

Market Power in the Beef Industry

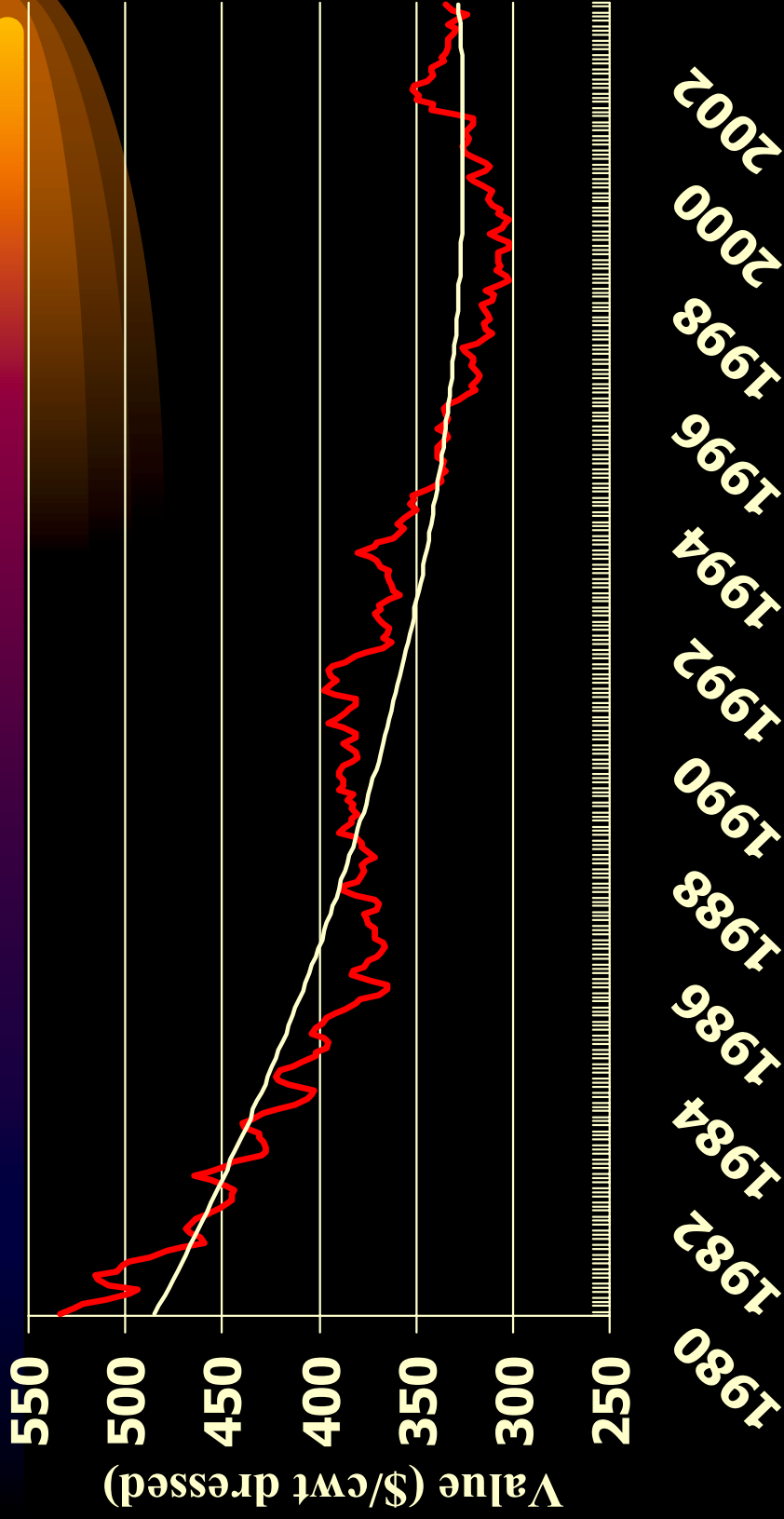
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Retail Value of Beef

