulation and that livestock producers are fairly compensated for their cattle.

American Farm Bureau:

- Has called for investigations by the Commodity Futures Trading Commission (CFTC), the US Department of Agriculture (USDA) into questionable market practices;
- Has met with both CFTC and USDA officials to convey its strong interest in a robust, aggressive investigation of any market-distorting activities;
- Is supporting the Trump Administration's initiative to have the Department of Agriculture investigate potential market-distorting tactics;
- Is working with governmental entities and other agricultural organizations to engage in aggressive oversight of cattle markets to assure that producers are not short-changed in receiving fair value for their livestock
- Is strongly implementing AFBF Policy as written by our producer members to capture fair value for their products (see related AFBF Policy in the box below)
- Will oppose efforts that undermine producers' ability to get the best price for their products

AFBF's initiatives are founded on the policies written by our delegates. Those policies hold the greatest promise of delivering the most value for producers' products.

American Farm Bureau Federation 310 / Livestock Marketing

Livestock producers should have access to competitive markets for price discovery that accurately determines the value of their products.

We support:

2.1. Development and implementation of value-based marketing systems which convey the true value of product quality from the retail market to the farm;

2.2. Contracts and marketing regulations should recognize species-specific business and marketing structures;

2.3. **Rights of producers and packers to enter into formula pricing, grid pricing and other marketing arrangements and contract relationships**. Contracts and marketing arrangements should specify a negotiated base price before commitment to deliver. Such contracts and pricing arrangements should not be used to manipulate the market to the detriment of producers. We encourage producers to retain control over contract delivery and/or contract completion in furtherance of value-added marketing;

CURRENT POLICY EFFORTS AND THE CATTLE MARKETS

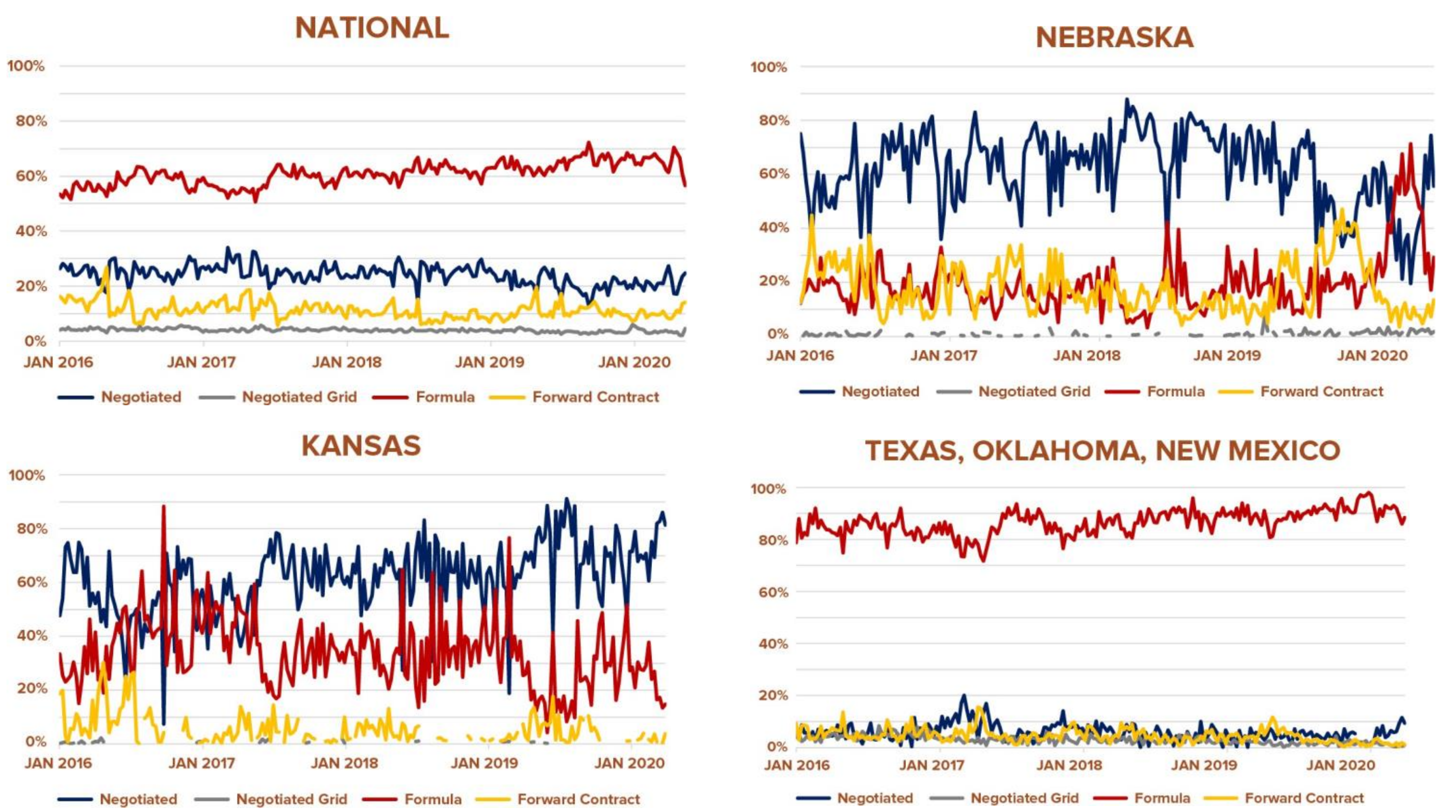
Recently, some legislators and others have brought forward proposals that would increase Federal government mandates and regulations into cattle markets with the hope that such mandates would prevent price manipulation. It is uncertain to what degree manipulation would be prevented; but what is certain is that such mandates hold no guarantee of higher returns for producers. It is also certain that they would interject additional Federal government regulation into markets. To maintain producers' freedom to enter into progressive, value-added cattle pricing arrangements and contracts, AFBF delegates oppose a mandatory minimum for negotiated (spot market) cattle slaughter. There can be no doubt that mandates on negotiated cash trade ultimately limit the use of alternative marketing agreements (AMAs). While more negotiated trade would further bolster price discovery, a minimum negotiated trade threshold means that the federal government must monitor and maintain the minimum, inviting further government regulation upon the industry. Furthermore, this additional regulation likely won't solve the problems it is purported to solve and would very likely result in negative consequences for the industry.

