July 15, 2021

Dear NCBA Member

I write today to deliver a summary of a recent Regional Triggers Subgroup meeting, and to report on the results from the second quarter. The Regional Triggers Subgroup of NCBA's Live Cattle Marketing Working Group met in Denver on July 6th. These producer leaders, who were tasked with developing and implementing our *Voluntary Approach to Achieve Price Discovery in the Fed Cattle Market*, heard insights from economists, discussed current issues related to cattle markets, and analyzed the results of the second quarter.

First and foremost, the subgroup remains committed to reaching a workable solution that improves price discovery in live cattle markets. Robust fed cattle price discovery is critical to all producers — regardless of the industry segment in which they operate.

We often hear about the value of alternative marketing arrangements (AMAs) such as grids, formulas, and forward contracts. These tools have allowed producers to better manage risk and capture more value for their cattle, and NCBA supports their continued use wherever they fit the business models of our members. However, as we all know, increased use of AMAs over the years has led to a significant decline in negotiated trade. Simply put, they have worked a little too well. Just as NCBA and industry experts have warned against a total rejection of AMAs, we also know that the further we move down the road of reduced negotiation between buyers and sellers, the more risk we pose to price discovery. This loss of price discovery would have dire consequences for cattle producers, as well as our risk management tools. The benefits of AMAs cannot be allowed to come at the cost of robust price discovery. There must be a balance. That is why we continue to explore new means to encourage greater use of the cash market and negotiated grids through a voluntary framework.

Using data collected under Livestock Mandatory Reporting (LMR) and published by the Agricultural Marketing Service at USDA, the subgroup found that no minor triggers were tripped in the negotiated trade volume silo during the second quarter. Thus far, we have fallen short of our goal to complete the packer participation silo. However, I am pleased to report that we have now finalized agreements with the four major packers to analyze their participation in the negotiated market from the third quarter onward. The completion of the packer participation silo brings the total number of minor triggers in our program to eight — one for each of the four cattle feeding regions analyzing negotiated trade volumes and one for each of those regions analyzing negotiated packer procurements. Resolving this critical piece of our voluntary effort will help ensure that both buyers and sellers of live cattle bear mutual responsibility for achieving robust price discovery.
In the absence of confirmable packer participation data, only the negotiated trade volume silo was evaluated this quarter in accordance with our framework. As a result, a major trigger was not tripped

during the second quarter of 2021.

In the second quarter, we continued to see a striking level of buy-in to our voluntary framework from cattle producers. They have worked overtime to offer more cattle on a negotiated basis. In fact, due largely to the hard work of cattle feeders — particularly in the Southern Plains — we saw more negotiated market participation in the second quarter of 2021 than the first quarter. I am encouraged by the continued improvements we are seeing in negotiated trade from cattlemen and women nationwide and am confident we as an industry can continue to deliver impressive results.

The same accolades cannot be given to some of the major packers. Every transaction requires both a willing seller and a willing buyer. Some packers have shown a desire to work alongside us to increase their procurements of negotiated cattle, and we appreciate that they have recognized the importance of price discovery to the entire industry. That said, NCBA has been frustrated by the apparent lack of urgency demonstrated by some of the largest purchasers of fed cattle. The subgroup believes that completing the packer participation silo will encourage all major meatpackers to be part of the solution to this problem.

During the subgroup's meeting, we discussed at length some of the lessons we have learned throughout this process. First, cattle marketing varies substantially from one region of the country to the next. In some areas, quality grades are the primary value driver. In others, it may be dressing percentage.

Second, it is important to remember that price discovery and price determination are different things. For example, in four trading weeks during the second quarter, negotiated trade volumes exceeded robust price discovery levels in all regions. Nevertheless, cattle prices did not make significant gains in the same period. High cattle supplies and a shortage of adequate beef packing capacity have helped create a current market dynamic where leverage in negotiations resides with the packers. While strategies to return leverage to producers are outside the scope of this subgroup's work, NCBA is implementing strategies at USDA and on Capitol Hill to increase beef packing capacity and support small-to-midsize processors. Meanwhile, the subgroup will continue its work tirelessly to bring about greater price discovery.

Third, use of non-value-added formulas, such as weighted averages, "cash plus" transactions, and "top of the market" trades, neither contribute to price discovery nor further our objective to increase genuine negotiated trade in the market.

Fourth, more research is needed to better understand both the role of competition, or packer participation, in price discovery and the industry-wide cost of reduced negotiated volumes. Sufficient data exists to quantify the dollar value of AMAs, but more academic literature is needed that quantifies AMAs impact on price.

Finally, NCBA should examine LMR to determine if changes are needed to strengthen reported price information. For example, the formula bucket is a catch-all for transactions which do not meet the definitions of negotiated cash trades, negotiated grids, or contracts. Separately reporting some of the most common transaction types may provide greater price transparency.

As has been said many times, there is no simple, silver-bullet solution to the challenges that are facing cattle producers in the market today. Reaching a solution that is both industry-driven and supported by sound research and science, that supports profitability for producers in every segment of the supply chain, will require transparency and nuance. The Regional Triggers Subgroup remains committed to the integrity of that process, and we encourage you to contact NCBA or your state affiliate group with questions.

Sincerely,

Jerry Bohn

Jerry Bohn
President
National Cattlemen's Beef Association