policy pennings

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What Is Missing In The Balance Of Power Discussions In The Livestock Industry?

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Balance of power issues in the poultry and livestock industries have been getting a lot attention lately.

The focal points for those debates have been the joint hearings held by the United States Department of Agriculture (USDA) and the Department of Justice and the new proposed Grain Inspection, Packers, and Stockyards Administration (GIPSA) rule. The issues under debate have tended to center on relationships between livestock and poultry producers and the packers/integrators who process their animals. But some would argue that the more important but unacknowledged "elephant" in the livestock pen is the retail sector.

It is not that the changes that have occurred in food retailing haven't been noticed by us all. Gone are the mom and pop grocery stores and small chains of the past. They have been bought out or driven out of business by the major grocery chains. We have also seen the introduction of groceries into general merchandise retailers like Wal-Mart, K-Mart, and Target.

Concurrent to this consolidation of grocery retailing has been a dramatic increase in the share of the retail meat dollar going to the retail sector at the expense of livestock producers. Historically retailers' shares of meat expenditures have been relatively stable and very modest compared to other foods. But during the last two decades that stability mold has been broken.

According the Economic Research Service, USDA, in 1990 the retailer received 33 cents of the consumer dollar spent on beef and farmers received 59. By 2009, the retailers share increased 16 cents to 49, while farmers share dropped 17 cents to 42 cents of each beef dollar. During that same time period, packers increased their share from 8 cents to 9 cents of every beef dollar.

The story is equally dramatic in pork, where the retailers' share of a dollar spent on pork was 45 cents in 1990 and 61 cents in 2009. That 16 cent increase of each dollar going to retailers compares to a 20 cent drop to farmers, from 45 to 25 cents. The remaining four cents no long going to farmers went to packers and integrators. Their share increased from 10 cents in 1990 to 14 cents in 2009.

In an article, "The Wal-Mart Factor in Ag Competition," Chris Clayton DTN Ag Policy Editor interviewed Mark Lauritsen, international vice president for the United Food and Commercial Workers Union. Lauritsen told Clayton that Wal-Mart is the largest grocery retailer in the US, selling $150 billion in groceries in 2009. That accounts for 25 percent of the US grocery market an amount "larger than the next three grocery competitors combined."

Clayton writes, "Lauritsen…said Wal-Mart draws in its food suppliers with the promise of big market share and retail space, but then constantly pushes on those suppliers to draw down on their prices. Packers then have no choice but to squeeze workers for concessions and pay less for livestock. If the government is going to look properly at antitrust in agriculture, Lauritsen said USDA and Department of Justice need to bring in the Federal Trade Commission, which oversees antitrust in the retail sector."

Few people like to see government intervention in the market, but when a few grocery retailers and meat processors buy the production of hundreds of thousands of livestock producers there will be the possibility for a less than textbook-like result. Markets work best when neither the buyer nor the seller can unilaterally influence prices.

It is expected that during the final joint Department of Justice/Agriculture competition workshop on December 8, 2010 retail issues will be aired. Specifically, the December 8th workshop will look at the discrepancies between the prices received by farmers and the prices paid by consumers. Δ

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