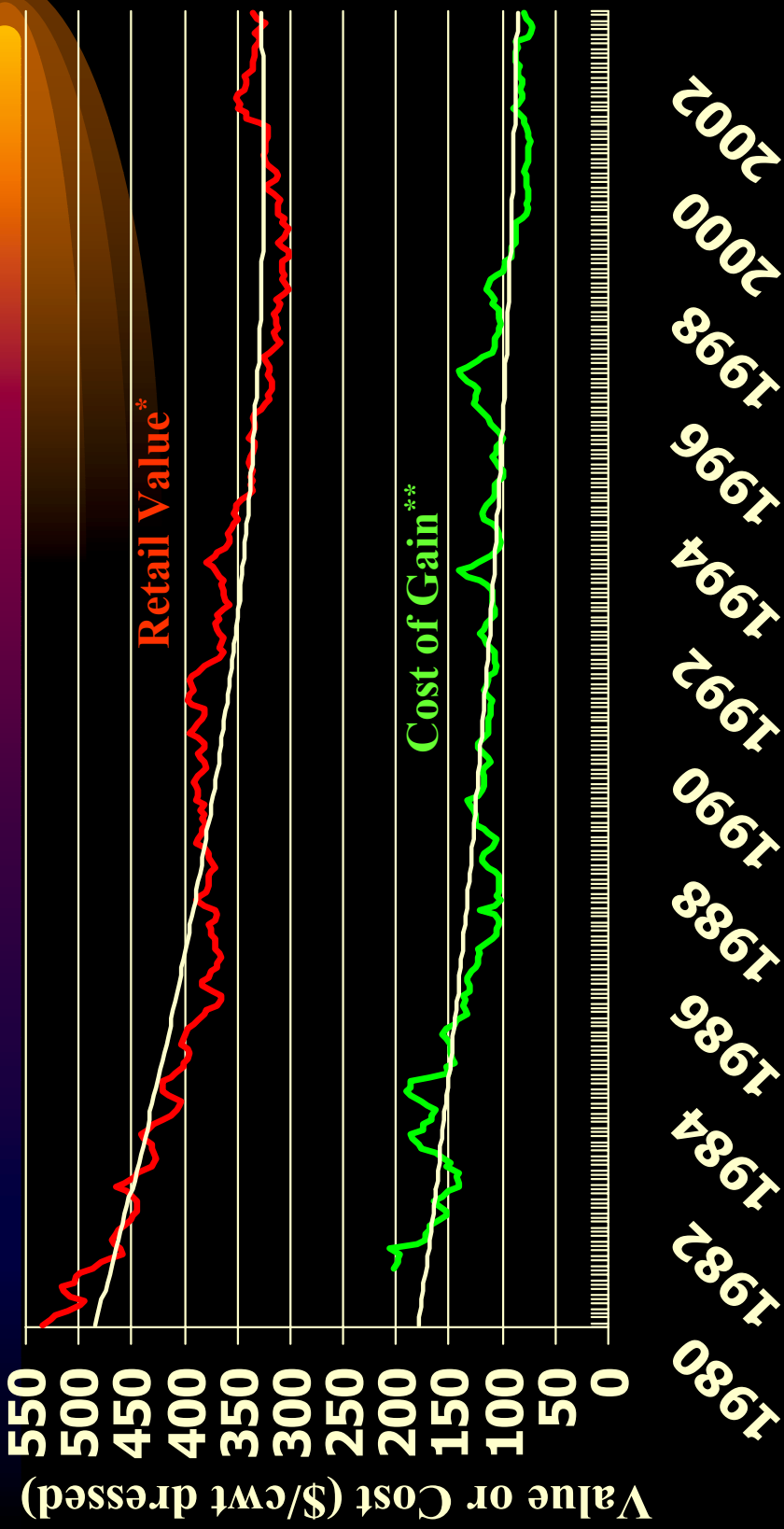
USDA data adjusted for inflation, with trend-line



