



## LMR Stakeholder Meeting – Summary Notes

Cattle and Beef Focus Group Meeting

July 26, 2017

### **Welcome and Introductions** – *Mike Lynch, AMS*

Mike welcomed the group and extended gratitude to all members in attendance. He explained that the purpose of the meeting is to review updates from the previous stakeholder session in February and to update any changes, modifications, or new insights on the report to Congress.

### **Ground Rules** – *Doug Corwon, FMCS*

FMCS emphasized the ground rules regarding participation and representation. FMCS explained that a modification was made to the ground rules stating that all parties, including those not at the round table, can participate in open discussion with the understanding that the organization representatives lead the discussion. FMCS asked that the group be respectful to all perspectives and opinions in an effort to come to a general agreement as to move forward with recommendations.

### **Discussion of Topics**

#### **1. Options for Reporting Negotiated Cattle Information**

AMS reviewed the presentation given on the stakeholder teleconference in June. AMS briefly reviewed the options for expanding published negotiated cattle information including: (a) continuation of the status quo, (b) keeping head counts and adding 5-area beef types on the [LM CT154](#) report to pass confidentiality, (c) suppressing head count splits, (d) headcount split remain the same and prices between delivery categories with a 0-14/15-30 day price spread will be inserted, (e) rounding the 0-14/15-30 head counts or prices to protect confidentiality, and reporting 31+ day negotiated cattle. To protect confidentiality, the first five options are some variation of data suppression. AMS hopes to find an option that provides the most useful information to stakeholders while still protecting confidentiality.

#### **Option a – Status Quo**

Currently, AMS shows a 0-14/15-30 head count split on the [LM CT154](#). This is the only delivery period head count split AMS publishes. Negotiated pricing on all reports is aggregated to 0-30 days.

- *Pros:* Confidentiality is assured, providing reliable head count splits going forward. A historical data set goes back to 2011.
- *Cons:* No price information for specific delivery periods.

#### **Option b – Keep 0-14/15-30 Head Counts and Add 5-Area Beef Type 0-14/15-30 Prices**

The 0-14 and 15-30 head count split on the [LM CT154](#) is nationwide and includes dairybred cattle. In the 5-Area [LM CT150](#) report, the beef type section is a subset of the [LM CT154](#). These data sets may differ enough that we could have both head count splits and separate pricing for 0-14 and 15-30 categories while preserving confidentiality.

- *Pros:* Arguably the most informative of all the options.
- *Cons:* Possibly the least likely to pass confidentiality.

#### **Option c – Suppress Head Count Splits**

Discontinue the 0-14/15-30 head count split on the [LM CT154](#), and print both a 0-14 and 15-30 price.

- *Pros:* Confidentiality is strengthened with all delivery period head count splits removed, making future price quotes more reliable.



- *Cons:* While deferred pricing information is available, the unknown extent of the trade can be detrimental to others using it as a pricing reference. Published prices could be realistically unattainable to others if they have occurred in insignificant quantities.

#### **Option d – LM\_CT154 Head Count Split Remains, With a 0-14/15-30 Day Price Spread**

Combine the [LM\\_CT154](#) head count split and publish a price spread between the 0-14 and 15-30 categories.

- *Pros:* Preserves volume data while identifying the price value between delivery periods. Confidentiality is not as vulnerable as quoting specific 0-14/15-30 prices.
- *Cons:* Specific pricing of each delivery period is not provided.

#### **Option e – Rounding**

Round the 0-14/15-30 head counts and/or prices to protect confidentiality. The extent of rounding necessary would depend on whether both volume and price are rounded.

- *Pros:* Rounding is flexible and can be incorporated into other 15-30 options. Rounding thresholds can be expanded when markets get thin so data can likely remain published; whereas, specific data is more likely to be withheld indefinitely when thinning markets increase confidentiality issues.
- *Cons:* While more information is available, it is not as specific.

