NEBRASKA CATTLEMEN

"Working for Nebraska beef producers – pasture to plate."

July 28, 2021

The Honorable Jim Costa, Chairman
The Honorable Dusty Johnson, Ranking Member
House Subcommittee on Livestock and Foreign Agriculture
1301 Longworth House Office Building
Washington, DC 20515

RE: State of the Beef Supply Chain: Shocks, Recovery, and Rebuilding

Dear Chairman Costa, Ranking Member Johnson and members of the committee:

Nebraska Cattlemen is grateful for the opportunity to share our member's concerns regarding the live cattle market, processing capacity, and market transparency. Our organization is a grassroots membership organization representing thousands of farmers and ranchers from every scope and sector of the beef cattle industry in Nebraska.

Live Cattle Market: It is our cattle producer members and their livelihoods that are directly impacted by the cattle market's ability or inability to send appropriate price signals up and down the beef cattle supply chain. In the past decade, those price signals have encouraged ranchers to expand their cow herds and cattle feeders to expand their feeding operations as domestic and global demand has exponentially grown like few could have imagined. Yet today as wholesale beef prices start to shift from historic highs, the percent of the available beef supply chain profit margins being passed onto cattle producers is near historic lows.

It has become painfully apparent to our members that, in recent years, the ability of the cattle market to send the correct price signals to producers has been broken. For the greater part of a decade, this has been a headline issue for members of our organization.

Where we are today is not a result of a malicious plot to purposely stifle ranchers' livelihoods, but rather has been a progression - across the beef supply chain over the last two decades to become increasingly more efficient in fed cattle marketing and inventory management as an industry through the use of alternative marketing agreements (AMAs). While these efficiencies have benefited some, they came at the cost of robust price discovery and market leverage for other producers. Undoubtedly, you will hear today about the positive industry effects of AMAs, otherwise defined by USDA Livestock Mandatory Reporting as "formula" trades, which have helped incentivize the production of higher quality beef. Please realize, however, that the long-term proliferation of AMA's has also led to a continued deterioration of price discovery as beef packers have financially incentivized commitment of cattle without price negotiation.

Price discovery is a public good. Negotiated cash market participants invest resources to negotiate and discover cash market prices for the entire industry, while those who utilize AMAs capitalize on that investment, benefit from the efficiencies, and make use of the prices discovered by cash market participants. This type of scenario is best described as a tragedy of the commons. When an increasing number of market participants overuse a public good or "shared resource" for their own short-term best interest, abuse of the shared resource results in less value of that resource overall for everyone in the long run. Until the price

• 4611 Cattle Drive • Lincoln, NE 68508-2833
(402) 475-2333 • Fax (402) 475-0822 • nc@necattlemen.org • www.nebraskacattlemen.org

discovery "public good" is better valued by both beef packers and some cattle feeders, the industry will continue on this downward spiral until there is little to no negotiated trade left and other outside markets will have to be relied on for price determination.

How does our industry correct this course? Continuing to focus on expanding options for market participants to participate in price discovery is key. Our members seek options that contribute to price discovery like working with the packing industry to sell on a negotiated grid - a mechanism that allows producers to garner premiums for higher value cattle while still participating in the price discovery process by offering their cattle to numerous buyers. However, producers have grown frustrated with the lack of willingness of all packers to offer this marketing option. In order to incentivize packers to participate in the negotiated market and contribute to price discovery the industry must either mandate participation, financially incentivize negotiated trade or penalize entities who continually show a lack of participation in the price discovery process.

An additional source of frustration for our members is the continued perception that all AMAs reward carcass merit and therefore are the sole reason the industry has seen an increase of quality grade. Earlier this month, Nebraska Cattlemen worked with USDA-AMS to gain additional insight into the mix of transaction types that comprise the "formula" fed cattle price and volume data that is reported by USDA-LMR. Specifically, NC sought more information regarding the total volume and/or percentage of total reported "formula" headcounts that are transacted in such a way that USDA quality and/or yield grade parameters have a bearing on the final price paid vs. the volume and/or percentage of total reported volume where that is NOT the case.

