

STUDIES OF U.S. RED MEAT INDUSTRY STRUCTURE: A SUMMARY

Agriculture is one of the largest sectors of the U.S. economy and red meat production accounts for the largest segment of that with \$80 billion in annual sales, 500,000 employees and a growing array of products consumed by the world. As a result, the U.S. meat industry is one of the most studied industries in the U.S., including much scrutiny when mergers, acquisitions and ownership changes occur.

Like all U.S. businesses, when a meat company is acquired by another, pre-merger review applications must be filed with the U.S. Department of Justice and the Federal Trade Commission. This review is required under the Hart-Scott-Rodino Act, when any investor seeks to acquire either a 15% stake or a stake valued at more than \$15 million. The goal of the review is to ensure that healthy competition is preserved. This is a consumer protection that the meat industry supports.

Livestock Prices Change

The meat industry is unique because it relies upon live animals as its raw materials. Within livestock production, there is a classic, livestock price cycle. Prices rise and fall as producers raise more animals in response to high prices or low supply, and then cease producing when livestock inventories become high and prices fall. At the low points in the livestock price cycle, some livestock producers have called for reviews of meat packing industry structure to determine if the structure may be causing a price decline. Each review has found that industry structure is not to blame for livestock prices. Rather, the basic laws of supply and demand most often are the cause.

Following is a summary of some red meat packing industry structure studies and their key findings.

GIPSA Livestock and Meat Marketing Study Grain Inspection, Packers and Stockyards Administration, U.S. Department of Agriculture, March 2007

In 2003, Congress directed the Grain Inspection, Packers and Stockyards Administration (GIPSA) to study livestock and marketing agreements (AMAs) and assess the effects on the market of packer ownership of livestock more than 14 days in advance of slaughter and examine alternative methods to procure and transfer livestock from farm to retail.

Findings: The study found that livestock and marketing agreements are used throughout U.S. agriculture to manage both cost and risk as well as to improve product quality. “In aggregate, restrictions on the uses of AMAs for sale of livestock to meat packers would have negative economic effects on livestock producers, meat packers and consumers.”

Other key findings include:

“The beef producers and packers interviewed believed that some types of AMAs helped them manage their operations more efficiently, reduced risk and improved beef quality.”

“An examination of the relationship between the proportion of AMAs used to procure live hogs and the quality of resulting pork products indicates that a higher proportion of AMA use is associated with a higher quality of pork products.”

Agricultural Contracting Update Economic Research Service, U.S. Department of Agriculture, 2006

The USDA/Economic Research Service study examined all segments of U.S. agriculture in this comprehensive look at contracting and related practices. The study is a continuation of a project that began in 2001.

Findings: “Contracts covered 39 percent of the value of U.S. agricultural production in 2003, up from 36 percent in 2001. Over the long term, contracting shows a strong upward trend — contracting covered 11 percent of the value of production in 1969 and 28 percent in 1991.”

Contracting in cattle is below the sector average and growing slower relative to hogs, protein crops, and other commodities. “Hogs and fed cattle are the only two sectors that extensively combine marketing and production contracts.”

“Far more heterogeneity in contracting exists among specific commodities than is apparent in the aggregate data.” “In the future, contracts may change to facilitate greater traceability of products and to allow new forms of risk-sharing and input provision.” The study provides a quantitative and qualitative insight that contracting is becoming an increasing part of agriculture production and marketing at the farm level compared to the past. It also shows that the livestock sector is neither leading nor following in this farm level trend, but adopting contracting as a means to remain competitive with all segments in agriculture.

Concentration in the Red Meat Packing Industry, Packers and Stockyards Programs Grain Inspection, Packers and Stockyards Administration, U.S. Department of Agriculture, 1996

This USDA/GIPSA study included seven separate projects that looked at various issues related to meat industry structure. Six of the projects were completed by research universities and addressed the definition of regional cattle procurement markets, price determination in slaughter cattle procurement, the role of captive supplies in beef packing, the effects of concentration on prices paid for cattle, vertical coordination in hog production and hog procurement in the Eastern corn belt. The seventh (a literature review) was done by USDA.

Findings: “The meatpacking industry is complex and dynamic...quick answers to complex market structure and behavior are not available. Steady sustained monitoring and analysis provide the best opportunity to provide meaningful information as the industry evolves and market conditions change.”

Kansas Procurement Investigation

**Grain Inspection, Packers and Stockyards Administration,
U.S. Department of Agriculture, 1996**

This study examined fed cattle procurement practices for 15,000 transactions involving two million cattle between February 6 and May 28, 1995. As part of this study, more than 10,000 cell phone records of cattle buyers were analyzed.

Findings: The report identified no anti-competitive behavior. Rather, it determined that supply and demand were responsible for low cattle prices during the time period. The data “did not reveal any instances where a buyer from one firm contacted a buyer from another firm...no evidence suggested that the buyers were using their cellular phones to collude while purchasing livestock.”

Econometric Analysis of Fed Cattle Procurement in the Texas Panhandle

**Grain Inspection, Packers and Stockyards Administration,
U.S. Department of Agriculture, 1999**

The study was designed to examine “whether packers’ use of non-cash procurement methods has the effect of depressing cash (“spot market”) prices paid for cattle.” GIPSA collected detailed data on the cattle procurement activities of four large beef packing plants in the Texas panhandle region from February 1995 through mid-May 1996.

Findings: “...plants appear to pay quality-adjusted delivered price premia for marketing agreement cattle, relative to spot market cattle, that ranged from a low of \$0.52/cwt to a high of \$2.26/cwt...also appear to pay quality-adjusted price premia for forward contract cattle relative to spot market cattle. We recommend that the agency not rely on the statistical finding of a negative correlation between the use of non-cash procurement methods and spot market prices as evidence of intent by packers to depress cattle prices through the use of non-cash procurement or as evidence of the unintentional consequences of lower prices as a result of the use of non-cash methods.”

Captive Supply Report

**Grain Inspection, Packers and Stockyards Administration
U.S. Department of Agriculture, 2002**

The report was conducted in response to a Congressional mandate in the 2001 Agricultural Appropriations bill. According to GIPSA, differences in captive supply statistics reported by various organizations result from conflicting definitions and variations in the geographical bases of the data collection. GIPSA defines captive supplies based on whether a packer commits to purchase livestock before the animals are ready for slaughter.

Findings: Based on its review of the top four packers’ records, GIPSA found that captive supplies accounted for 32.3 percent of the firms’ total slaughter rather than 25.2 percent, as reported in the packers’ annual reports to GIPSA. The data discrepancies are attributed to misunderstandings about captive supply definitions and computational errors. Sixty-eight percent of cattle are traded on the spot market. GIPSA published a new definition of captive supply in the Federal Register, which read, “livestock that are owned or fed by a packer more than 14 days prior to slaughter; livestock that are procured by a packer through a contract or marketing agreement that has been in place for more than 14 days prior to slaughter; and livestock that are otherwise committed to a packer more than 14 days prior to slaughter.”