

# The Impacts of Captive Supplies on Cattle Markets: What does 20 years of research have to say?

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## NEWS RELEASE

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### USDA AND JUSTICE DEPARTMENT TO HOLD PUBLIC WORKSHOPS TO EXPLORE COMPETITION ISSUES IN THE AGRICULTURE INDUSTRY *Workshops Will Promote Open Dialogue on Legal and Economic Issues in the Agriculture Industry*

WASHINGTON, August 5, 2009 - Agriculture Secretary Tom Vilsack and Attorney General Eric Holder announced today that the U.S. Department of Agriculture (USDA) and the Department of Justice will hold joint public workshops to explore competition issues affecting the agriculture industry in the 21st century and the appropriate role for antitrust and regulatory enforcement in that industry. These are the first joint USDA/Department of Justice workshops ever to be held to discuss competition and regulatory issues in the agriculture industry.

The joint USDA/Department of Justice workshops will address the dynamics of competition in agriculture markets including, among other issues, buyer power (also known as monopsony) and vertical integration. They will examine legal doctrines and jurisprudence and current economic learning, and will provide an opportunity for farmers, ranchers, consumer groups, processors, the agribusinesses, and other interested parties to provide examples of potentially anticompetitive conduct. The workshops will also provide an opportunity for discussion for any concerns about the application of the antitrust laws to the agricultural industry.

The goals of the workshops are to promote dialogue among interested parties and foster learning with respect to the appropriate legal and economic analyses of these issues as well as to listen to and learn from parties with real-world experience in the agriculture sector.

"It is important to have a fair and competitive marketplace that benefits agriculture, rural economies and American consumers," said Agriculture Secretary Vilsack. "The joint workshops between the Department of Justice and USDA will allow a dialogue on very important issues facing agriculture today."

"Maintaining a robust agricultural sector is crucial to the strength of the American economy and to who we are as a nation," said Attorney General Holder. "Through the dialogue established in these workshops and, ultimately through our actions, we are committed to ensuring that competition and regulatory actions benefit all American consumers and businesses."

The first workshop will be held in early 2010. While some of the workshops may be held in Washington, D.C., others will be held regionally. The Department of Justice and USDA are soliciting public comments from lawyers, economists, agribusinesses, consumer groups, academics, agricultural producers, agricultural cooperatives, and other interested parties.

"For the first time ever, farmers, ranchers, consumer groups, agribusinesses and the federal government will openly discuss legal and economic issues associated with competition in the agriculture industry," said Christine A. Varney, Assistant Attorney General in charge of the Department of Justice's Antitrust Division. "This is an important step forward in determining the best course of action to address the unique competition issues in agriculture."

<http://www.usda.gov/news/portal/latin/470A701ED?printable=true&contentonly=true&> 11/13/2009

USDA & Department of Justice will hold "Competition Workshops" in Iowa, Alabama, Wisconsin, Colorado (Fort Collins), and Washington DC.

My opinion is that it would be good to impact the who are the speakers and discussants.

My opinion is that it would be good to hear summaries of concentration & competition scientific research. It would also be good to hear summaries of case law & legal realities.

I have also been suggested as a name to participate on the panel.

*A Synthesis of Market Power Research on the Cattle and Beef Industry*

Stephen R. Koontz\*

December 30, 2009

Comments Submitted to the  
U.S. Department of Justice and U.S. Department of Agriculture  
Regarding  
Agriculture and Antitrust Enforcement Issues in Our 21<sup>st</sup> Century Economy

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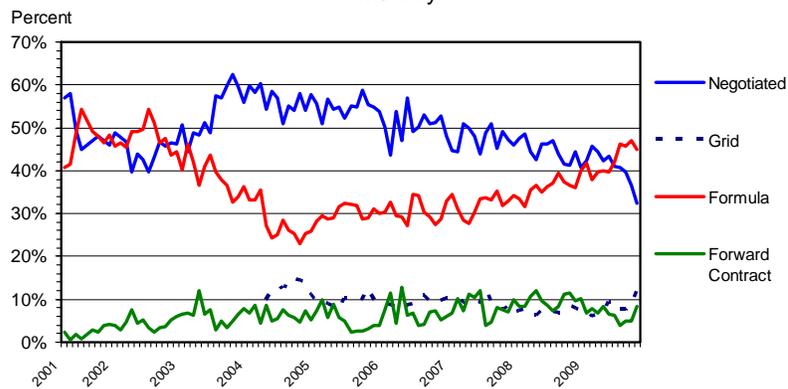
So, why do this?

I think industrial organization of agriculture is the most important issue of our time.

I also think that rhetoric is not very important. However, science and objectivity are.

### TOTAL CATTLE SOLD BY TRANSACTION

Monthly



Livestock Marketing Information Center

Captive supplies are contracts...  
And in the cattle industry they are  
formula arrangements.

