

GAO

Testimony

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LIVESTOCK
MARKETING

USDA's Oversight of
Competitiveness Needs
to Be Enhanced

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the activities of the U.S. Department of Agriculture's Packers and Stockyards Administration (Packers and Stockyards). That agency administers the Packers and Stockyards Act of 1921, which the Congress enacted in response to concerns about monopolistic and other unfair business practices in the U.S. meat-packing industry. The purpose of the act was to ensure fair competition and trade practices within the industry. In recent years, a small number of meat-packers have acquired a large share of the livestock slaughter, raising concerns that competition could again be threatened.

We recently reported on the current role of Packers and Stockyards in overseeing the livestock and meat-packing industries.¹ My statement today focuses on our October 1991 report in which we (1) analyze how the livestock and meat-packing industries have changed over time, especially in recent decades, and (2) evaluate what role Packers and Stockyards plays in monitoring for anticompetitive practices by meat-packers in procuring livestock. In addition, I will discuss information we also reported on regarding the agency's other activities.

In summary, concentration in the meat-packing industry declined after passage of the Packers and Stockyards Act of 1921, but has increased during the last two decades, and is now even more concentrated than it was in 1921. For example, today four firms account for about 70 percent of steer and heifer slaughter. This high level of concentration underscores the need for Packers and Stockyards to effectively monitor the industry to detect evidence of anticompetitive behavior. Throughout the years Packers and Stockyards has analyzed the structure of the meat-packing industry mainly by preparing an annual tabulation of national statistical data, but livestock procurement markets are regional, not national. Packers and Stockyards does not regularly collect and analyze the data necessary to define regional markets. Recently, the Administrator of Packers and Stockyards agreed that Packers and Stockyards needs to monitor livestock markets on a regional basis.

Before discussing these issues in more detail, let me provide some background on the industry and the role of Packers and Stockyards.

¹Packers and Stockyards Administration: Oversight of Livestock Market Competitiveness Needs to Be Enhanced (GAO/RCED-92-36, Oct. 16, 1991).

BACKGROUND

Livestock production can be divided into three principal stages: breeding, feeding (or fattening), and slaughtering (packing). Young cattle, sheep, and hogs are generally fattened until they reach a desired size prior to slaughter. Between the breeding, feeding, and slaughtering stages, there are a variety of possible marketing channels--involving intermediaries such as market agencies and independent dealers--through which livestock may move. The Packers and Stockyards Administration has authority over individuals or firms engaged in (1) buying and selling livestock and live poultry in commerce and (2) processing or marketing meat products. The Federal Trade Commission normally has jurisdiction over the marketing of poultry products or retail sales of meat products.

Under the Packers and Stockyards Act, the Packers and Stockyards Administration is responsible for monitoring the industry to preclude unlawful anticompetitive practices, such as colluding to manipulate prices or apportion territory in order to force sellers to accept prices that are less than those resulting from free competition. The agency is also responsible for protecting industry members from other unfair business practices that undermine the integrity of a transaction, but may not necessarily involve an anticompetitive price distortion. For example, Packers and Stockyards works to financially protect sellers of livestock by enforcing prompt payment and bonding requirements.

THE LIVESTOCK AND MEAT-PACKING INDUSTRIES HAVE CHANGED

At the time of the Packers and Stockyards Act's passage, the meat-packing industry was dominated by a handful of firms that engaged in anticompetitive behavior such as apportioning purchase and sales territories. While nationally, concentration in the meat-packing industry fell after the act was passed, over recent decades concentration has increased significantly, especially in the beef-packing industry.

To monitor concentration, Packers and Stockyards commonly uses a national four-firm ratio, which measures the proportion of the total slaughter accounted for by the four largest meat-packing firms. The agency's data indicate that between 1975 and 1989, the four-firm ratio for the beef-packing industry climbed from about 25 percent to about 70 percent, while the four largest lamb-packing firms' share of the total lamb slaughter increased from 58 percent to 74 percent. While national concentration in the hog slaughtering industry has remained relatively stable and has not reached the levels in the beef and lamb segments, some industry analysts believe that the hog segment may also follow the trends

of the other two segments toward increased concentration. This recent increase in concentration is illustrated in appendix I.

As concentration has increased in the meat-packing industry, packing plants have become fewer, yet larger. Between 1972 and 1989, the number of plants² slaughtering steers and heifers decreased by 60 percent (from 807 to 319); those slaughtering hogs, by 46 percent (from 594 to 319); and those slaughtering sheep and lambs, by 42 percent (from 229 to 132). Yet the total number of head slaughtered declined by only 3 percent over this period, indicating that some plants handle a greater percentage of the total livestock slaughter than they did previously. For example, as illustrated in appendix II, between 1972 and 1989, the largest plants that slaughter steers and heifers, those that slaughter 500,000 or more head per year, increased their share of the total steer and heifer slaughter from 8 percent to 67 percent.

