Why Congress Must Support a Ban on Packer Ownership of Livestock
Prepared by R-CALF USA (May 23, 2012)

There is nothing inherently wrong with packers owning livestock. In a competitive marketplace, packer-owed cattle can create efficiencies for packers and provide additional marketing opportunities for cattle producers. However, packer-owned cattle can harm competition when packers that own them are large enough to also control access to the marketplace.

Today, a handful of packers (4) now control over 80 percent of the fed cattle market. Those dominant packers can use packer-owned cattle to harm competition in at least two ways:

First, dominant packers can overbid the price of lighter-weight cattle (feeder cattle), thus forcing independent cattle feeders to pay more than fair market price for cattle, which squeezes their margins and forces them out of business. Packer overbidding also can prevent independent cattle feeders from filling their feedlots with fairly priced cattle, likewise forcing them out of business.

Second, because dominant packers control such a large share of the marketplace, they can prevent independent cattle feeders from having timely access to the market by refusing to buy any fed cattle when cattle prices are rising. They can do this by relying upon their packer-owned supplies to meet their immediate slaughter needs. Then, when cattle prices subside, the dominant packers can reenter the market to purchase cattle from independent cattle feeders. Thus, dominant packers can strategically use packer-owned cattle to reduce the profit potential for independent feeders, which squeezes independent feeders out of business.

On the one hand the dominant packers compete against independent cattle feeders to purchase available feeder cattle. On the other hand, they are the only market outlet available to independent cattle feeders when cattle are ready for slaughter – a market outlet that dominant packers restrict simply by slaughtering their packer-owned cattle.

Today, dominant packers are strategically using packer-owned cattle to defy competitive market fundamentals and are forcing independent cattle feeders out of business.

In just the past 16 years, 35,000 independent cattle feeders have exited the industry, all of which were smaller feedlots with capacities of less than 50,000 head. At the same time, the number of feedlots with capacities greater than 50,000 head, and the size of those larger feedlots, have increased dramatically, such as those owned by JBS, the worlds largest beef packer that now owns the largest feedlot company in the United States.

The ongoing and rapid exodus of independent cattle feeders is harming competition in the U.S. cattle industry.

The proposed ban on packer ownership of livestock addresses this anticompetitive problem. It restricts only the largest of packers from owning, controlling, or feeding livestock for all but a reasonable period prior to slaughter (7-14 days). Small and mid-sized packers are exempt, including packers that own only one meatpacking plant, packers that slaughter fewer than 125,000 cattle annually, and producer-owned cooperatives that feed and slaughter cattle.