The Second Quarterly Report on Levels of Negotiated Trade by Region under the Industry's 75% Rule

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Last year, several pieces of legislation were introduced in Congress, with the principal aim of increasing the level of negotiated cash trade.[1] The cattle industry responded to the proposed legislation by creating a voluntary framework, known as the 75% rule, which includes cattle feeder and packing plant triggers based on levels of negotiated trade and marketplace participation. The overarching objective is similar to the introduced legislation — to increase the frequency and price transparency in all major cattle feeding and packing regions.

The details and updates to this framework can be found here. To review, the 75% rule framework functions off a series of minor and major triggers. There are eight minor triggers (four cattle feeding and four packer participation). Minor triggers are summed within a quarter and aggregated up from weekly thresholds where three minor triggers equal a major trigger. A major trigger occurring in two of four rolling quarters would prompt the industry to seek legislative action.[2] This policy can be adjusted given updates from literature, industry and qualifying Black Swan events or ad hoc events that disrupt the normal beef complex.

This voluntary framework went into effect on Jan. 1, 2021. The first quarter failed to meet minimum requirements — feeder and packer silos combined. The policy states that the National Cattlemen's Beef Association will seek legislative action if there is a violation in two of four rolling quarters. This implies that the industry must collectively pass the next three successive quarters. The end of June represents the second quarter to be analyzed. This article presents the first update on the regional performance of the industry framework as of June 28, 2021. A detailed analysis of the historical performance and potential considerations, from a previous *In the Cattle Markets* article, can be found here. The performance of the first quarter can be found here. Each quarter, updates will be made to monitor the current performance of the proposed industry framework and to reflect the most current market conditions.

Packer Silos

The packer participation portion of the plan is still under development. NCBA and the Meatpacking Industry are working through what this will look like, how many packers will need to particiate in each

[1] Senator Fisher's "Cattle Transparency" bill was on of the bills reintroduced in the new congress, this time with bipartisan support (Wyden D-OR). The major update in this bill is that it proposes *prohibit the USDA from using confidentiality as a justification for not reporting and makes clear that USDA must report all LMR information, and they must do so in a manner that ensures confidentiality.*

[2] It should be noted that the policy is not meant to trigger solely just from either the packer or feeding silo. Rather, its primary aim was to only require major triggers to occur from the lack of negotiated trade by *both* the packing and feeding silos. Previous work would support that claim for the cattle feeding silo where only under a more stringent policy would three of the four regions trigger. From 2010-2020 no three regions have ever simultaneously triggered within the same rolling quarter.

region and what level of trade will need to occur by region. While discussions are underway, no formal announcements about when or what minor triggers will look like or whether packers have been already participating and passing regional negotiated trade minimums.

Feeder Silos

A feeding region can fail in any given week for one of two reasons. First, if less than 75% of the robust level of negotiated trade occurs in less than 75% of the weeks in a given quarter. Second, if is does not report due to confidentiality. The four cattle feeding areas are 1) Nebraska-Colorado (NE-CO), 2) Texas-Oklahoma-New Mexico (TX-OK-NM), 3) Kansas (KS), and 4) Iowa-Minnesota (IA-MN).

Table 1, panel (a), reports the violations by calendar week by location. Table 1, panel (b), reports the summary statistics of violations in the second quarter of the year. Violations occurred in two of the 13 weeks for a total of seven total violations — a decrease from the first quarteer. The Nebraska-Colorado and Iowa-Minnesota regions did not violate any weeks during the first quarter. The Texas-New Mexico-Oklahoma region violated three of 13 weeks and the Kansas region violated four of the 14 weeks. Under the current proposed 75% rule, the Kansas region would have a quarterly violation. This is the second consecutive quarter that Kansas has failed. Since only one region failed, no minor trigger occurred. Overall, across weeks and locations, 13.46% of location-weeks failed to achieve 75% of robust negotiated trade levels.