*Weighted-average value of retail cuts from Choice yield grade 3 beef, USDA data

Retail Value of Beef and Cost of Feedlot Gain

USDA and KState data adjusted for inflation, with trend-lines

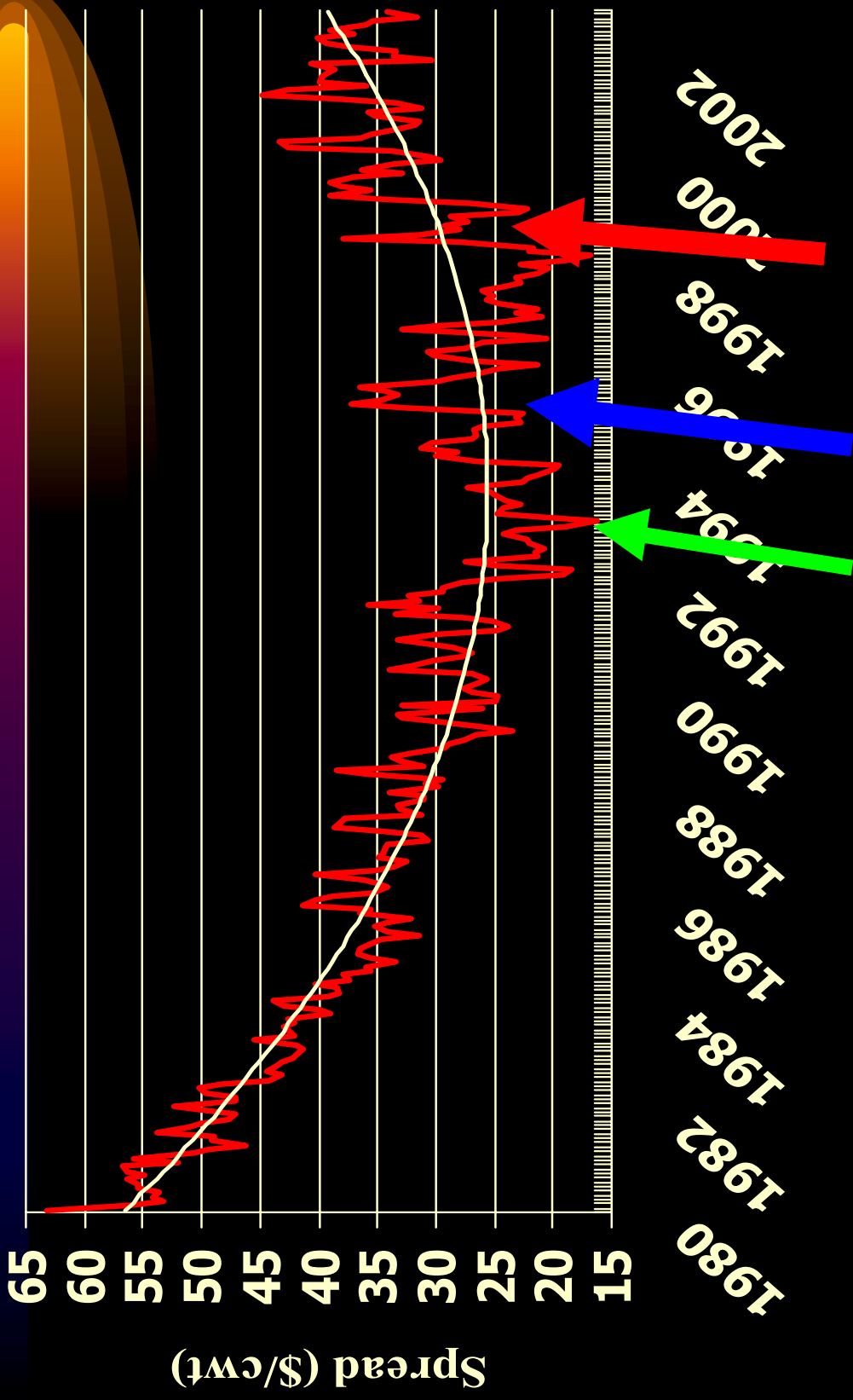


