PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

The interests of agribusiness and farmers have some overlap but it is not complete

As the influence of agribusiness on farm policy has grown over the last 30-plus years, so has the range of policies goals that are supported by various sectors of the industry. The initial opposition to annual land retirement programs following the 1983 PIK (Payment-In-Kind) program has grown to include a much wider set of policies. While the initial policy desires were clear, it took some time for them to become enshrined in legislation.

One of the desires of any industry is to reduce input prices and in this desire the merchandizers and processors of agricultural commodities are in synch with other industries. Lower input costs reduce the amount of cash needed to handle a given level of goods, allowing the freed up cash to be redirected to other profit making activities.

As agribusiness began to get its wish with regard to the end of annual land retirement programs, agricultural commodity marketing and processing firms got their wish for lower prices. With government supply management programs out of the way and the strong incentive for farmers to produce as many bushels/bales/hundredweight as possible, commodity prices fell, with short crops providing only a brief respite for those lucky enough to have a crop.

By the early 1990s, agribusinesses were supporting the North American Free Trade Agreement (NAFTA) with an eye toward maximizing international profits. In this case they wanted to be able to purchase meat animals from anyone, anywhere, at the lowest possible price. With the creation of an integrated North American meat industry they wanted to be able to shift their source of meat from one country to another in response to exchange rates and the cost of production and transportation.

Many cattle producers believed that consumers wanted to know where their meat was coming from and waged a long and pitched struggle to enact Country of Origin Labeling (COOL) and later get the law implemented. These cattle producers also believed that US consumers preferred the quality of beef produced by US farmers and ranchers.

In the end, the clunky—some would call it obstructionist—implementation of COOL by industry led to trade disputes with Canada and Mexico and ultimately a ruling by the World Trade Organization Disputes Resolution Body that the law restrained international trade and harmed Canadian and Mexican cattle producers.

In the quest for greater profits, agribusiness firms also expanded the process of vertical integration so that they could control the production of meat animals from birth through slaughter and into the wholesale marketing of the meat. This provided the slaughter facilities with a steady of flow of animals in contrast to the seasonal variation in production levels that typified the farmer-controlled production system. Vertical integration also gave the processors greater control over the quality and uniformity of the product they received.

Vertical integration allowed meat processors to more efficiently use their production facilities, achieving relatively stable production schedules year-round. With greater control over the quality and uniformity of animals coming into their facilities, they could better adjust their production processes for animals within a narrow weight range, further increasing efficiency.

The concept of vertical integration provided clear advantages for the early growers who entered into production contracts with the slaughter facilities. They were guaranteed a price and did not have to watch daily prices to determine the best time to market their animals. They also did not have to worry about the cost of the animals or feed.

But, as the number of growers entering into contracts began to increase, the margins the integrators allowed in the contracts began to decrease. Farmers who were used to making their own decisions on how to raise the animals and the nature of the facilities they needed, began to chafe at the loss of that control. Farmers also began to complain about the loss of market transparency as they were not allowed to discuss the nature of their contracts and reimbursement levels with other growers.

Farmers sought protection from GIPSA (Grain Inspection, Packers, and Stockyard Administration that implements the Packers and Stockyard Act of 1921) against what they considered unfair business practices on the part of integrators. To force GIPSA to be more responsive to their needs, farmers sought support in the periodic farm bills. The integrators sought to prevent GIPSA from interfering in what they saw as a private matter between them and the grower. At the present time, the matter is in limbo. The Department of Justice and the United States Department of Agriculture, having held hearings on farmer complaints had made no decision to date. The time left for the current administration to issue regulations is running out.

In each of these cases, agribusiness is seeking to reduce costs and make a profit. And from a theoretical perspective, there is no problem with that; farmers are seeking to do the same. The problem comes in the unequal power of the two parties. The number of agribusiness firms is relatively limited when compared to the number of farmers.

Whether it is international sourcing of agricultural

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products or the control that vertical integration gives agribusiness, agribusiness firms lobby for an agricultural policy that does not interfere in what they see as a private matter. Farmers on the other hand want the help of agricultural policy to even they playing field between fewer than a score of firms on the one hand and tens or hundreds of thousands of producers on the other.

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