

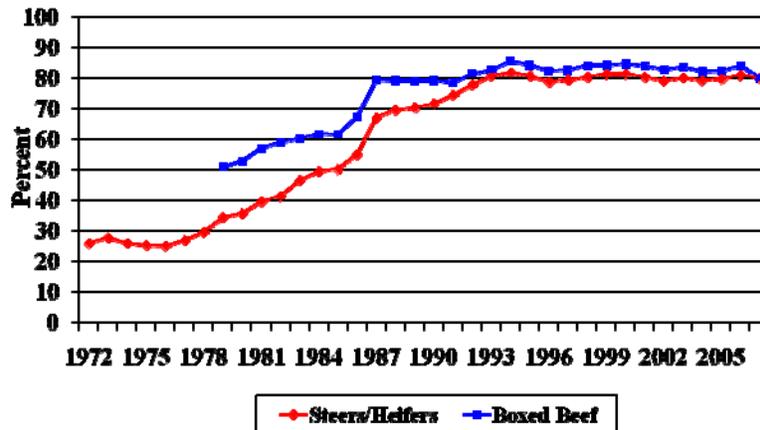
Market Power in the Cattle and Beef Industry: What Does 20 Years of Research Have to Say?

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Objectives

- ▶ Highlight major market structure changes in beefpacking
- ▶ Note key lawsuits and court rulings
- ▶ Summarize (briefly) the body of research related to market structure and market power

Rapid growth to apparent plateau in national four-firm concentration



Source: GIPSA, USDA

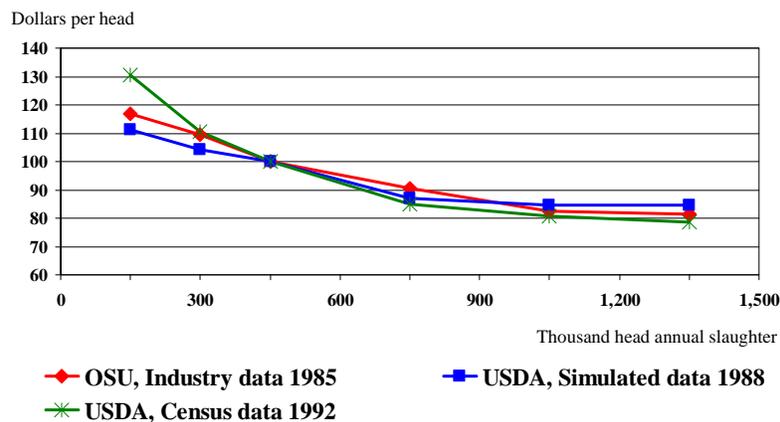
Producer lawsuits

- ▶ Producers in 1975 filed the Meat Price Investigators Association and Bray lawsuits against the four largest retailers, four largest packers, and the leading meat price reporting firm
- ▶ Note the four-firm concentration ratio at the time was in the mid 20s
- ▶ After several years of litigation, all producer complaints were rejected by the courts

Period of rapid structural changes

- ▶ Late-1970s and 1980s saw rapid growth in larger plants in response to economies of size
- ▶ Was a tumultuous period in terms of consolidation (plant closings, acquisitions, restructuring of labor agreements, plant expansions, and reopenings)
- ▶ Structural changes were in response to economies of size and importance of managing costs