*Weighted-average value of retail cuts from Choice yield grade 3 beef, USDA data

**Cost of gain, feedlot only, expressed in terms of dressed weight, KState data

Farm-to-Wholesale Price Spread for Beef

USDA data adjusted for inflation, with trend-line



Weekly Pay in Meat Slaughter Plants

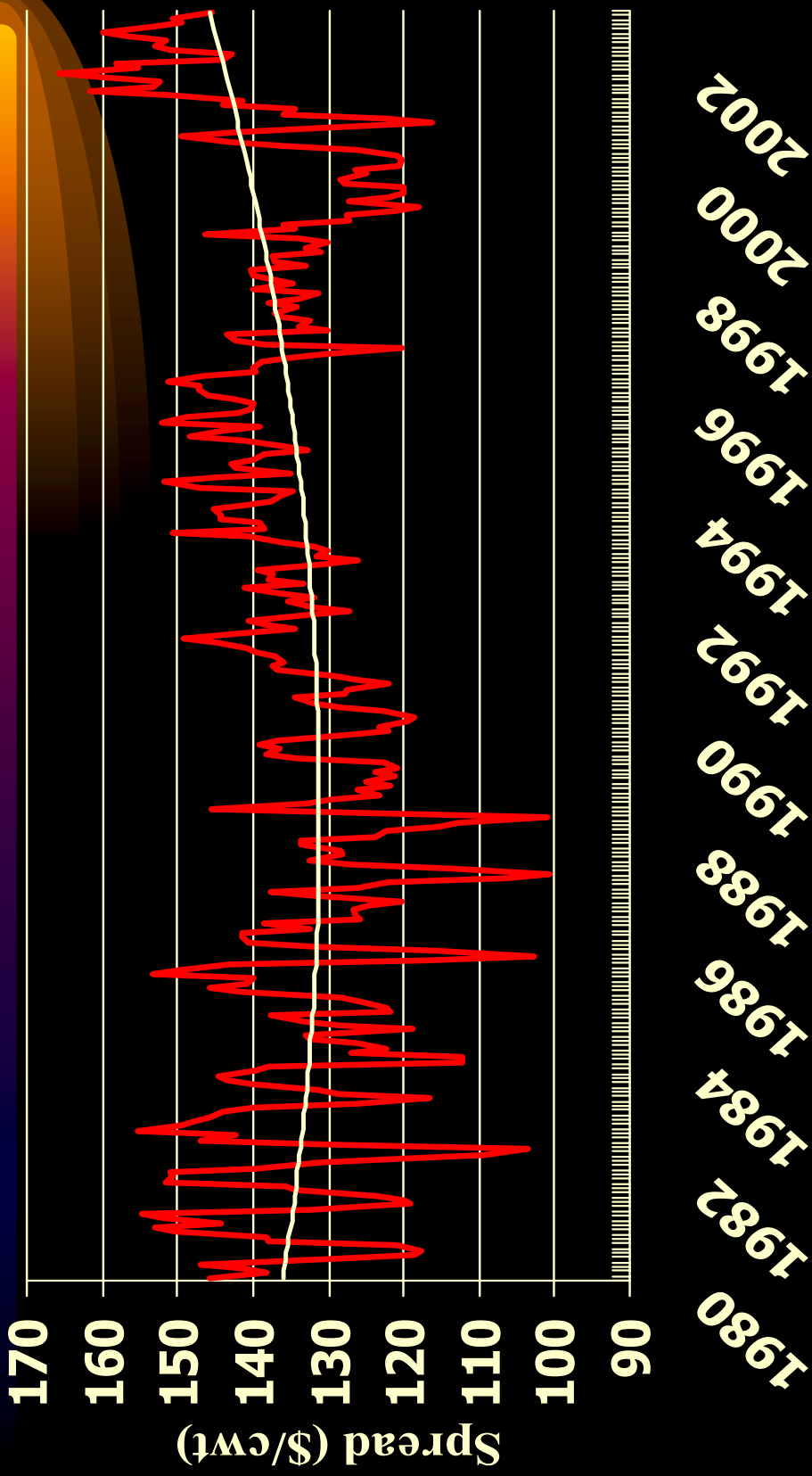
BLS data adjusted for inflation



Includes Overtime

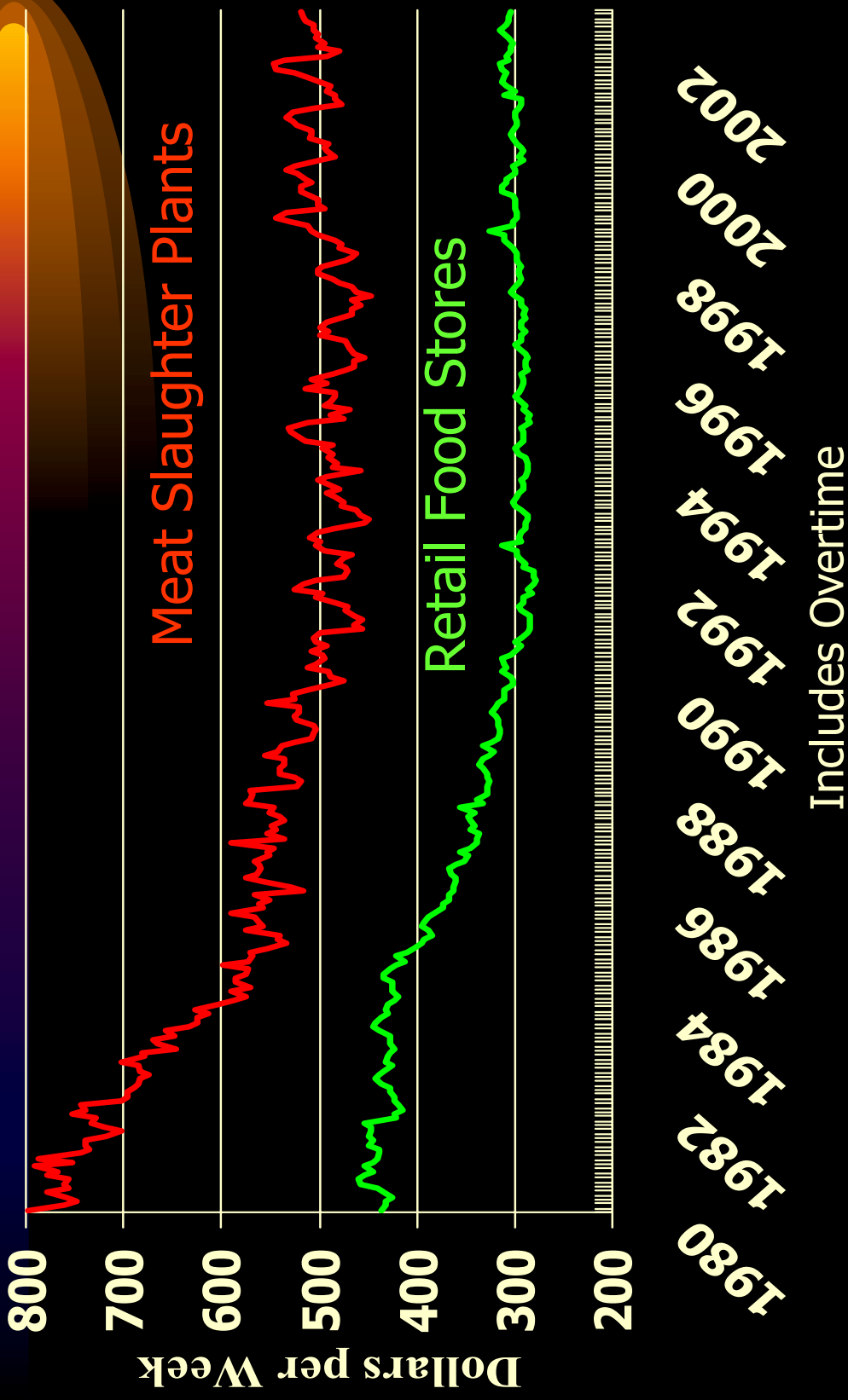
Wholesale-to-Retail Price Spread for Beef