#### **Discussion**

Overall, there was greater support for showing the 0-14 head count split. Stakeholders felt the 0-14 head count split is a more accurate reflection of the spot market. Stakeholders favor accurate information over additional information. While exploring the options, one stakeholder expressed that a 0-14, excluding 15-30, divide should be made by region and that it is important to see how many cattle are negotiated. This way, data will be reported if confidentiality guidelines are faulted in LMR. Another stakeholder asserted that all cattle reports are 0-30, and proposed a new roll out for 0-14 pricing, emphasizing that sometimes less information is ok if it means having more accurate information.

During the discussion, stakeholders had questions about the breakdown of the report on a national scale outside the 5-areas. On the [LM\\_CT154](#) report, it includes dairy bred, beef type, cattle (anything outside the 5-area) and the price would be based on the 5-area subset of the headcount total. Another stakeholder expressed concerns about retailers and their role in the changes, and asserted that industry should re-visit trading categories.

Lastly, stakeholders discussed how these proposed options are affected by the confidentiality guidelines. Some felt that all information should be open and accessible. Others felt that the confidentiality guidelines allow too much room for interpretation. Some were concerned that if there isn't enough volume, the data won't really represent the market and may over emphasize what's happening based on just one small time period. Some stakeholders thought that data needs to be provided on an ongoing basis with transaction details behind it for market integrity. If data can be published, then it needs to be readily available. A stakeholder also asserted that if industry cannot see the price, then they should be able to see the volume. It was pointed out that data can be exaggerated and that updating individual sales can take things out of context for the public. It was emphasized again that changing confidentiality in the Act would require a statutory change by Congress.

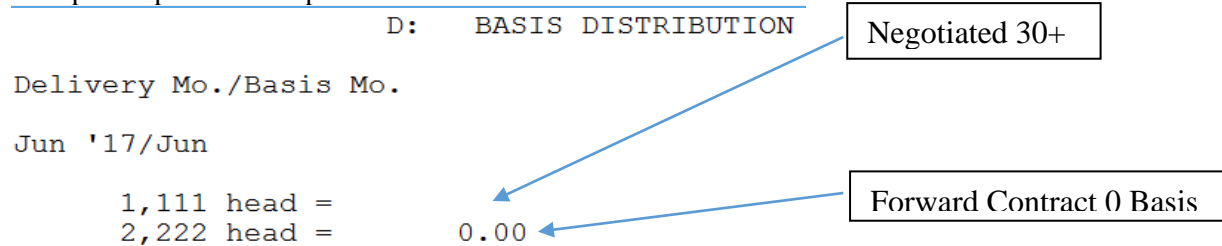


*General agreement is to divide negotiated trade into 0-14 and 15-30 day delivery period windows, reporting price and volume when permitted by confidentiality guidelines for each delivery window. In the event that the market for 15-30 day delivery window cannot be reported due to confidentiality, AMS should continue to report the volume or the head counts within the 15-30 day window for national, regional, and 5-Area reports.*

**Change in Reporting Negotiated Purchases Delivering Beyond 30 Days**

During the second segment in discussing negotiated trade, AMS presented an item it had implemented on July 25, 2017, to capture negotiated purchases that deliver beyond 30 days. As a background, negotiated cattle purchased to deliver beyond 30 days are to be submitted to AMS as forward contract purchases. Reporting forward contract purchases to AMS required a basis level value in the [LPS-115C](#) input form. Because these negotiated 30+ trades are a flat price without a basis, AMS recently instructed packers to leave the input field for a basis value blank. This differentiates these transactions from forward contracts which actually have a 0.00 basis.

By implemented a programming change to the LPS-115C form allowing negotiated 30+ purchases to be submitted to AMS with a blank basis level, the volumes of the 30+ day negotiated transactions will now be captured per the example below:



A more permanent solution lies with regulatory changes to make the final delivery window open ended, like the LMR beef delivery window of 90+ days. This would allow the purchase to be categorized as negotiated since the delivery windows can accommodate any given delivery date. Stakeholder feedback on this issue was positive, with stakeholders showing appreciation toward this change that will bring more clarity to the negotiated market.

