

May 7, 2020



TEXAS CATTLE FEEDERS ASSOCIATION

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Dear Representative:

With the coronavirus pandemic creating unprecedented volatility in the cattle and beef markets, discussions supporting federal intervention in the market through a mandated percentage of cattle sold through the negotiated cash market have increased. One such proposal has been referred to as the 30/14 concept, which would mandate that each beef packing plant purchase a minimum of 30% of their weekly cattle needs in the cash market with cattle delivered within 14 days of purchase. While the Texas Cattle Feeders Association (TCFA) believes and supports increasing price discovery through this greater volume of negotiated trade, we cannot support a government mandate.

Conversely, we are actively working to achieve a similar outcome through free market mechanisms. Our Market Committee with the oversight of staff, the board and myself as Chairman have examined several concepts. One such concept is a new marketing cooperative that puts small and large producers on equal footing to achieve the common goal of robust negotiated price discovery each week. Secondly, we have examined the viability of a "bid the grid" concept on the transparent Fed Cattle Exchange Platform. Additionally, we are exploring options with an existing marketing cooperative that was created by TCFA in 2000, Consolidated Beef Producers, to increase negotiated trade.

Data to support the goal of price discovery is presented eloquently by the research of Dr. Steve Koontz, professor and extension economist at Colorado State University. Dr. Koontz has researched negotiated trade and price discovery extensively and served as the lead economist on a USDA GIPSA 2007 study of price discovery and alternative marketing agreements. In the USDA study, the authors concluded that restrictions on the use of value-based marketing arrangements for the sale of livestock to meat packers would have negative economic effects on livestock producers, meat packers and consumers. Notwithstanding those results, Dr. Koontz's recent research documents that negotiated trade and related price discovery have declined to a level that has resulted in inadequate price discovery in more than one region, but each cattle feeding region has a different supply/demand situation and therefore a different level of negotiated trade is needed to create robust price discovery. While Dr. Koontz's research does not make the case for government mandates, it does make the imperative case for increasing the level of negotiated trade in the TCFA region, a fact not lost on the affected TCFA membership. It is critical to understand that no amount of negotiated trade would alleviate or even help the current COVID-19 related supply disruptions occurring at meatpacking facilities.

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TCFA opposes any law or regulation that restricts cattle producers from marketing cattle based on sound economic incentives that are in the best interest of their individual businesses. However, there exists a collective resolve across our members to pursue a price discovery target for our region in accordance with Dr. Koontz's research, while maintaining our freedom to emphasize value-based marketing arrangements to respond to consumer demands for high quality, sustainably produced beef. Our ability to send those economic signals back into the supply chain to breeders and growers is imperative to all participants in the supply chain. TCFA represents cattle feeders and feedyards in Texas, Oklahoma and New Mexico. Our members produce and market some 6,000,000 head of fed cattle annually, which equates to approximately 28% of the U.S. supply of fed cattle.

Please contact TCFA with any questions or to discuss the issue further.

Sincerely,

A handwritten signature in black ink that reads "Paul J. Defoor". The signature is written in a cursive style and is positioned above the printed name.

Paul J. Defoor
Chairman