USDA data adjusted for inflation



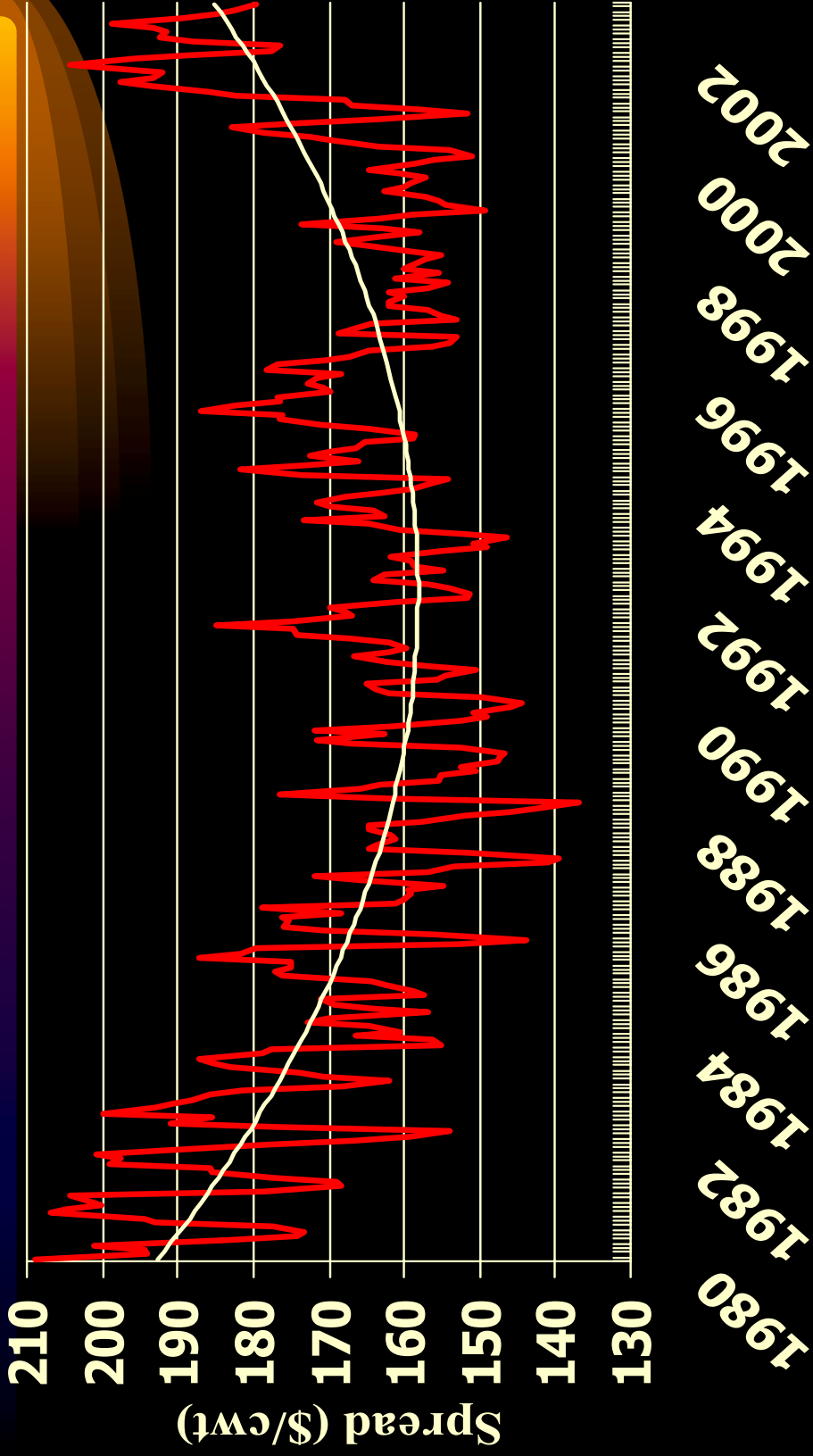
Weekly Pay

BLS data adjusted for inflation



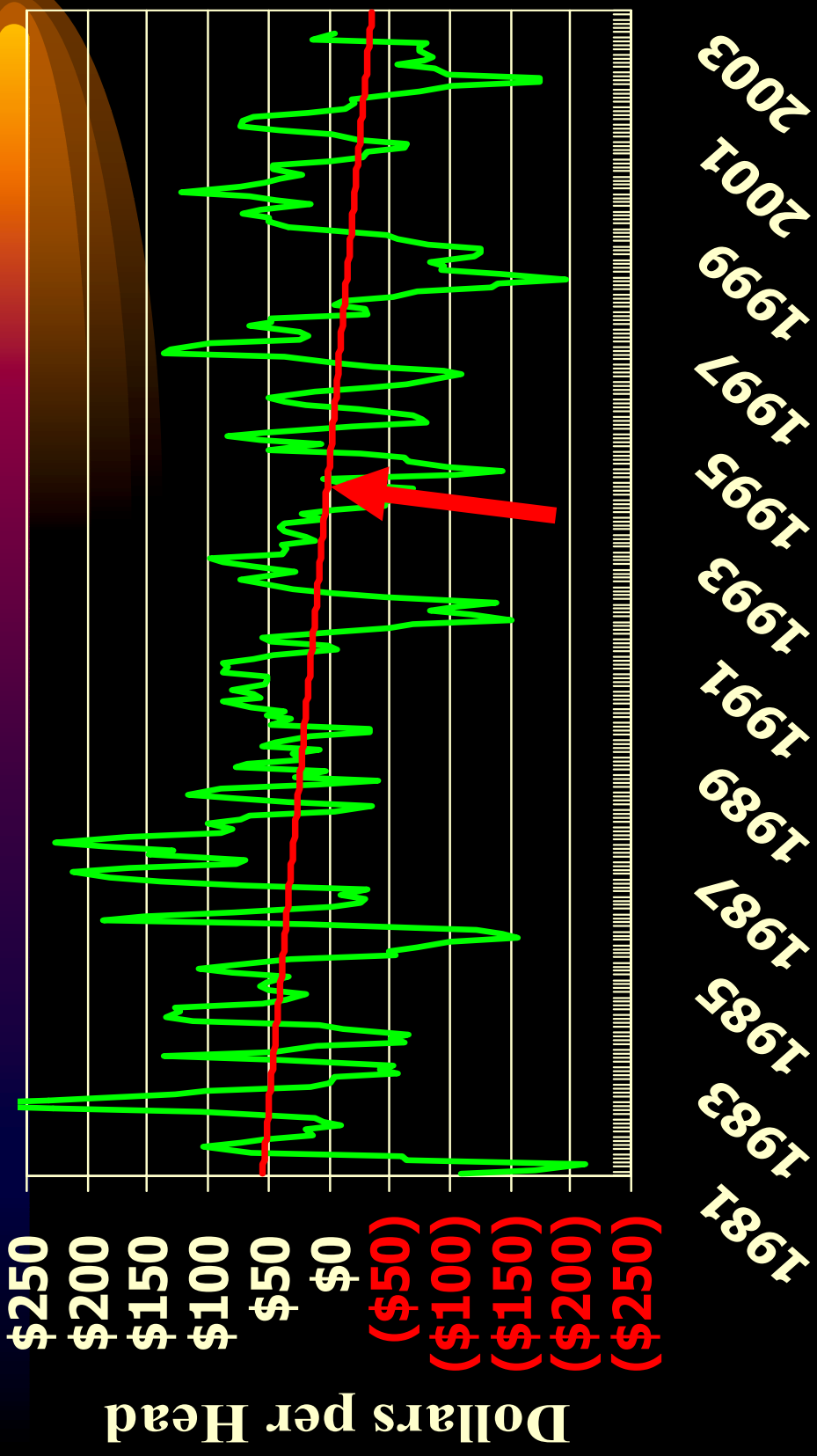
Farm-to-Retail Price Spread for Beef

USDA data adjusted for inflation



Monthly Returns for Finishing Steers in Kansas

KState data adjusted for inflation



Returns to Cattle Feeding

KState Data--corrected for inflation

- **\$34.94** average for 1981-1991
- **-\$14.16** average for 1992-2002
- **-\$29.79** average for last 5 years
 - Feeders with preferential contracts make a profit or at least stay in business, while independents lose
- **-\$81.36** average last 12 months

Conclusions

- Much of the decrease in the inflation adjusted retail price of beef is due to:
 - Lower wages in meat packing plants
 - Lower wages in retail food stores
 - Lower feed prices
- Not much of the price decrease is due to efficiency gains in cattle production and processing

Conclusions

- Substantial increases in beef price spreads
 - Are due to an imbalance of market power favoring the packer and retailer
 - Not due to real wage increases
 - Not due to food safety inspection
- To the extent that there have been efficiency gains, spreads should have decreased, not increased, in a competitive market
- Returns to cattle feeding in last 10-12 years are not consistent with competitive markets

Do Cattle Prices Affect Retail Beef Prices?

- *Not Much!*
- Retail prices are very slow to change, due in part to the economic power of retailers and category captains