**2. Other Ideas for Consideration and Options to Modify Delivery Period Windows**

AMS presented two agenda items specifically addressing a change to the delivery period. The regulation directs the delivery periods that AMS uses in the negotiated cattle reports. Therefore, any change to the delivery periods would require a regulation change, proceeded by a comment period.

For the first agenda item, AMS presented adopting the same delivery periods that are currently utilized in LMR beef reporting. See example below:

- Delivery Period Code
- 1 - 0 - 21 Days
  - 2 - 22 - 60 Days
  - 3 - 61 - 90 Days
  - 4 - 91/Up Days



This change provides consistency with LMR beef reporting, where the delivery windows have provided good results. The same delivery windows for cattle and beef would save program maintenance costs for AMS in the long term. Using four delivery windows instead of two provides more flexibility in addressing the negotiated 30+ cattle. The fourth window is also open ended to capture any negotiated trade regardless of extended time frames.

Implementing this option would require a reporting change for packers, adding to their expense. AMS would also have short term programming expenses, but would benefit longer term. The delivery windows are wider than those used currently, which some stakeholders may not prefer.

The second option is adopting week long delivery periods in cattle reporting. See example below:

1 =	current week	
2 =	week 2	
3 =	week 3	
4 =	week 4	
5 =	week 5	
6 =	week 6	
7 =	week 7	
8 =	week 8+	

Using this option, windows could be divided by the scheduled week of slaughter. After the current week, each successive week would start on Sundays.

AMS noted that eight delivery windows provides even more flexibility in establishing report parameters regarding delivery, and provides more adaptability regarding changing marketing trends. The last window is open ended to capture any negotiated trade regardless of extended time frames. Separating delivery windows by weeks instead of specific days is more consistent with how the industry schedules cattle. While head counts for specific weeks could not be published due to confidentiality, this large number of delivery windows presents the opportunity to introduce a weighted average delivery week factor for industry analysis. The delivery factor would be calculated in the same manner as a weighted average price. See example below:

		head count distribution	deferred emphasis	price	price emphasis
1 =	current week	10000	10000	\$140.00	\$1,400,000.00
2 =	week 2	50000	100000	\$139.00	\$6,950,000.00
3 =	week 3	20000	60000	\$138.00	\$2,760,000.00
4 =	week 4	10000	40000	\$137.00	\$1,370,000.00
5 =	week 5	5000	25000	\$136.00	\$680,000.00
6 =	week 6	3000	18000	\$135.00	\$405,000.00
7 =	week 7	2000	14000	\$134.00	\$268,000.00
8 =	week 8+	1000	8000	\$133.00	\$133,000.00
	total	101000	275000	\$132.00	\$13,966,000.00
Published weighted average delivery of		2.72	(275000/101000)		
Published weighted average price of		\$138.28	(\$13966000/101000)		

AMS stated that specific pricing and head counts of each delivery period have a low probability of passing the confidentiality guidelines when trade is spread through this many windows.



Stakeholders discussed changing the live cattle delivery period windows to 1-21 days and 22 days & up, per the current beef reporting windows. This change would be consistent with the LMR boxed beef delivery period windows on the LPS-126 form and adopting weeklong delivery periods. There were concerns raised about packers submitting this information to AMS. Pricing and headcounts may not be available within a one-week period. It does not have any traction for specific reporting data.

*The conclusion on the proposed modifications was to neither reject the options nor move forward on the options at this time. Much appreciation was expressed for the efforts made by AMS to study and propose alternative options.*

### **3. Committed Cattle Reporting Options**

To begin the afternoon session, stakeholders discussed committed cattle reporting, and options to provide clarity to committed reporting in the future.

According to the Act, the term “cattle committed” means cattle that are scheduled to be delivered to a packer within the 7-day period beginning on the date of an agreement to sell the cattle. AMS clarified that cattle are not reported until the price is established. There was further discussion to clarify each purchase type: negotiated cash, forward contracts, negotiated grid, and formulas.

From a producer standpoint, a question was presented on what percentage is committed to the packer. The group discussed how the volume of committed cattle is not always established (that would be based on availability and establishment of base price).

