American Farm Bureau Federation Cattle Market Working Group Report

In April 2020, AFBF President Zippy Duvall tasked the newly created Cattle Market Working Group, composed of 10 state Farm Bureau presidents, to investigate and research recent volatility in the cattle markets due to COVID-19, as well as the impacts of the Holcomb, Kansas, Tyson beef plant fire.

Report Discussions

The report notes the desire for improved price discovery and the need for greater transparency regarding live cattle prices and the relationship boxed beef values. A slew of legislation has been introduced to address everything from how beef is processed to how live cattle are bought and sold in the marketplace – *see supporting material for more detail*.

Current AFBF opposes a mandatory minimum for negotiated cattle slaughter. The idea of greater price discovery has led to the idea of greater price determination, or higher live prices. However, as noted by Dr. Derrell Peel of Oklahoma State University, "Some of the proposals being promoted today will have unintended consequences that are negative for the entire industry."[1] The AFBF report states: price discovery is not the same as price determination. A "triggered"-style mandatory minimum was discussed, that is set on a region-by-region basis, at various and fluctuating levels to be determined regionally including input from state farm bureau members. Additionally, an area of improvement could be for mandatory price reporting to go beyond the current confidentiality limits to provide further transparency in the marketplace.

Additionally, the working group is interested in AFBF working with the Chicago Mercantile Exchange to better address concerns from smaller producers as well as existing risk management tools, such as Livestock Risk Protection crop insurance, which could be adjusted to be more affordable for smaller producers. The working group also discussed policy solutions that would allow smaller packing facilities to play a larger role in the food supply chain and how to create incentives for smaller packing plants to become federally inspected.

Current AFBF Policy – 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;

[1] https://www.agweb.com/article/derrell-peel-be-careful-what-you-ask.

Supporting Material: Background, USDA Report & Legislation

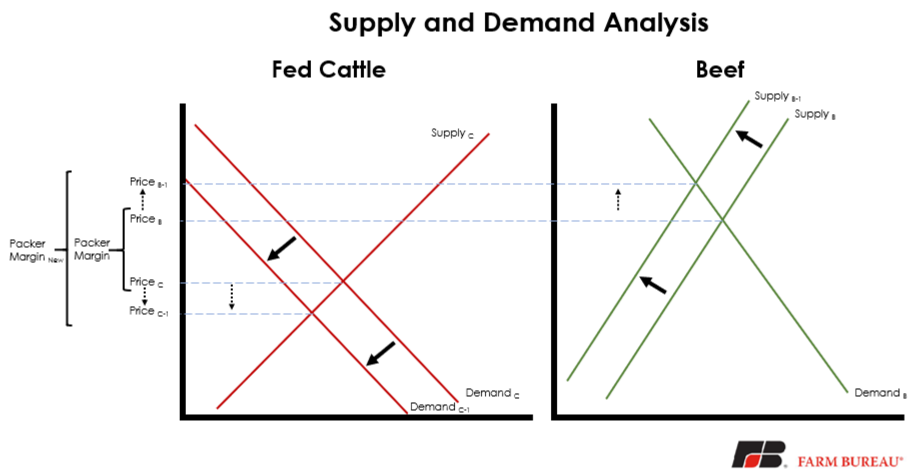
Holcomb Tyson Plant

In August 2019, a large fire caused destruction of the Tyson beef slaughter facility in Holcomb, Kansas. In the aftermath of the fire, several market impacts were observed: the cutout value increased, fed cattle prices declined and the spread between live animal and cutout values widened, all while processing volumes actually increased.

Two weeks after the fire, boxed beef values increased to nearly $24/cwt – which was an expected market reaction. However, the fed and feeder cattle markets went in the opposite direction. The Holcomb plant accounted for 6% of the United States' daily slaughter capacity. Prior to the fire, many plants around the country were already operating at or close to capacity. But, with the economic incentive of increased margins, the processing industry increased weekend slaughter and additional shifts in other plants to absorb the lost slaughter capacity at the Holcomb plant. Due to this additional slaughter capacity, fed cattle harvest actually increased. Granted, weekend slaughter and additional shifts are more costly to processors. Still, the live-to-cutout spread jumped from $498 per 1,000 lbs. steer, to $549 per 1,000 lbs. steer.

COVID-19

Eight months after the fire, COVID-19 hit the United States and caused unparalleled and catastrophic impacts on cattle and beef markets, along with every other part of the economy. Lower beef production resulted from the slowdowns and closures at packing plants. At the same time, the reduced capacity at plants negatively impacted demand for fed cattle, which contributed to lower fed cattle prices, ultimately trickling down to the cow/calf sector through uncertainty in feeder cattle markets.