 - Specials not reflected in all price statistics
- Response of retail beef prices to cattle prices is getting both weaker and slower
- Faster up than down

Captive Supplies



- Owned
- Contracted
 - Bargaining Instrument
 - Power of asymmetric information
 - Precludes competitors from accessing that supplier
 - Exclusive agreements are anticompetitive (horizontal market division)
 - May force feeder from a normal supply curve onto an “all or nothing” supply curve
- Relationship agreements

“Prices are Determined by Demand and Supply”

- Statement often made to suggest that meat markets are competitive
- **This is a meaningless statement**
 - Demand and supply are generally not the same in competitive markets as in imperfectly competitive markets (monopoly or monopsony)
- But in imperfectly competitive markets, price “discovery” may have more to do with how firms with market power divide up profits than with resource allocation

Approaches to Problems



1. Legislation
2. Organize to develop countervailing power
 1. Better do it now or be like poultry producers!
3. Connect with consumers and beat packers on their own turf
 1. Access to large retail outlets may be a problem
4. Litigation

Potential Solutions

1. Vertically integrate through contracting
 1. May become like poultry producers
2. Devise a mathematical price contract (tied to retail price) to share profits in the vertical chain
 1. Requires information on costs at each market level
 2. Works in theory, but the problem is that firms have clear incentives for strategic misrepresentation of costs