A key point to remember when discussing the optimal level of negotiated transactions is that PRICE DISCOVERY is not the same as PRICE DETERMINATION. While enhanced price discovery is a good thing, it does not necessarily mean it will result in higher prices. It is critical to note that the black swan event that is COVID-19 and its impact on our country's economy is an unprecedented external shock to the overall food system and supply chain. No amount of negotiated trade would provide relief from these supply chain challenges.

Additionally, it is important to understand such a proposal would have different impacts regionally. Negotiated trade is more common in certain states, such as Nebraska and Kansas, which have seen their negotiated percentage range from 40-75% in recent years. Other states typically have very little negotiated trade. In Texas and Oklahoma, for example, negotiated trade accounts for only 5-8% of cattle transactions. Nationally we see negotiated trade around 20-23%. It is worth noting that the last time the industry experienced very high prices -- 2014-2015 -- national negotiated trade was in the 20-23% range as well.

Regional and National Cattle Transactions by Type

Source: AMS, LMIC, Farm Bureau Analysis



The abundant research by academic faculty at various land grant institutions on the costs and benefits of AMAs and the impacts of mandatory minimum negotiated trading volumes show that limiting the use of AMAs by the beef industry will decrease efficiency, increase processing and marketing costs, and could potentially reduce beef product quality.

One of the most comprehensive research undertakings was the USDA GIPSA RTI Livestock and Meat Marketing Study (LMMS). The six-volume, peer-reviewed report, which represents the work of 30 researchers and nearly three years of effort, indicates that there are almost no benefits to a mandatory minimum level of negotiated transactions. Instead, according to the study, a mandatory minimum level of negotiated transactions could create considerable costs due to lost efficiency and product quality, costs largely borne by cow/calf producers and consumers.

In addition, a recent white paper by Colorado State University's Dr. Koontz indicates a mandatory policy of 50% minimum negotiated cash transactions would result in a $2.5 billion loss to the industry in the first year, and an overall loss of $16 billion over 10 years.

We can and should promote a more robust price discovery system, but not at the expense of a producer's ability to utilize value-based, consumer-driven marketing arrangements. AFBF's producer members realize that producers, not the federal government, know the best course of action for their individual operations and that there is no easy one-size-fits-all solution.

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