Impacts of COOL on Cattle Trade

C. Robert Taylor
Auburn University
Questions Addressed

- Did the Price Basis (Canadian price minus Domestic price) Widen After COOL Was Implemented, as Asserted by Opponents?
  - For Fed Cattle?
  - For Feeder Cattle?

- Did COOL Negatively Impact Imports?
  - Canadian Slaughter Cattle?
  - Feeder Cattle?
    - From Mexico?
    - From Canada?
Data Sources

- **Mandatory Price Reporting (MPR) weekly data**, 9/2005 through 11/2014 (not analyzed in previous COOL studies)
- **Monthly U.S. Cattle and Trade data** from various government sources, 1995-2014
- **Monthly CanFax data** (limited)
  - Public distribution of detailed Canadian cattle market statistics is controlled by the Canadian Cattlemen’s Association
- **Canadian Price and Slaughter Weekly Data**
  Obtained from AMS/USDA, 2005-2014
**Price Basis**

* Economic theory: Higher segregation cost would widen the price basis

* Claims by COOL Opponents:
  * Informa Economics
    * $15-$18/head under USDA’s initial proposal
    * $10-$18/head under the final rule
  * Canadian Cattlemen’s Association (CCA)
    * $90/head

* Fact: The price basis narrowed, not widened, after COOL
  * MPR data reported by the packers, 2005-2014
### Price Basis\(^a\) Before and After COOL, U.S. dollars

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Formula Net</td>
<td>-$3.30</td>
<td>-$2.04</td>
<td></td>
</tr>
<tr>
<td>Forward Contract Net</td>
<td>-$4.78</td>
<td>-$0.38</td>
<td></td>
</tr>
<tr>
<td>Negotiated Grid Net</td>
<td>-$1.03</td>
<td>-$0.72</td>
<td></td>
</tr>
</tbody>
</table>

| Feeder Cattle                    | Alberta Steer compared to Nebraska | -$24.38 | -$17.45 |

\(^a\) Price basis is defined to be the price for imports minus the price for cattle of domestic origin. Averages based on paired comparisons excluding weeks where there were no transactions, domestic or import, under the stated purchase arrangement. Negotiated cash prices are not shown because few imported cattle are acquired in a cash transaction on a live weight basis.
Price Basis\textsuperscript{a} Before and After COOL, U.S. Dollars

\begin{itemize}
  \item Fed cattle price basis went down for most classes, grades and purchase arrangements
  \item An expanded Table is included in the report
\end{itemize}
Answers to Questions
(based on qualitative and econometric analyses)

- Did the Fed Cattle Price Basis Decline After COOL Was Implemented? **NO**
- Did the Feeder Cattle Price Basis Decline after COOL was Implemented? **NO**
- Did COOL Negatively Impact Imports of Feeder Cattle? **NO**
- Did COOL Negatively Impact Imports of Slaughter Cattle? **Unlikely**
  - Econometric evidence of a significant effect of COOL is weak; results depend on observation period, data source, and model specification
  - Likely omitted variable bias in other studies