Horizontal Consolidation and Buyer Power in the Beef Industry

Fact Sheet • July 2010

The beef-packing industry is more powerful and consolidated now than it was a century ago when Congress enacted the Packers & Stockyards Act to break up the beef monopolies. Beef packing is the most concentrated industry in the meat and poultry sector. Meatpackers have merged into a few dominant players that slaughter and market almost all of the beef products in the United States. Today, just four firms slaughter more than four out of five beef cattle. This concentration gives large packers tremendous leverage over independent cattle producers. The beef-packing industry has also expanded beyond slaughter and processing and now large packers own their own cattle and operate feedlots, thus controlling supply through all stages of production. These practices enable the meatpackers to drive down cattle prices while keeping consumer beef prices high.

Consolidation in Feedlots

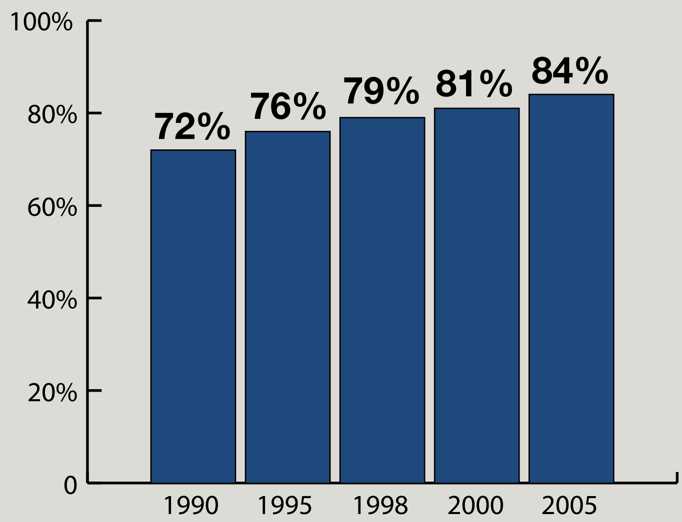
Although most beef cattle start out on small or mid-sized farms, increasingly they spend several months on giant feedlots where they gain weight before being delivered to the meatpackers for slaughter (a process known as "finishing"). Beef cattle are born and raised primarily by mid-sized, independent producers. Even in 2008, nearly half (46 percent) of beef cattle were on 675,000 farms and ranches with fewer than 100 head of cows.[1] Most beef cattle are eventually finished on feedlots, and over the past decade these feedlots have gotten much larger and are often partnered with or owned by the meatpackers.

Until the mid-1960s, most feedlots were small, family-owned operations that handled fewer than 1,000 head but marketed most of the beef cattle.[2] Now, the largest beef feedlots finish the vast majority of beef cattle. In 2008, the largest 12.1 percent of feedlots finished more than 16,000 cattle and marketed nearly three-quarters (70.2 percent) of beef cattle.[3]

Hyper-Consolidation Disadvantages Independent Producers

Concentration in the meatpacking industry has been a big problem for cattle producers since the turn of the 19th century. In fact, today's antitrust laws like the Packers &

Four-Firm Beef Packer Concentration



Source: Hendrickson Heffernan

Stockyards Act were created in part due to the meatpacking industry's practices at that time.[4] The industry is even more concentrated today.[5]

Despite a U.S. Department of Justice assessment that the beef-processing industry was "highly concentrated" in the late 1990s,[6] the meatpacking industry has continued to consolidate through mergers and takeovers over the past decade. The number of cattle slaughter plants declined by more than a third in 10 years, from more than 270 in 1996 to fewer than 170 in 2006.[7] In 2007, the top three beef packers (Tyson, Cargill and Swift) processed two-thirds (67 percent) of beef cattle.[8] The 2008 JBS-Swift merger was anticipated to only increase the anti-competitive concentration of beefpackers.[9]

Concentration among beef packers pushes down the price beef producers receive for their cattle at auction because the tiny number of meatpacker buyers means that there is little competitive pressure to bid up cattle prices. In many cases, only one or two of the major beef packers will attend a feedlot auction and sometimes only one buyer will bid on cattle.[10] Nearly three out of five feedlots (57 percent) sell auction cattle to a single beef packer, which keeps prices low.[11] The U.S. Department of Agriculture (USDA) commissioned studies of the beef packing industry in the 1990s and found that higher levels of packer concentration tended to drive down the price beef producers received for live cattle.[12] A University of Oklahoma study found that when mergers increased meatpacker consolidation and the number of bidding packers fell, the prices cattle operators received fell by as much as $9.39 per hundredweight.[13]

