

USDA ACTIONS ON CONCENTRATION

Release No. 0155.99

Backgrounder

USDA ACTIONS ON CONCENTRATION

"It would be simplistic to say that consolidation, on the whole, is a good thing or a bad thing. Consolidation can lead to more efficient, lower-cost production. But competition is the lifeblood of the free enterprise system, and the fewer options available in the marketplace, the less innovative the economy. What's more, we should all be concerned when the trend toward larger and fewer agricultural operations threatens to drive the small operator out of business. We can't allow a system of agricultural Darwinism to prevail, with the survival of the fittest becoming survival of the largest."

Agriculture Secretary Dan Glickman
February 22, 1999

There is high concentration in the meatpacking industry and it is growing. The four largest packers' share of steer and heifer slaughter rose from 36 percent in 1980 to 80 percent in 1997. Concentration in hog slaughter is lower, but also on the rise, increasing from 32 percent in 1980 to 54 percent in 1997. It is estimated that more than half of all hogs are now sold through some type of forward sales agreement. Secretary Glickman has joined many small- and medium-sized producers in expressing concerns about concentration.

USDA has been actively studying the issue of concentration and moving quickly to ensure adequate oversight of current practices as well as enforcement of current law.

Enforcing the Law

USDA filed a complaint charging Excel Corporation with "unfair trade" practices in violation of the Packers and Stockyards Act.

After USDA filed a complaint, a Judicial Officer ordered IBP to stop entering into agreements that contain a right of first refusal, under which IBP may obtain livestock by matching the highest previous bid rather than increasing the bid to purchase livestock.

A recent USDA-Department of Justice bid rigging investigation resulted in the conviction of two people for violations of the Sherman Anti-Trust Act and federal mail fraud statutes.

Strengthening Oversight

Secretary Glickman has restructured the Grain Inspection, Packers and Stockyards Administration's (GIPSA) Packers and Stockyards Program. He has beefed up economic and legal expertise to enhance USDA's ability to monitor and investigate the increasingly complex and sophisticated financial transactions in the livestock sector.

Investigating Procurement and Pricing Practices

GIPSA is investigating packer competition for retail sales in light of record farm to retail price spreads. Another investigation will carefully

scrutinize recent plant closings and changes in kill capacity in recent years.

USDA completed and released a major study of concentration in the red meatpacking industry.

GIPSA conducted a broad investigation of fed steer and heifer procurement in the Texas Panhandle, including an analysis of the effects of forward sales agreements by beef packers.

In 1996, Secretary Glickman formed an Advisory Committee on Agricultural Concentration, and, in 1997, he established a National Commission on Small Farms. Recommendations from these bodies include stepped-up reporting of information on prices, exports and imports, more aggressive use of forward purchase arrangements and other market information by producers, and tougher enforcement of the Packers and Stockyards Act. USDA is currently implementing these changes.

An initial GIPSA investigation of hog procurement by 12 major slaughter plants found that larger sellers generally had higher quality hogs and received higher prices. It also found that publicly reported live hog prices did not accurately reflect net prices paid. As a result, GIPSA began investigating hog procurement contracts and marketing agreements to assess the reasons for price differences among producers.

In January 1999, USDA began a series of public meetings with hog producers across the country to discuss the recent hog procurement investigation and its potential implications for producers, changes in Market News reports, alternative marketing opportunities for hog producers, restructuring credit programs, and small hog operation payments.

GIPSA will conduct a one-year price reporting investigation to determine whether publicly reported price information accurately reflects transaction prices and the market's full range.

Providing More Information for Producers

USDA initiated a weekly report of premiums and discounts being offered for cattle in the upcoming week by meat packers. All major packers are participating and feedlots are using this information to verify transactional information.

USDA now reports on the numbers of hogs produced under contract by large hog operations, the number of cattle produced under contract for future delivery, and some beef grading data.

USDA extended coverage of boxed beef sale commitments to cover the upcoming 15 business days, rather than the previous coverage of only 10 business days.

USDA is seeking comment on a regulation that would make it illegal to purchase or sell livestock on the condition that the price not be publicly reported.