The effect of increased market concentration on livestock pricing

On June 22, 2022, the US Senate Committee on Agriculture, Nutrition, and Forestry approved two acts for consideration by the entire Senate—S.3870 the Meat and Poultry Special Investigator Act of 2022 and S.4030 the Cattle Price Discovery and Transparency Act of 2022.

Senator Chuck Grassley of Iowa responded to this action saying "With the passage of these two important bills, my years-long beef with Big Cattle is one step closer to being settled. Iowa cattle producers have struggled to receive a fair price for years – long before inflation hit a 40-year high. It's past time for Congress to stand with independent cattle producers and put an end to the cozy relationship between large meat packers and big cattle feedlots."

In the Pre-COVID years when we were invited to speak at various farm organization annual meetings, cattle producers in the audience often raised the issue of price transparency as they saw fewer and fewer cattle being sold through local auction markets and buying stations. They told us that it was becoming increasingly difficult to determine the market value of their cattle when a significant portion of the cattle were being purchased using private contracts that were not subject to mandatory price reporting.

Instead of using this column to analyze the specifics of the current legislation before the US Senate, we want to discuss economic principles and use them to analyze the current state of the supply chain that begins with a farmer who raises an animal that ends up as a piece of meat on the consumer's plate.

One of the fundamental principles of free markets is the interaction of multiple buyers and sellers. In a classical free market, either the buyer or seller can walk away from a given negotiation with no negative consequences. Price discovery occurs when buyers and sellers compare the price they paid/received.

The greater the number of transactions is available to the buyers and sellers, the greater the price transparency of the market is. In the US, this process was formalized with the development of multiple local auction markets where livestock was bought and sold and everyone knew what the price of each animal was when the gavel went down and the auctioneer called out, "Sold."

Beyond that, the United States Department of Agriculture collected and reported the average prices that were paid for various weights and classes of animals. When we were growing up, the announcement of these daily auction market prices was the bread and butter of many farm radio stations. With that information in hand, farmers could decide which buying station or auction barn they would use on any given day.

As consolidation took hold in the meat packing industry, the number of potential buyers began to diminish resulting in fewer bids. When one buyer began to dominate a given area, often through the purchase of competing firms, the USDA stopped reporting prices because releasing such information would reveal "proprietary information."

In addition, to even out the supply of animals going through their facilities, packers began to offer contracts to some feedlots that would provide them with a steady base supply of animals. The details of these contracts were also seen to involve proprietary information.

For the farmers who chose to raise their animals to market weight, these two factors left them at a competitive disadvantage.

At this end of the supply chain, we have multiple producers, some of whom have sweetheart deals, selling their animals to a small number of packing plants that have price leverage.

In the middle, you have this small number of packers jostling with a small number of national grocery chains. Each side has some leverage over the other, but at the same time they need to coexist, and both want to report significant profits to their shareholders.

On the other end, you have consumers who have little or no pricing power. They can read the weekly sale circulars and, depending on the area, shift their purchases from one grocery retailer to a competitor based on that week's sale price, but they don't set the prices.

Certainly, the legislation before the Senate has some advantages for independent cattle producers, but without a change in the rules that have allowed two sets of consolidated firms to develop in the middle, both producers (with lower prices for their animals) and consumers (with meat prices increasing rapidly) will continue to find themselves at an economic disadvantage.

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