

The Only Constant is Change

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“The only constant is change.” This is something that most people have heard at least once in their lifetime and most would agree it is a correct statement. At the same time, if the only constant is change then we as beef cattle producers must be constantly changing just to maintain the status quo. This has never been more evident following the Tyson slaughter facility fire in August 2019 and the current coronavirus pandemic.

In general, big changes do not just happen overnight or quickly. Most changes occur very slowly and those that do occur quickly are mainly out of necessity rather than by choice. For instance, tractors took the place of horses and even tractors have evolved to be more efficient, more comfortable, and more expensive. As another example, the size of mature cattle has changed throughout the years. The industry is constantly trying to figure out the right size cow to fit a certain environment. In actuality, the cow size change is a farm by farm decision, but producers are constantly trying to find cows that fit the environment to improve efficiency.

What about cattle production and marketing? From a production standpoint, many cattle producers have grown cattle to the same weight their entire farming life and marketed those animals in the same manner nearly every time. However, some producers were forced to change this constant this year because of the coronavirus pandemic that sent cattle prices lower. This meant some producers had to wean calves and feed them a short time while others may be owning cattle in the feedlot for the first time. With these changes in production, it means marketing must change. As producers enter a new marketing world, the unfamiliar can be daunting.

This brings me to the topic of alternative marketing agreements (AMAs) in the cattle and beef industry. There are legislators, cattle producers, and industry leaders pushing for 30/14 and/or 50/14 proposals in the cattle industry. The 30/14 proposal would require packers to procure 30 percent of their cattle needs through the negotiated cash market for delivery within a 14-day period. The 50/14 is the same except it would require 50 percent of cattle to be procured through the negotiated cash market. Currently, just shy of 70 percent of cattle are traded through formula, 10 percent through forward contract, nearly 20 percent in negotiated cash trade, and about 2 percent in negotiated grid pricing. Negotiated pricing is the only true form of price discovery while formula pricing uses other transactions (e.g. negotiated prices, futures prices) to formulate a price, and forward contracted cattle are generally priced at least 30 days prior to delivery.

There is good reason for concern in the cattle and beef industries about true price discovery at the feedlot and packer level. Price discovery happens every day at local auction markets across the nation but this is not the case when feedlots market cattle to packers. The concern by those that desire a 30/14 or 50/14 mandate is that packers are able to use their market power to drive prices lower. At the same time, the feedlots marketing cattle via an AMA must feel like they are getting a fair deal or they would not continue to market cattle through this method. Actually, there is research led by Dr. Stephen Koontz at Colorado State University that shows AMAs are used because they have considerable benefits and nearly no costs. Alternatively, a legislative mandate such as a 30/14 or 50/14 would have considerable costs, decrease efficiency, and ultimately bring no benefit to the cattle and beef industries.

One could go deeper on the benefits and costs, but it might be easier to bring this type of argument closer to home. If the government was to mandate packers to buy a certain percentage of cattle through the negotiated cash market then that means many feedlots would have to change from an AMA to negotiated cash marketing. Would they be happy if it cost them more? Maybe even closer to home is necessary. What if the government mandated that goods be sold through negotiation? In other words, when a person goes to the grocery store, they have to negotiate a price on every item they purchase. On top of that, they have to renegotiate the next week when they go back to the store and

purchase the same items. That would be a complete waste of time and effort and would not be efficient. Do not misunderstand that price discovery is important, but a government mandate is not the way to achieve it. Change is necessary, but sudden change in the form of the 30/14 or 50/14 proposals is not going to benefit the industry.