Comments on the "Cattle Price Discovery and Transparency Act of 2022"

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1. The cattle contract library (CCL) may add transparency and understanding as to the nature of types of contracts used in AMAs. Should this library happen, there needs to be some mechanism for weeding out contracts that are not used on a regular basis or perhaps putting them in some type of archive by date of use. This would allow producers and researchers to investigate current contract norms versus contract terms that are not currently in use. This is a problem with the current pork contract library.

2. Does AMS really have the resources and ability to implement this CCL in the way intended? It seems unlikely.

3. There is no research evidence of any significant or persistent fed cattle price discovery problem at this time. This legislation is attempting to solve a problem that does not exist. As such, this legislation offers zero benefits for fed cattle markets and imposes many millions of dollars of additional cost, added risk, and lost value. The exact cost will depend on details of implementation, but the cost is minimally hundreds of millions of dollars resulting in lower feeder cattle prices and higher consumer beef prices.

4. Thinning negotiated trade is a concern and could become a problem. Price discovery is a public good problem, in that market participants collectively value and use negotiated price information, but individually have numerous incentives to not participate in price discovery. There is a need for continued monitoring and research to understand how to mitigate a potential lack of adequate price discovery and to identify alternatives and mechanisms to mitigate or compensate for the disincentives to participate in price discovery.

5. Definition of regions may well be an issue given confidentiality rules. For example, three separate parties must be in a region for something to be reported, not three separate plants. If three plants operate in a region, but only two parties own them, confidentiality rules will preclude public reporting from those three plants. In some instances, large regions would need to be defined to include three separate parties that also slaughter 5% of the weekly total. How useful these regions would be for providing regional market information on prices is questionable.

6. The public price reporting system has never before been used for regulatory purposes. Using reported prices in a regulatory system will create incentives for market participants to circumvent intended definitions. That is, firms will seek ways to reduce their transactions costs by defining trades such that they meet the negotiated trade rule. This could result in more cash trade (according to the definition), but lower quality information that is actually less useful.

7. The previous version of the bill had language related to the USDA Office of the Chief Economist being involved in implementation. Language in this version of the bill puts the responsibility of setting minimum threshold levels solely with the Secretary of Ag. The current language suggests the Secretary will "examine the academic literature regarding minimum levels of negotiated transactions necessary to achieve robust price discovery…". These thresholds do not exist in the reviewed/published academic literature. Moreover, it is our contention that even if

such thresholds did exist they would not simply be constant values. Rather, these thresholds would vary with supply changes, demand changes, and unforeseen exogenous shocks occurring in the market. Given the complexity of this concept and the paucity of objective data and analysis related to it, the Secretary of Agriculture will be more than likely left with “political” objectives, not “economic efficiency” as a guiding principle in determining “minimum thresholds”. The current cap of 50% is in the bill, will this be the new threshold? What other politically driven numbers could this result in? **The higher the thresholds, the higher the “known economic costs and negative impacts to the beef sector overall.”**

8. The incentives to reduce risks and transactions costs for producers and packers associated with quality and timing of sales and deliveries to plants will still exist with implementation of this bill. As such, forcing “minimum thresholds” will increase these risks and transactions costs for both producers and packing plants utilizing AMAs at a level beyond whatever the prescribed minimums, that cannot be objectively justified, turn out to be if this bill is implemented.

9. There is no academic literature that indicates any analysis pointing toward benefits that can be quantified with these minimum thresholds. Benefits of reduced AMA use (alternatively, higher negotiated cash trade) are generally speculative. As noted, evidence that higher negotiated trade will positively impact prices, reduce marketing margins, or improve price discovery is lacking. However, many market participants clearly see negotiated cash trade as a good in and of itself. To the extent the industry desires greater cash market engagement, lower cost means of achieving this outcome are available.

10. Feedlots and packers will respond to the incentives that this legislation creates. Research is needed to understand the incentives the bill creates and the market outcomes that would follow. Specific areas of research are highlighted below.
    a. The bill would be administered at the plant level, and a plant-level assessment of the data is needed to fully understand how plants would realize increased costs and adjust their business models and marketing practices.
    b. Research is needed to understand how feedlots and packers will substitute formula trades with negotiated trades. Similarly, research is necessary to know how feedlots and packers will substitute away from formulas using a cash base price to other formulas, e.g., futures price plus basis as the base price. Determining which of these substitution effects dominates will be a crucial piece of information. If the latter example (futures market) substitution dominates the market, the bill could actually lead to further erosion in cash market participation.
    c. The bill proposes redefining market reporting regions. Considerable research is needed to evaluate the impacts on public information of alternative specifications for these regions. Consideration should also be given to how some level of continuity of data could be maintained in the event of a significant reconfiguration of regions. This is necessary for an accurate assessment of any benefits or costs associated with such change before and after implementation of different regions.

11. The phrase "robust price discovery” is subjective, with no formal definition in the economics literature. To our knowledge, no research exists that offers prescriptive levels of regional negotiated trade that would improve a subjective measure of robust price discovery. On the basis of improving price discovery, it is unlikely that research will be able to offer estimates for regional mandatory minimums because price discovery is dependent on the situational supply and demand fundamentals. An alternative research perspective would be to determine the regional mandatory minimums that minimize the economic deadweight loss of restrictions on marketing alternatives such as those proposed in the Cattle Price Discovery and Transparency Act of 2022.