The prices producers receive for their beef cattle have fallen steadily over the past 20 years. Prices have fallen by nearly a fifth (18.5 percent), from $116 per hundredweight between 1989 and 1992 to $94.60 between 2004 and 2008.[14] Cattle producers only receive a small and declining amount of the auction price. The beef cattle net return fell by half over the past two decades, from $36 a head between 1981 and 1994 to $14 a head between 1995 and 2008.[15]

Beef packers have captured most of the gains from industry consolidation. As the gap between what consumers pay for beef and what producers earn for cattle continues to grow, little of the grocery dollars filter back to famers. The concentrated meatpacker market power has allowed packers capture more than half (55 percent) of the beef cattle sector's earnings and lowered the earnings of cattle producers by 31 percent. More competitive markets would provide more returns to producers.[16] Over the past decade, real consumer prices for ground beef have increased by 24 percent, from a monthly average price of $1.89 a pound in 1999 (in 2009 dollars) to $2.34 a pound in 2008.[17] Over the same period, prices for beef cattle rose by 8.5 percent, only a third as fast as retail prices increased.[18]

Captive Supply and Packer Ownership Subvert Competitive Markets

Meatpackers supply their slaughterhouses with a combination of cattle they buy at auctions, cattle they already own, and cattle secured with contracts with feedlots or producers, known as captive supply arrangements.[19] In captive supply arrangements, beef producers or feedlots enter marketing agreements to deliver cattle to meatpackers in the future. Often, the agreement terms allow meatpackers to lower the agreed-upon price when the cattle are delivered. In 2007, the USDA estimated that more than two-fifths (between 42 and 45 percent) of slaughtered cattle were obtained through captive supply arrangements and packer-ownership.[20] About one in 12 cattle (between 7 and 8 percent) that were slaughtered in 2007 were packer-owned cattle that were owned and held by the meatpacker for at least two weeks before slaughter.[21]

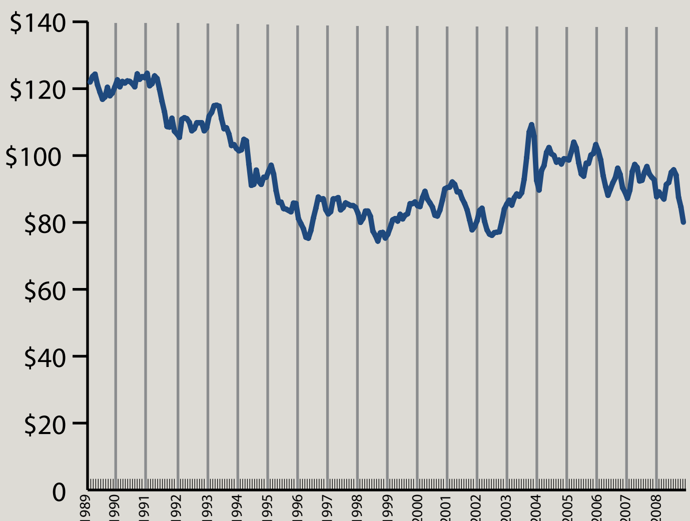
Packer-Owned Cattle Distort the Market: Control of live cattle through packer ownership and captive supply arrangements can distort the marketplace and make it impossible for producers to determine the market price for cattle. Since meatpackers with packer-owned cattle can be sellers, buyers or on both sides of a live cattle sales transaction, they can distort or manipulate prices. They can slaughter their own cattle when the cash price is high or purchase from contracted cattle or at auction when prices are low.[22] These practices can drive down prices for other independent sellers where there are few buyers.[23]

Captive Supply Arrangements Hurt Producers: Cattle producers using captive supply agreements with packers are likely to receive lower prices than they might get at auctions and can receive worse terms than more favored suppliers. Captive supply prices for cattle are often tied to a market price. But since meatpackers can manipulate or distort market prices because they are dominant participants in the market as both buyers and sometimes sellers, the prices producers receive under captive supply arrangements can be pushed down by the packers.[24]

Captive supply arrangements also offer special premium prices and terms to selected feedlots that disadvantage less favored producers and can distort the prices all producers receive. Favored sellers often receive higher prices than the cash market, but non-favored cattle sellers must rely on the cash market where the meatpackers are the dominant buyers.[25] Moreover, captive supply agreements are confidential, which creates an opaque market where one cattle feeder does not know what others are receiving for their cattle.[26]

