SOUTH DAKOTA FARM BUREAU

BACKGROUNDER

POLICY CONSIDERATIONS IMPACTING CATTLE MARKETS

ISSUE: There have been several policy proposals and calls for action in reaction to cattle markets due to current conditions.

OVERVIEW: The volatility in the cattle markets, particularly since last summer, has renewed conversations about policy changes that could positively impact the price producers see for their cattle. The market reactions after the Tyson plant fire in Kansas in 2019 and the COVID-19 outbreak this spring have resulted in calls for investigations at the federal level to ensure markets operate as they should. As of June 2020, both USDA and the Department of Justice are investigating the market reactions after the Tyson fire and due to COVID-19. No timeline has been released on the conclusion of either investigation. Both South Dakota Farm Bureau and the American Farm Bureau Federation have been supportive of such investigations.

Much of the conversation around policy solutions to the current issue have revolved around labeling of beef products and price discovery within markets. In addition to this backgrounder, AFBF has developed separate white papers on each of these topics.

Labeling: During the 2020 legislative session, the legislature passed a resolution calling on the federal government to negotiate trade agreements with Canada and Mexico to remove the barriers to country of origin labeling (COOL). Senator Rounds introduced legislation directing the Administration to negotiate an agreement with existing trade partners to allow for the reinstatement of mandatory country of origin labeling (MCOOL).

There has been no MCOOL requirement in the U.S. since 2015, when Canada and Mexico challenged that requirement alleging that it was not compliant with the

U.S.' trade agreements. The World Trade Organization (WTO) ruled in favor of Canada and Mexico. This ruling allowed Canada and Mexico to impose billions of dollars in retaliatory tariffs should the U.S. continue with MCOOL. Rather than allow Canada and Mexico to impose these tariffs, which would have targeted the U.S. agriculture sector, the U.S. repealed its MCOOL requirement.

Price Discovery: Adjacent to conversations about the volatility of cattle markets, there has been a growing conversation about transparency and price discovery. Senator Grassley (R-IA) introduced legislation to require 50% of purchases made by individual packing plants to be made on the negotiated cash market with a delivery date within 14 days. Currently, producers use a variety of marketing arrangements to sell cattle to processors, including cash negotiated, forward contracting and formula purchases.

Supporters of Senator Grassley's legislation argue that requiring more purchases in the cash market will increase transparency and price discovery for cattle producers, particularly cow/calf producers. It is important to note that price discovery does not necessarily equate to higher prices, although supporters argue that this proposal will increase competition and therefore drive up prices. Opposition to this proposal point out that alternative marketing agreements (AMAs) often allow producers to be compensated for higher quality cattle. If implemented, this proposal would limit the options producers had to market their cattle.

Packers are required to submit purchase information to USDA under the Livestock Mandatory Reporting Act of 1999. This law is set to expire on September 30, 2020 and will likely be reauthorized prior to that.

AFBF AND SDFB POLICY: Farm Bureau supports USDA's efforts to investigate the beef market reactions and has worked closely with both USDA and the Commodity Futures Trading Commission (CFTC) to monitor the situation. Additionally, we support voluntary COOL that is compliant with WTO requirements.

AFBF has policy opposing mandated cash trade levels, such as Senator Grassley's proposal and supports the ability of all producers to market their livestock in a way that works best for their operation.

DISCUSSION: As policy makers contemplate changes that may impact the beef market, the following questions should be taken into consideration:

1. What are the long-term impacts of such policy changes on markets and what type of precedent does such a policy change have on government intervention in the marketplace?
2. Is such a change compliant with pre-existing trade agreements?
3. Does such a change provide additional factual information to consumers?
4. What are the impacts of such a change on the agriculture industry overall?
5. What are the costs of imposing additional regulation? Who bears those costs?