Increased concentration in the meat-packing industry has been accompanied by other changes in the livestock industry as well. In recent decades, the number of livestock producers has declined, although livestock production generally is still characterized by a large number of small-scale operations. According to the Department of Commerce's Census of Agriculture, between 1974 and 1987 the number of breeders of beef cattle declined by 18 percent, to about 842,000; of hogs, by 48 percent, to about 243,000; and of sheep and lambs, by 15 percent, to about 92,000.

The marketing practices used between the livestock and meat-packing industries have also changed over time. In the past, packers bought the majority of livestock for slaughter at centralized "terminal" markets, located near major railroad centers such as Chicago and Omaha. During the 1960s, packers began purchasing the majority of livestock through a more decentralized method, direct sales, in which packers and livestock producers directly negotiate sales without the services of a centralized terminal market. Today, the vast majority of livestock are marketed through direct sales. Additionally, beef-packing firms increasingly are gaining control over the flow of livestock into their plants by purchasing livestock from or contracting with sellers of livestock prior to the time when livestock are actually ready for slaughter. These types of arrangements are often referred to as vertical coordination arrangements.

²Number of plants is based on reports filed by packers slaughtering in excess of \$500,000 of livestock annually. According to agency data, in 1989 this represented 97 percent of commercial slaughter for steers and heifers, and 94 percent of both hog and sheep/lamb slaughter.

MONITORING FOR ANTICOMPETITIVE BEHAVIOR
HAS NOT KEPT PACE WITH INDUSTRY CHANGES

Packers and Stockyards' current monitoring does not provide the agency with sufficient information to effectively determine the existence or extent of anticompetitive behavior by packers in procuring livestock. In the past, competition in livestock marketing was relatively more ensured because of the lower level of concentration in the packing industry. However, despite the recent increased concentration in the packing industry, Packers and Stockyards has not significantly altered its approach to gathering and analyzing market information.

Efforts to analyze the structure of the meat-packing industry have relied mainly on an annual tabulation of national statistical data, but livestock procurement markets are regional, not national. Some industry analysts' studies indicate that concentration in the meat-packing industry in some regions is even higher than is reflected by the national four-firm ratio, suggesting that some packer-buyers may have an even greater potential for influencing prices in certain regions. The rise in concentration may increase the opportunities for buyers to use anticompetitive practices that could lower the prices paid to producers to below the level that would be set in a competitive market. However, Packers and Stockyards does not regularly collect and analyze the data necessary to define regional markets.

By focusing on monitoring national concentration levels in the meat-packing industry and not defining and monitoring the relevant regional procurement markets, Packers and Stockyards may be understating the potential risk for anticompetitive practices associated with concentration in some areas. The agency has recently initiated some activities that provide limited information about the impact of the structure and marketing practices that characterize today's industry. These efforts still fall short of enabling Packers and Stockyards to define the relevant regional procurement markets and monitor them, because they do not provide sufficient data to do so.

In light of the increased concentration in the meat-packing industry, we recommended in our recent report that the Secretary of Agriculture determine a feasible and practical approach for monitoring the activity in regional livestock markets. In defining the relevant markets, Packers and Stockyards will need to determine the types of additional data and analysis it needs, and the cost-effectiveness of obtaining and analyzing these data. We recognize that this effort will not be accomplished overnight, and we further recognize that this effort may create the need for additional resources or the reallocation of existing resources. However, we believe that by working to enhance its ability to routinely monitor buying and selling behavior in defined relevant markets, Packers and Stockyards would be better able to fulfill

its mandate of ensuring fair and competitive marketing in the livestock and meat-packing industries.