Analysis of USDA-LMR data from January through mid-May of 2021 indicated rather clearly that in the Nebraska and Iowa/Southern Minnesota LMR regions (compared to other regions), there is a higher percentage of cattle that fall into the "formula" transaction type that are simply marked at the LMR weekly Nebraska dressed steer weighted average price, or possibly that data point plus some predetermined premium, but there are no other premiums or discounts applied relative to quality grade or yield grade. We understand why this type of transaction falls into the "formula" data as it is not a negotiated cash sale, a negotiated grid sale, or a contract purchase - however we also see it to be somewhat different than a transaction that involves quality and or yield grade premiums and discounts. Our specific ask was to look at the prevalence of this type of transaction type in the LMR "formula" data set on a regional, 5-area, and nationwide scale.

The results showed that the northern regions, specifically Nebraska and Iowa/Minnesota, exhibited the highest proportion of transactions with no premium or discount applied. With the quality of the cattle/beef not having any direct impact on the net price paid for cattle marketing in this manner it would appear that any premium being paid by the buyer is essentially being done to reward suppliers for furnishing unpriced inventory and consequently reducing the buyers need to participate / compete in the negotiated market and contribute to the price discovery process.

Processing Capacity: Just as cattle producers respond to market signals to expand their cow herds and feeding operations to meet domestic and global demand, we question why the beef packing industry has not responded to those same signals for the past five years?

Adequate beef processing capacity is critical to maintaining profitability in the beef and cattle industry, and ensuring a steady supply of beef and beef products to consumers. Currently, there is not only a shortage of adequate processing capacity, there is also a reduction of processing throughput across the country. A recent study by Rabobank found that excess operational beef processing capacity fell to zero in late 2016 and turned negative in early 2017, resulting in a negative effect on cattle producer leverage in fed cattle negotiations because of lack of competition.

To improve producer leverage in fed cattle negotiations, either cattle supplies must be reduced, or processing capacity must be expanded. With domestic and foreign beef demand at an all-time high, the obvious solution to meet this growing demand without shrinking the US beef herd is to expand beef processing capacity. We understand expanding capacity with new construction comes with a certain level of risk and takes time, but we do believe there are opportunities with current facilities to help meet the growing demand for beef in the near term. Beef packing plants, transporters and our member farms and ranches are all currently experiencing challenges with labor recruitment and retention. Congressional action to reform immigration policy to advance needed H2A visa restructuring and ensuring state and federal resources are available for immigrants to be offered employment opportunities and to successfully thrive in our communities is critical to helping current packing plant infrastructure reach full 100% throughput.

Market Transparency: Another key component to price discovery and price determination is market transparency. Senator Deb Fischer, in both the 116th and 117th Congress, introduced the Cattle Market Transparency Act to address many of our members' concerns in regards to market transparency. Similar efforts in the House of Representatives, led by Congresswomen Vicky Hartzler of Missouri, mirror the call for increasing price discovery and expanding market transparency as well as the adoption of a beef contract library, 14-day slaughter reporting window, and ensuring that USDA finds a way to report collected information in a manner that ensures confidentiality but prevents USDA-AMS from withholding from the public information collected in LMR.

Thank-you for the opportunity to share the thoughts and concerns of Nebraska Cattlemen members. As we continue to work towards finding solutions to keep cattlemen and women in business, we look forward to being at the table to talk through these solutions and take actions to protect our members' family legacies.

Best,

William H Rhea III

William H. Rhea III
President - Nebraska Cattlemen

• 4611 Cattle Drive • Lincoln, NE 68508-2833
(402) 475-2333 • Fax (402) 475-0822 • nc@necattlemen.org • www.nebraskacattlemen.org