Market Gleanings

Fight for Differences

by ***Wes Ishmael***

Champion non-commodity marketing.

Wes Ishmael is the executive editor of *Hereford World*. He can be reached at wishmael@hereford.org.

Every sector of the cattle and beef business finds added value from efficiencies associated with consistency. Paradoxically, embracing differences remains a powerful tool to add homogeneity, be it exploiting genetic differences in breeding cattle or sorting cattle and carcasses into groups of similar kind for both management and marketing.

Consider the use of alternative marketing arrangements (AMAs) such as value-based grids and formulas, which are used to trade most of the nation's fed cattle. Rather than pay an average negotiated price for every head — penalizing the top end and subsidizing the bottom end — AMAs reward and discount cattle based on differences — how well they achieve pre-determined levels of carcass performance. Ultimately this enables packers and their buyers to source more cattle of similar kinds that fit specific marketing programs.

AMAs were born from the long and painful chapter of declining beef demand, which finally began to change course in the late 1990s. The two previous decades were a testament to commodity production and marketing, which gave consumers an unpredictable eating experience.

Alternative marketing arrangements provided the economic incentive for producers to churn out higher and higher average carcass quality — increasing the odds of consumer satisfaction. It would be tough for anyone to argue against AMAs as foundational to increased consumer beef demand. AMAs also reduce packer and feedlot costs associated with marketing as well as market risk, which further strengthens price floors.

That's why legislation aimed at restricting AMA use is so puzzling.

Mandating markets cost

Earlier this summer, the U.S. Senate advanced the Cattle Price Transparency Act of 2022. Among other things it would mandate the U.S. Agriculture Secretary to establish five to seven contiguous fed cattle marketing regions. Further, the act would mandate that negotiated cash fed cattle trade within each region could be no less than the average percentage of negotiated live cattle purchases and negotiated grid purchases made within the region between Jan. 1, 2021, and the same date in 2022. But the Secretary could mandate the minimum to be as much as 50% of the negotiated trades in a region.

Presumably, proponents believe such a mandate will make cattle worth more. But the opposite is true.

"There is no situation where mandating cash trade is not a cost. If cash trade created value or was not inefficient then there would be an incentive to do it. And this cost is incurred annually for as long as the policy is in existence," said Stephen Koontz, agricultural economist at Colorado State University (CSU), in his testimony to a U.S. Senate committee reviewing the act.

"It is also important to recognize what price discovery is not — price discovery is not higher prices. Price discovery is the market moving quickly and clearly to the appropriate price level. At times this is a lower fed cattle price and other times a higher price," Koontz explained. "It is a common misconception that better price discovery implies better prices for the individual contemplating the issue. And there is no scientific evidence that improved price discovery has value not already revealed in price nor will improve prices to producers."

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> **— Stephen Koontz, agricultural economist, Colorado State University**

Keep in mind Koontz has a long, respected career invested in exploring and understanding cattle markets and their elements.

On the other hand, mandating minimum levels of regional cash fed cattle trade, thereby reducing the use of AMAs, would come at a heavy cost, likely borne mostly by cow-calf producers.

"Mandating minimum cash trade is substantially costly. Costs are at least hundreds of millions of dollars and more likely billions of dollars. These costs will be leveled on cow-calf producers nationwide and consumers of beef both domestically and internationally," Koontz explained. "Primary research, which discovered these costs is almost 20 years old, but the economic concepts are foundational and the costs today are likely substantially higher. There is no research which can attribute higher cattle prices to mandated cash trade. Likewise, my preliminary work has revealed to me that price discovery is not improved with mandated cash trade. The price discovery we currently have in regional fed cattle markets is not deficient. And the cost-benefit of mandated cash trade is clear."

In summary, Koontz explained, "… any policy which mandates more negotiated cash trade will require less AMA use and will impart a cost on the cattle and beef system and cattle and beef supply chain. Costs placed on packers and feeders will result in higher costs and lower-quality offerings to consumers and will also result in lower prices to producers supplying calves to the system."

Value opportunities just beginning

All of the above focuses on markets as they exist today. Current reality suggests cattle producers are on the threshold of unlocking a variety of other attributes, which folks are willing to pay for if the market allows recognizing and rewarding differences.

The developing market structure for ecosystem services is just now gaining momentum and clarity (see Incentivizing the Environment, Page 28), which could pay for specific services producers provide, such as preserving water quality, enhancing wildlife habitat and improving soil health.

For that matter, a Swedish collaborative began marketing reduced-methane beef in June under the brand name LOME (low on methane). It is the result of a pilot project among Coop, a supermarket chain; Protos, a food company; and Volta Greentech, a biotechnology company. The latter developed an algae-based feed supplement, fed to cattle producing LOME beef. Purportedly, the supplement reduces methane emissions from cattle consuming the supplement.

Potentially, outcomes of the cooperative research project the American Hereford Association initiated with Colorado State University (see Doing Right, page 40) could lead to verifiable market claims of interest to consumers. In simple terms, the research aims to enhance understanding genetic traits associated with cattle production efficiency and those associated with the carbon footprint of cattle such as enteric methane production and nitrogen excretion.

Rather than hamstring producers and consumers through mandates based on emotion and unproven speculation, Congress could serve both more effectively by supporting or at least preserving the opportunity for markets to reward differences. **HW**