From a consumer demand standpoint, over the last several years, consumers shifted food dollars away from cooking at home to spending more eating out at restaurants. Panic buying for the upcoming quarantine and the shut-down of the restaurant industry caused upheaval in the protein markets. Our food supply chain, while efficient, is complicated, meaning, one cannot simply flip a switch and move product that was destined to the food service sector over to the retail sector.

Retailers plan to purchase product three months before it is sold in the grocery store. Thus, there is not a large supply of "unspoken for" meat on the spot market. As a result of consumer panic buying, retailers looking to restock their meat cases rushed into the wholesale spot market, pushing the beef cutout value up significantly. The rise in the boxed beef cutout, combined with fluctuating cattle prices, resulted in a widening live-to-cutout spread.

Moreover, in late April and early May, packing plants began to power-down to address COVID-related labor concerns. The decline in slaughter capacity created a backlog of animals. This was a particular challenge for livestock producers, who scrambled to slow the weight gain of animals already in the pipeline. The decline in production combined with retailers' increased purchasing, pushed boxed beef cutout values through the roof – from February to mid-May, the boxed beef cutout value increased 130%. This historically high cutout combined with declining fed cattle prices created historical spreads that favored packers. From early April to mid-May, the live-to-cutout spread nearly quadrupled, increasing from $481 per 1,000 lbs. of steer to $1,839 per 1,000 lbs. of steer.

Supporting Material: Background, USDA Report & Legislation

It is important to note the fixed costs associated with operating a packing plant, including massive asset investment costs and regulatory expenses. Packers typically spread costs over many animals when operating at or near full capacity, but when capacity is reduced significantly – during COVID-19 – the ability to operate profitably declines as they spread these fixed costs over fewer animals. Still, that being said, these levels reveal that processing margins were likely very healthy for many plants.

USDA Report on the Investigation into Beef and Cattle Price Spread

In July, the USDA concluded its investigation on the Holcomb, Kansas Tyson plant fire on the beef and cattle markets, which was expanded to also include the impacts of COVID-19 on these markets. The purpose of this investigation was to examine whether any regulated entities violated the Packers and Stockyards Act (PSA) by taking advantage of the disruptions through price manipulation, collusion, restrictions of competition or other unfair practices. The report also examines policy actions proposed by industry groups and steps Congress could take to allow USDA more leverage in conducting investigations and enforcing laws. This includes risk management solutions, opportunities to enhance marketing power, creating a beef contract library and reducing the incidence of non-LMR reporting to improve price discovery. The reports does not contain any details from the investigation into potential violations of the Packers & Stockyards Act, as that investigation is ongoing.

H.R. 7490, the RAMP-Up Act: Authorizes federal grants up to $100,000 for existing processors to become federally inspected.

H.R. 7425, the Direct Interstate Retail Exemption for Certain Transactions (DIRECT) Act: Allows state-inspected meat to be sold across state lines through e-commerce (i.e. the internet).

S. 3797, Small Packer Overtime and Holiday Fee Relief Act for COVID-19 Act of 2020: Provides funding to FSIS to reduce fees charged to small meatpacking plants for overtime and holiday inspection services.

S. 2744, U.S. Beef Integrity Act: Prohibits the label of beef products from bearing the phrase Product of U.S.A. unless product is exclusively derived from one or more cattle born, raised, and slaughtered in the United States. *AFBF does not have specific policy supporting this bill.*

S. 3693, 50/14 Mandatory Minimum Negotiated Trade bill: Mandates each U.S. meat processing facility that slaughters over 125,000 head of cattle each year to purchase 50% of their weekly volume of cattle on the cash or spot market with a harvest date no longer than 14 days. *AFBF policy does not support this legislation.*

S. 4647, the Cattle Market Transparency Act of 2020:

1. Establishes regional mandatory minimum thresholds of negotiated cash trades to enable price discovery in cattle marketing regions.
2. Requires USDA to create and maintain a library of marketing contracts between packers and producers.
3. Mandates that a packer report the number of cattle scheduled to be delivered for slaughter each day for the next 14 days.
4. Forces USDA to find ways to regularly disclose all information required by LMR without compromising confidentiality.

H.R. 8489, the Price Reform in Cattle Economics (PRICE) Act:

1. Includes the Small Packer Overtime and Holiday Fee Relief Act and the DIRECT Act.
2. Establishes a stand-alone direct and guarantee loan program at USDA Rural Development for new and expanding meat processors capacity.
3. Directs USDA to publish a study into cash/sport market solutions including 14-day window mandates of 30% and 50%, spot market targets on regional differences, compensating a pool of negotiated cash market traders, changes to confidentiality rules and any other proposals.
4. Directs requires the USDA to establish and maintain a library or catalog of the types of contracts offered by packers to beef producers for the purchase of cattle.