## **Captive Supply Research**

- *Two comprehensive studies:*
  - *1996 Concentration Study (Red Book)*
  - *2007 Livestock & Meat Marketing Study (RTI Study)*
- *Both studies Congressionally mandated and funded.*
- *Multi-university and multi-institution.*
- *And both are good science:*
  - *Competitive grants process.*
  - *Challenging project teams.*
  - *Results presented at professional peer meetings.*
  - *Final reports freely accessible.*
  - *Published in scientific peer reviewed journals.*

## **1996 Concentration Study**

- *Focus on measuring market power through captive supply use. How were fed cattle prices impacted?*
- *13-Month study period: 4/1992-4/1993 with transactions for every pen of animals traded in the country.*
- *Captive supplies are associated with small negative impacts on cash market prices:*
  - *Less than 1% of price & often less than ½%.*
  - *Different for formulas, forward contracts, & packer-owned.*
- *Strategic behavior by packers in the use of captive supplies was hard to find.*
- *Implication is that eliminating captive supplies would do little to improve fed cattle prices.*

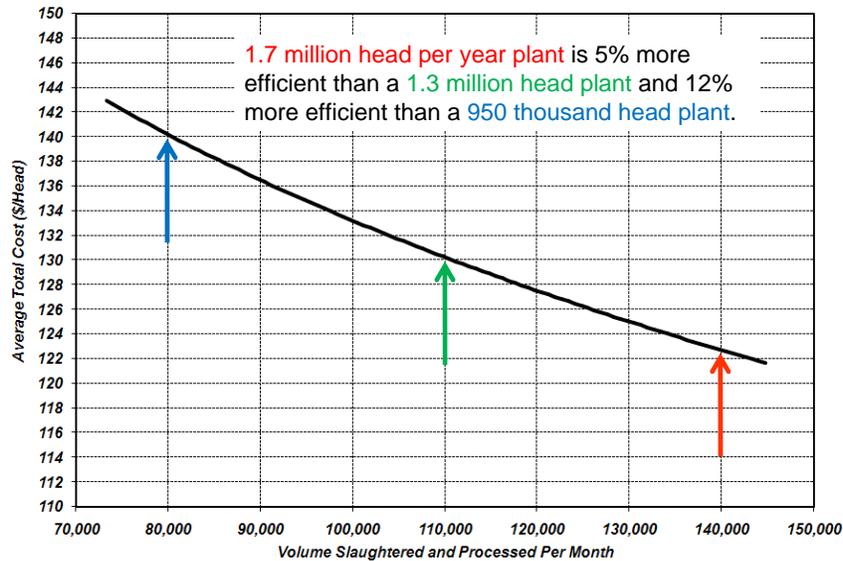
## **2007 Livestock and Meat Marketing Study**

- *Focus was a more comprehensive look at captive supply use. What are the costs & benefits of captive supplies?*
- *30-Month study period: 10/2002-3/2005 with transactions for every pen of animals traded in the country.*
- *When captive supply (AMA) use increases cash prices decrease:*
  - *10% increase is associated with a 0.3% decrease in cash price.*
  - *Impacts are economically small but statistically significant.*  
*Average transaction price of \$138/cwt.*
- *Captive supply use is not strategic – packers pull more from captive cattle when more are available and those cattle are cheaper.*
- *Implication is that if captive supplies were prohibited then cattle prices would have been higher by 0.5% or \$0.68/cwt of carcass weight.*

## **2007 Livestock and Meat Marketing Study**

- *Cost of captive supplies – the exercise of market power – was small.*
- *Relative to the benefits of captive supplies:*
  - *Risk management*
  - *Quality improvement*
  - *Improved efficiency in supply chain*
- *Benefits are larger than costs of captive supplies.*

## Average Slaughter and Fabrication Costs Per Head for the “Representative Plant”



### What did the packer P&L data show?

- *Plant costs are statistically significantly lower for those that procure through captive supplies.*
  - *Costs are lower – all else constant – 0.9%.*
  - *Costs are lower because of higher volumes – 2.6%.*
  - *Costs are lower because of predictable supplies – 1.2%.*
- *Cost savings are approx 4.7% or \$6.50 per animal.*
- *Related to fixed costs and much less to variable costs.*
- *If captive supplies were prohibited then cattle prices would decrease \$6.50/head.*

## Other Captive Supply Research

- *Other empirical research:*
  - 10-12 studies.
  - *Similar results – statistically significant but always less than 1% of price and often less than ½%.*
- *Other theoretical research:*
  - 8-10 studies & hundreds on contracting...
  - *Captive supplies are used for more than market power.*
- *Other research says eliminating captive supplies will not necessarily increase the cash price by the amount of the negative impact.*
- *Other research says there is a need for a cost and benefit assessment.*

## Summary, Conclusions, and Questions

- *This issue is and has been important to the agricultural economics research community.*
- *The bottom-line conclusion is that: market power is present and very modest.*
- *But there are economic benefits also.*
- *And, comparisons of benefits and costs find the use of captive supplies is a net benefit – to cattlemen.*
- *This is the conclusion drawn when you look at the 20 years of scientific research.*