A stakeholder proposed that in order to mend confusion of reporting, the definition of “committed” should be changed in the legislation. Another stakeholder stated that more information would be needed on the retail side, and that the stakeholder’s representatives are not supporting changing the definition. Another stakeholder asserted that changing the definition of “committed” should reflect the inventory of forward bought cattle.

A stakeholder expressed that there are unintended consequences – packers have both sides of the information and the majority of the group are fearful that packers will have too much of an advantage. In order to support the change in reporting committed cattle, more information is needed. Perceptions may hinder packer competitors and commitments. Most tools and resources are geared towards packers.

A stakeholder commented that if the cattle feeder knew the committed supply before commitment, then the supply outcomes would be drastically different. Premiums allow for incentive and give room for devaluing the product.

In summation, there appeared to be some discrepancy/confusion on the meaning of “committed” on the LMR cattle reports. AMS clarified that the number reflected on the report is based on the number of cattle scheduled to be slaughtered in the next 7 days.

Some stakeholders think that the continuing back and forth conversation needs to cease until all committees are in agreement on what the definition of committed should include. Some stakeholders were not in favor of changing the definition due to fear in the loss of data, some stakeholders asserted that they are not in the position to change its meaning without consulting with their members, and another stakeholder noted that they are willing to discuss alternative edits to the definition going forward.



***Agreement could not be reached on this topic due to the multiple opposing viewpoints of the stakeholder interests represented (people opposed, no clear consensus, and some stakeholders were unable to discuss changes at this time due to not having the input from their constituents).***

#### **4. Feedback on New Comprehensive Report**

AMS reviewed the features of the newly published Comprehensive Cattle Report. The negotiated purchases, formula nets, forward contract nets, and grid nets are combined for the current week, prior week, and prior year. Weighted average price is calculated by the total head count. All four purchase types are joined into one bucket, which is then divided into beef type and dairybred categories. In the new report, imported and domestic pricing data is aggregated together. All the other LMR cattle reports keep domestic and imported pricing separate. Some features include:

- Beef types minus dairy spread over live and address basis. Arrows are respective to trends from the previous week
- Purchase types: formula net minus negotiated (formula net price beef type)
- Shows differences in cash price vs. formula over a rolling average of 52 weeks
- Choice and higher grading percent and carcass weight for all grades
- Formula base volume is a new section. Not much has been done with LMR to flush out new formula daily transactions. The report concludes that Monday is a heavily active base volume.

While discussing the report, a stakeholder suggested that a 52 week rolling average should have a side-by-side comparison of the previous year. It was also suggested that before changes are made, AMS should run all contingency plans to address adherence to confidentiality guidelines, and that AMS should provide regional reports that include limitations and specific guidelines to all 5 regions.

As a next step, AMS will consider feedback received from stakeholders and incorporate clarifying changes to the new report going forward.

#### **5. Additional Items**

AMS is having a study conducted to analyze cattle data to see if there are other ways to present more information from the available submitted data. Additionally, at the request of the lamb industry, AMS is having a study conducted on confidentiality to examine other potential solutions for reporting information while still preserving the identities of buyers and sellers as required in the Act.

In light of new pork and beef plants that have begun production in the last year, as well as those coming online in the next year, AMS explained the LMR onboarding process for new plants once they reach the production threshold as defined in the Act.

Stakeholders asked whether stakeholder representatives would have the opportunity to review the report to Congress before agency submission for clearance to allow a chance to review and edit the draft to ensure that all parties feel they are represented effectively and accurately. AMS explained that would be an agency decision.

#### **Next Steps and Closing Thoughts – Doug Corwon and Eileen Hoffman, FMCS**

Appreciation was expressed to all parties involved for their willingness to participate in a second meeting. Notes will be summarized and posted on AMS' website within the next couple of weeks. Eileen Hoffman expressed her appreciation to the group for all their work and commitment to this endeavor.

**Adjournment** – The meeting adjourned at 2.00 p.m.