Real Beef Cattle Farmgate Prices

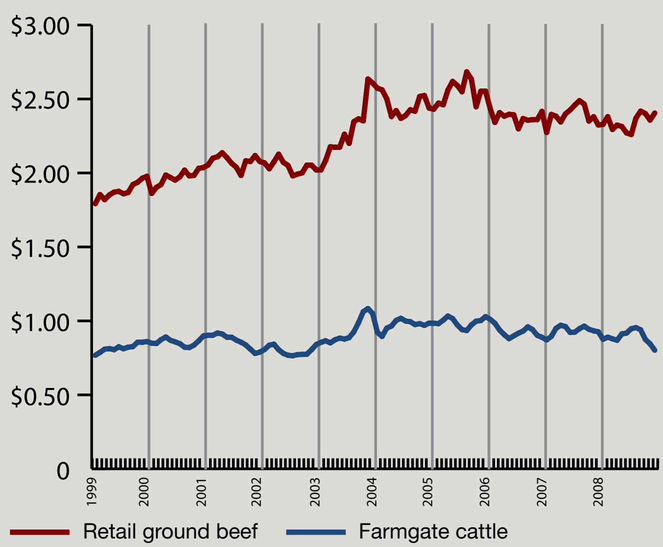
(per hundredweight, in 2009 dollars)



Source: U.S. Department of Agriculture

Real Farmgate Cattle and Retail Ground Beef Prices

(per pound, in 2009 dollars)



Source: U.S. Department of Agriculture; U.S. Census Bureau

The volume of captive supply arrangements — about 40 percent of the live cattle market — has depressed all live cattle prices. A USDA-funded study found that cattle auction prices were generally higher than captive supply contract prices.[27] To make matters worse, as meatpackers increase their use of captive supply arrangements, they tend to pay lower prices for cattle when they do buy some on the open market.[28] A study commissioned by the Western Organization of Resource Councils found that cattle producers would receive an estimated $1 to $2 per hundredweight more for their cattle if captive supply arrangements were not putting downward pressure on live cattle prices overall.[29]

What You Can Do

The USDA, Congress and the Department of Justice have allowed concentrated agribusiness power to reach these unprecedented levels. They can take concrete actions to restore fair prices for independent beef cattle producers.

In June 2010, the USDA released proposed rules to help reduce the unfairness in the cattle markets caused by consolidated meatpacker power. The rule is an important first step to level the playing field for cattle producers. The USDA's undue preference proposal will address the unfair price premium and secret preferential contract terms that meatpackers offer to industrial-scale cattle feedlots. Cattle producers will benefit from these and other proposed reforms and the USDA must expeditiously finalize these rules. The meatpacking industry is attacking these important proposals, but the USDA needs to stand up to agribusiness pressure and finish these long overdue proposals.

Once these rules are in place, the USDA needs to take the next steps. The proposed rule addresses a few specific unfair practices, but safeguards are also needed to prevent meatpackers from unfairly favoring one cattle producer over another through marketing agreements and contracts. In addition to implementing this proposed rule as soon as possible, the USDA must take the next steps to address the market power of large meatpackers. There are steps that both Congress and the USDA can take immediately:

- **Ban packer and processor ownership of livestock.** Both beef packers and pork processors own and control pools of livestock that allow them to effectively manipulate market prices by slaughtering their own stock when prices are high and only buying on the open market when prices are low. The USDA should ban the packer ownership of cattle or hogs more than 14 days before slaughter.

- **Enact captive supply reform.** A proposal to reform captive supply arrangements in the beef cattle and hog markets has been sitting at the USDA since the 1990s and has been part of legislative proposals during the last two farm bill debates. The reforms would only allow contracts if they were based on pre-arranged, set prices, firm dates of delivery, and if the contracts are transparently and publicly offered. This would prohibit meatpackers from using a pricing system that could provide unfair advantage to some producers and disadvantage others.

The Department of Justice should also place a moratorium on any proposed agricultural and food company mergers by the top four firms in any industry.

Consumer, farm and food advocates need to show their support for these proposed rules and the ongoing investigations into concentrated agribusiness power.

Send comments in support of the proposed USDA livestock rules to comments.gipsa@usda.gov by November 22, 2010.

Send your concerns about consolidation, concentration and monopoly power in the food and agriculture sectors to agriculturalworkshops@usdoj.gov.

Endnotes

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