

Packer ownership of livestock is contentious issue in farm bill debate

Second to payment caps, packer ownership of livestock has become one of the most contentious issues the farm bill conference committee has had to deal with. The issue at stake is a provision in the Senate bill that would prohibit most packers from owning, feeding, or controlling hogs or cattle within 14 days of slaughter. For the most part this provision is supported by small and moderate scale producers and opposed by large packers especially those that are vertically integrated.

The packers claim that it will disrupt the flow of animals to their facilities. One packer has even suggested that it may shut down a plant in Sioux Falls, SD if the law is passed. At the other end of the spectrum, concern has been expressed that poultry is excluded from the legislation. Independent producers see the growing packer ownership/control of hogs and livestock as the proverbial camel's nose in the tent. They are afraid that in twenty years the pork and beef industries will look much like the poultry industry of today.

While the issue of packer ownership of livestock is very complex and the subject of a number of studies, the essence of the debate is relatively simple. How does one achieve a balance of economic power between producers and processors while encouraging the pursuit of economic efficiency? Packers are arguing that contracting and packer ownership/control of livestock more than 14 days in advance of slaughter does not upset the balance of power between producers and processors. Producers, on the other hand, contend that the increasing vertical integration of the processors has put them at a economic disadvantage and reduced the bargaining power the producers have when they go to sell their cattle and hogs.

One way to gauge the competitiveness of a market such as meat is to watch how farm-to-wholesale (F-W) spreads change over time. C. Robert Taylor provides a glimpse of the change in F-W spreads over the last two decades. The decreasing beef price spread between 1980 and the mid-1990s, shown in Figure 1, has been used by many economists to argue that meat markets have become more "competitive" even as concentration increases. But, is the converse true? Do increasing F-W spreads mean less competitive markets? The upward trend in beef spreads since the mid-1990s makes that an important question. Some producers, politicians, and economists are afraid that indeed the converse is true, although to others the historical downward slope seems more convincing of increased competition than the current upward tilt does of reduced competitiveness.

Since its initial introduction the legislation has been clarified to allow for forward contracting as long as management controls remain in the hands of the producers. In beef production, direct packer ownership is relatively insignificant, but the percentage of cattle under contract is growing. If packer ownership is prohibited but contracts are allowed, the effect on the cattle industry may be small. On the other hand in the swine industry, vertical integration is more advanced and the prohibition on packer ownership could have a significant impact.

Other provisions in this portion of the Senate's legislation are designed to give producers some additional protection in the contracts they sign with the processors. Producers would be allowed to let their trusted advisors like attorneys review contracts between producers and packers. Also mandatory arbitration clauses

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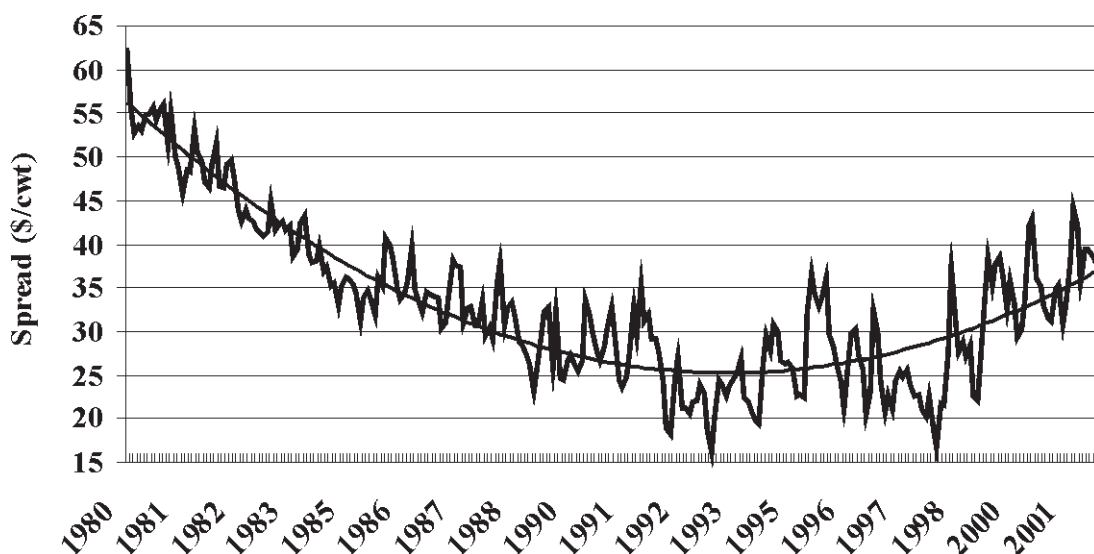


Figure 1. Farm-to-Wholesale price spread for beef, 1980-2001. USDA data adjusted for inflation. Source: C. Robert Taylor.

would be prohibited. The intent of these provisions is to increase market transparency and to improve the balance of economic power between producers and processors.

A number of current resources are available on this important issue.

John Connor et. al., "The ban on packer ownership and feeding of livestock: Legal and economic implications," ([http://www.competitivemarkets.com/library/academic/Connor-et.al.031202%20\(1\).htm](http://www.competitivemarkets.com/library/academic/Connor-et.al.031202%20(1).htm)).

Dillon Feuz et. al., "Comments on Economic Impacts of Proposed Legislation to Prohibit Beef and Pork Packer Ownership, Feeding, or Control of Livestock," (<http://www.agecon.ksu.edu/livestock/ExtensionBulletins/BanningIssueFinalReport.html>).

John Lawrence, "Implications of Banning Packer Ownership of Livestock, Iowa and the U.S.," (<http://www.econ.iastate.edu/faculty/lawrence/Acrobat/Iowapackerban.pdf>)

Steve Myer et. al., "Prohibition of Beef Packer Ownership, Feeding and Control of Cattle: Comments and Discussion," (<http://www.agecon.ksu.edu/livestock/ExtensionBulletins/2002LvstkRestrict.Discuss.html>)

C. Robert Taylor, "Where's the Beef: Monopoly and

Monospony Power in the Beef Industry," Agriculture and Resource Policy forum, Auburn University, March 2002. (<http://agpolicy.org/weekpdf/087a.pdf>)

USDA Grain Inspection, Packers and Stockyards Administration, Packers and Stockyards Program, "Concentration in the Red Meat Packing Industry," February 1996 (<http://www.usda.gov/gipsa/pubs/packers/conc-rpt.htm>).

USDA Grain Inspection, Packers and Stockyards Administration, Packers and Stockyards Program, "Captive Supply of Cattle and GPISA's Reporting of Captive Supply," January 11, 2002 (http://www.usda.gov/gipsa/pubs/captive_supply/captive.htm).

Jim Wiesemeyer, "Packer ownership amendment: A point, counter point regarding hot farm bill issue," (http://www.agweb.com/news_show_news_article.asp?file=AgNewsArticle_2002313954_5911&articleid=86257&newscat=PWAS).

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