3. Restore competition

Possible Changes to Restore Competition

- Electronic marketing (brokerage) of slaughter cattle
 - Uniform format, perhaps centralized
 - Could track individual cattle—would aid in sorting out genetics and quality
 - Real time reporting of bids, prices, quantities, quality and other information that would be available to all market participants
 - Prevent purchases of large blocks of cattle with a single bid
 - Provide for publicly rating buyers and sellers (like eBay)
 - Flow of information could be used for antitrust enforcement

Possible Changes to Restore Competition

- Electronic marketing of meat at wholesale level
- Could be used to neutralize buying power of retailers
- Prevent development of tight vertical relationships which are anti-competitive

Needed Changes



- Improve/reform/eliminate USDA's antiquated grading system
- Move to new quality standards and mechanical, instrumented grading
- Necessary to get the right price signals back to producers, and consistent product to consumers

On Grading ...

"The ... **honest** practice of grading farm products has been a boon to producers. Actually, grading has all too frequently been the means of robbing farmers of many millions of dollars. In has resulted in building fortunes for middlemen who have profited by sharp practices carried on under the guise of grading"

D. Howard Doane, Vertical Farm Diversification, 1950

*The Well-being of Society Depends
on Maintaining a Balance Of*

Economic efficiency

Economic power

Economic freedom