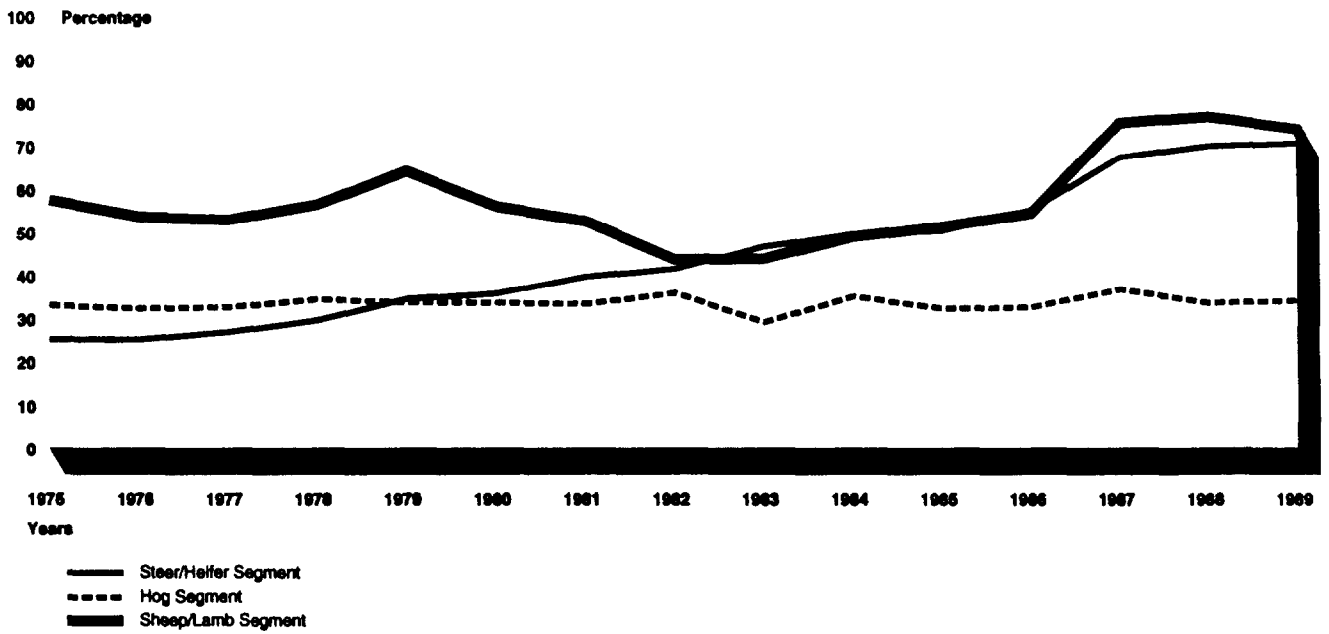
PACKERS AND STOCKYARDS'
OTHER ACTIVITIES

You also asked us to provide information on Packers and Stockyards responsibilities to ensure that livestock sellers receive prompt and accurate payment. In fiscal year 1990, the agency conducted a total of 2,327 investigations; 80 percent of these were devoted to ensuring payment to livestock sellers.

Packers and Stockyards also enforces compliance with regulations on the trade practices of market agencies and livestock dealers, as well as meat-packing firms. During the course of our review, we spoke with representatives from industry groups who expressed concerns that Packers and Stockyards' trade practice regulations have become outdated and have not kept pace with changes in livestock marketing. Packers and Stockyards' Administrator told us that in light of the changing nature of livestock marketing, the agency is already planning to review the adequacy of all of its regulations, including trade practice regulations.

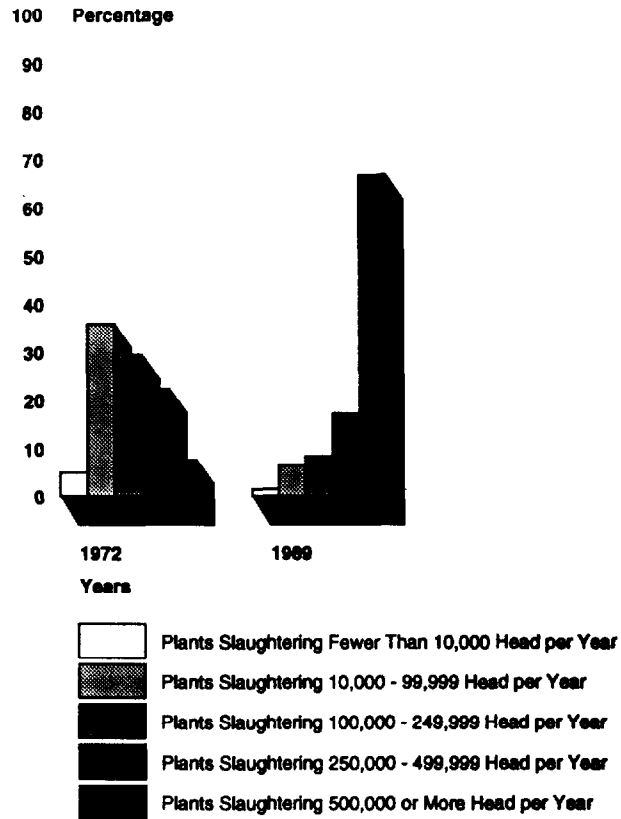
Mr. Chairman, this concludes my formal statement. I would be happy to respond to any questions you or other Members of the Subcommittee may have.

FOUR-FIRM CONCENTRATION RATIOS
FOR LIVESTOCK SLAUGHTER, 1975 TO 1989



Source: Packers and Stockyards.

PERCENTAGE OF TOTAL STEER AND HEIFER SLAUGHTER
BY PLANT SIZE, 1972 AND 1989



Source: Packers and Stockyards.

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