Economies of size in steer and heifer slaughtering



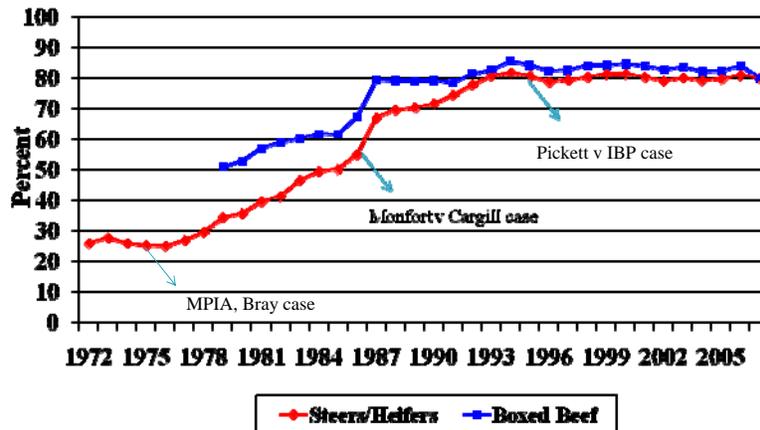
Competing firm lawsuit

- ▶ Monfort of Colorado in 1985 attempted to block an acquisition of a competitor (Spencer Beef) by another competitor (Cargill) which was believed would be harmful both to Monfort and the beef industry
- ▶ Note the four-firm concentration ratio at the time has risen to the mid 50s
- ▶ Courts allowed the merger to proceed which opened the door to a series of mergers in 1987 and caused a sharp increase in the four-firm concentration ratio

Another producer lawsuit

- ▶ Producers filed suit in 1996, initially known as Pickett v IBP, and later known as Pickett v Tyson Fresh Meats after Tyson purchased IBP in 2001
- ▶ By this time, the four-firm concentration ratio had increased to about 80
- ▶ A jury in Federal Court ruled in favor of plaintiffs in 2004 and assessed damages of \$1.28 billion
- ▶ But the trial judge set aside the jury ruling and entered a summary judgment for Tyson, which was upheld in 2006 by an Appellate Court

Rapid growth to apparent plateau in national four-firm concentration



Source: GIPSA, USDA

Important notes

- ▶ Competition issues have persisted through time while the largest firms have changed
- ▶ Big 3 today are Cargill Meat Solutions, Tyson Foods, and JBS USA
- ▶ Both mergers/acquisitions and internal growth have significantly affected concentration

Considerable economic research

- ▶ Market structure, behavior, and performance
- ▶ Economies of size in slaughtering and fabricating
- ▶ Relative geographic market for fed cattle procurement
- ▶ Pricing methods and impacts, especially for captive supply or alternative marketing methods
- ▶ Oligopolistic and oligopsonistic market power in meatpacking

Price-structure or price-concentration studies in the 1980s and 1990s

- ▶ Most found a positive relationship between fed cattle prices and number of buyers (Ward 1981; Ward 1992; Schroeder et al. 1993)
- ▶ And a negative relationship between fed cattle prices and concentration (Menkhaus, St. Clair, Ahmaddaud 1981; Ward 1992; Marion and Geithman 1995)

Price-market power and margin-market power studies since 1990 are mixed

- ▶ Several found modest evidence of oligopsony behavior (Schroeter 1988; Schroeter and Azzam 1990; Azzam and Pagoulatos 1990; Azzam and Schroeter 1991; Koontz, Garcia, Hudson 1993; Weliwita and Azzam 1996; Koontz and Garcia 1997; Crespi and Sexton 2005; Carlberg, Hogan, and Ward 2009)

Price-market power and margin-market power studies since 1990 are mixed (continued)

- ▶ Others found little or no evidence of oligopsony, oligopoly behavior (Stiegert, Azzam, and Brorsen 1993; Driscoll, Kambhampaty, Purcell 1997; Muth and Wohlgenant 1999; Matthews, Jr. et al. 1999; Ward and Stevens 2000; Schroeter, Azzam, Zhang 2000; Paul 2001)

Consistent evidence of economies of plant size

- ▶ Economies of size found by alternative methods, data, and time periods (Sersland 1985; Duewer and Nelson 1991; MacDonald et al. 2000; Paul 2001)
- ▶ Related research shows the importance of plant utilization (Sersland 1985; Duewer and Nelson 1991; Ward 1990; Barkley and Schroeder 1996; Paul 2001)

Efficiency gains versus market power losses?

- ▶ When compared, efficiency gains, due to achieving economies of size, have been found to more than offset oligopsony price distortions (Azzam and Schroeter 1995; Paul 2001)

Concluding comments

- ▶ Several economic factors have led to increased concentration in beefpacking
- ▶ This consolidation trend parallels a similar trend throughout the U.S. economy
- ▶ Economic research has found mixed results on the presence of and extent of market power by beefpackers
- ▶ Identifying correct regulatory intervention at specific points in the past is difficult