Varying Required Trade and Required Weeks

Table 2 shows how varying the assumptions of the 75% policy would have impacted the number of location-weeks violating and ultimately minor and major triggers. Panel (a) shows how many weeks within a region would have violated given different requirements on the percent of robust trade. Panel (b) converts this into a percent of weeks violating within the quarter given a 13-week quarter. Both give some indication of how sensitive regions are to failing minimum requirements. For example, Nebraska-Colorado had no violations at 75% of robust trade and eight violations at 100% of robust trade. This would indicate that the Nebraska-Colorado region is just slightly meeting the regional minimums. Other regions have similar stories. The greater the percent of negotiated trade required, the more violations occur – 21 weeks are violated across all four regions under a 100% of robust trade required, seven under 75%, and zero for 50% and 25% robust trade.

Table 3 shows how many regions would violate during the quarter under different assumptions of both number of weeks required to pass and percent of robust trade levels. As the number of weeks required to pass decreases, so does the number of regions violating. Likewise, as the percent of robust trade required decreases, so does the number of regions violating. Under a new rule that requires 100% of robust trade and 100% of weeks passing, three regions would have violated — a minor trigger. In the second quarter, the percent of robust trade required each week resulting in more violations relative to the number of weeks required to pass.

Discussion

The industry's "75% rule" was developed in response to proposed legislation to solve potential concerns about thinness in negotiated trade across different regions. In quarter two, one region failed but no minor trigger would have occurred in the cattle feeding region. The packing region is still under discussion. For reference, one minor trigger occurred in quarter one.

Supporting Tables

Table 1. Violations by Calendar Week and Region and Summary of Total Violations, Q2:2021

Panel (a): Regional Violations Under Proposed 75% Rule by Calendar Week

Quarter Week	Date	NE-CO	TX-OK-NM	KS	IA-MN	**Total Violations**
1	4/5/2021	0	1	0	0	**1**
2	4/12/2021	0	0	0	0	**0**
3	4/19/2021	0	0	0	0	**0**
4	4/26/2021	0	1	1	0	**2**
5	5/3/2021	0	0	1	0	**1**
6	5/10/2021	0	0	1	0	**1**
7	5/17/2021	0	0	0	0	**0**
8	5/24/2021	0	0	0	0	**0**
9	5/31/2021	0	0	0	0	**0**
10	6/7/2021	0	0	0	0	**0**
11	6/14/2021	0	0	0	0	**0**
12	6/21/2021	0	0	0	0	**0**
13	6/28/2021	0	1	1	0	**2**

Panel (b): Summary of Regional Violations Under Proposed 75% Rule

	NE-CO	TX-OK-NM	KS	IA-MN	Total
Total Violations	**0**	**3**	**4**	**0**	**7**
Percent of Weeks Violating (%)[a]	**0**	**23.08**	**30.77**	**0**	**13.46**
Violation (Yes/No)[b]	**No**	**No**	**Yes**	**No**	**1 Minor Trigger**

Notes: [a] Assumes 13 weeks in a quarter; [b] Under the current 75% rule, a region that violates more than 25% of reporting weeks results in a minor trigger.

Table 2. Violations by Region Varying Percent Robust Trade and Number of Weeks Violating, Q2:2021

Panel (a): Total Weeks Violating by Region Varying Percent Robust Trade Required to Pass

	100%	75%	50%	25%
NE-CO	8	0	0	0
TX-OK-NM	5	3	0	0
KS	8	4	0	0
IA-MN	0	0	0	0
Total Weeks Violating	21	7	0	0

Panel (b): Percent of Weeks Violating by Region Varying Percent of Robust Trade Required to Pass

	100%	75%	50%	25%
NE-CO	61.54	0.00	0.00	0.00
TX-OK-NM	38.46	23.08	0.00	0.00
KS	61.54	30.77	0.00	0.00
IA-MN	0.00	0.00	0.00	0.00
Total Weeks Violating	40.38	13.46	0.00	0.00

Note: Grayed area represents the number of regions failing this quarter under the current 75% rule.

Table 3. Number of Regions Failing in Quarter Varying the Percent Robust Trade and Percent of Weeks Required to Pass, Q2:2021

		Percent of Weeks Required to Pass[a]			
		100%	75%	50%	25%
Percent of Robust Trade	100%	3	3	2	0
	75%	2	1[b]	0	0
	50%	0	0	0	0
	25%	0	0	0	0

Note: [a] 100, 75, 50, and 25% weeks required to pass implies that there can be no more than 0, 3, 6, and 9 weeks violating, respectively; [b] Grayed area represents the number of regions failing this quarter under the current 75% rule.

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