The sole focus of anti-trust legislation is on the effect of concentration on consumer prices; equally important effects are ignored

Two weeks ago, we proposed that the restoration of COOL (Country of Origin Labeling) for beef and pork should be on Congress's table without regard to the results of the Presidential election on November 3rd.

In this column, we want to place an additional issue on the Congressional legislative agenda. Farmers are caught between oligopolies (a small number of firms that produce the various inputs they need to farm) and oligopsonies (a small number of firms that purchased the range of agricultural products farmers grow/raise).

Because there are so few of these firms, they have the power to determine what farmers pay for their inputs and receive for their production. And because the number of firms operating in each geographic area is so small in number they can artificially set the price they receive for their products (oligopolies) and the prices they pay for the agricultural products they purchase (oligopsonies) without overtly engaging in prohibited price setting practices. They do this by using game theory to send price signals to the small number of other competing firms.

As a result, farmers pay higher prices for the inputs that they purchase (equipment, seeds, chemicals) and receive lower prices for their production (grains, oilseeds, fibers, livestock, milk).

In the following paragraphs we make our case by taking a more detailed look at some of the issues farmers and ranchers contend with in the face of various oligopolistic, and oligopsonistic practices.

To repeat: oligopolistic markets have a small number of sellers and thus they have price setting power.

There once was a small number of manufacturers of automobiles in the US (General Motors, Ford, and Chrysler—Nash and Studebaker hardly counted). And though they competed against each other, they were able to control the price that consumers had to pay and the number of options from which consumers could choose. These three firms were an oligopoly—they controlled the market.

Today, that oligopoly has been challenged by firms based in Japan, South Korea, Great Britain, France, Germany, Italy, (to name a few) and even startups in the US. There are 14 independent corporations that manufacture a majority of the automobiles sold today.

For farmers the situation is the reverse of what we see in the automobile industry. In the early days of farm mechanization, farmers had a wide range of choices (green, red, yellow, grey, and more). Today that number has dwindled significantly and in any given county there may at best only be one choice. With that consolidation comes power so that it is now a question of whether or not farmers can repair or modify their equipment. With the large amount of electronic equipment in these machines, there is a question of who owns the data gathered by these machines and farmers' use of the equipment and technology. There are no alternate equipment manufacturers who can compete for sales based on allowing farmers to own their own data. As technology moves forward, these issues will become even more difficult.

Looking at inputs like seeds and chemicals we see that farmers are in a similar pinch. According to Civil Eats "four seed companies control more that 60 percent of the global market" (https://tinyurl.com/yaoa8go5). These firms include the chemical companies Bayer, BASF,

Corteva, and Chem-China. In turn these companies operate through a host of seed companies that they have acquire over time, giving them significant pricing power over the seeds and the chemicals that farmers purchase to produce the crops that farmers grow.

As a result, millions of farmers around the world have little pricing power when faced with these four chemical companies and the various seed brands under their control. Individual farmers have little pricing power in the marketplace. It is a "take it or leave it" situation and those who want to farm have to "take it."

Farmers also have reduced bargaining powers with the agricultural firms that purchase their products. Whether it is grain, fiber, cattle (hogs, chickens, and turkeys are already consolidated and governed by one-sided contracts), and/or milk, farmers have little power; these are oligopsonistic markets. In a given area there is often only one buyer for the products that a farmer produces.

Hog buying stations, let alone numerous hog buying stations in many counties, are a thing of the past. Dairy farmers who are told that their current buyer no longer wants their milk often have nowhere else to turn to sell their milk. The dairy they were selling to is the "only game in town."

Cattle auctions are a shadow of their former selves and contract prices paid by processors to a select number of producers are "proprietary information," leaving the rest of the producers on the outside with few tools for price discovery.

A few meat and grain giants dominate the scene, leaving the large number of mid- to small-sized farmers with no place to turn.

The relatively large number of agricultural producers are hemmed in by a small number of input suppliers on the one side and a small number of buyers on the other.

In the current setting, farmers need protection from market consolidation on both the input and the output sides of their operation. They need Congress to review anti-trust legislation and the Packers and Stockyards Act to identify ways that these laws can be made more relevant to the current situation.

Presently the governmental review of corporate mergers looks primarily at the price impact at the consumer level. If the end-consumer sees a lower price, the merger is allowed to go through. The impact at the intermediate level is not considered even though the consolidation results in higher prices for items the farmer purchases (machinery, seed, and farm chemicals) and lower prices for the things they sell like grain, cattle, and milk. Anti-trust legislation needs to make it clear that the impact on agricultural producers and others in a similar situation must be a part of the equation.

Will this solve all the economic-challenges farmers face? No, but making agricultural input and output markets more robust is a part of the equation.

Policy Pennings Column 1053

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 299, November 13, 2020

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