

Perspectives on Competition in U.S. Livestock Markets

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Cattle market puzzle

- Industry is highly concentrated; regional procurement markets are even more highly concentrated
- Many processor bidding practices seem clearly anticompetitive
- Opportunities are rife for processors to coordinate behavior, and casual evidence suggests bidding for cattle is not very aggressive



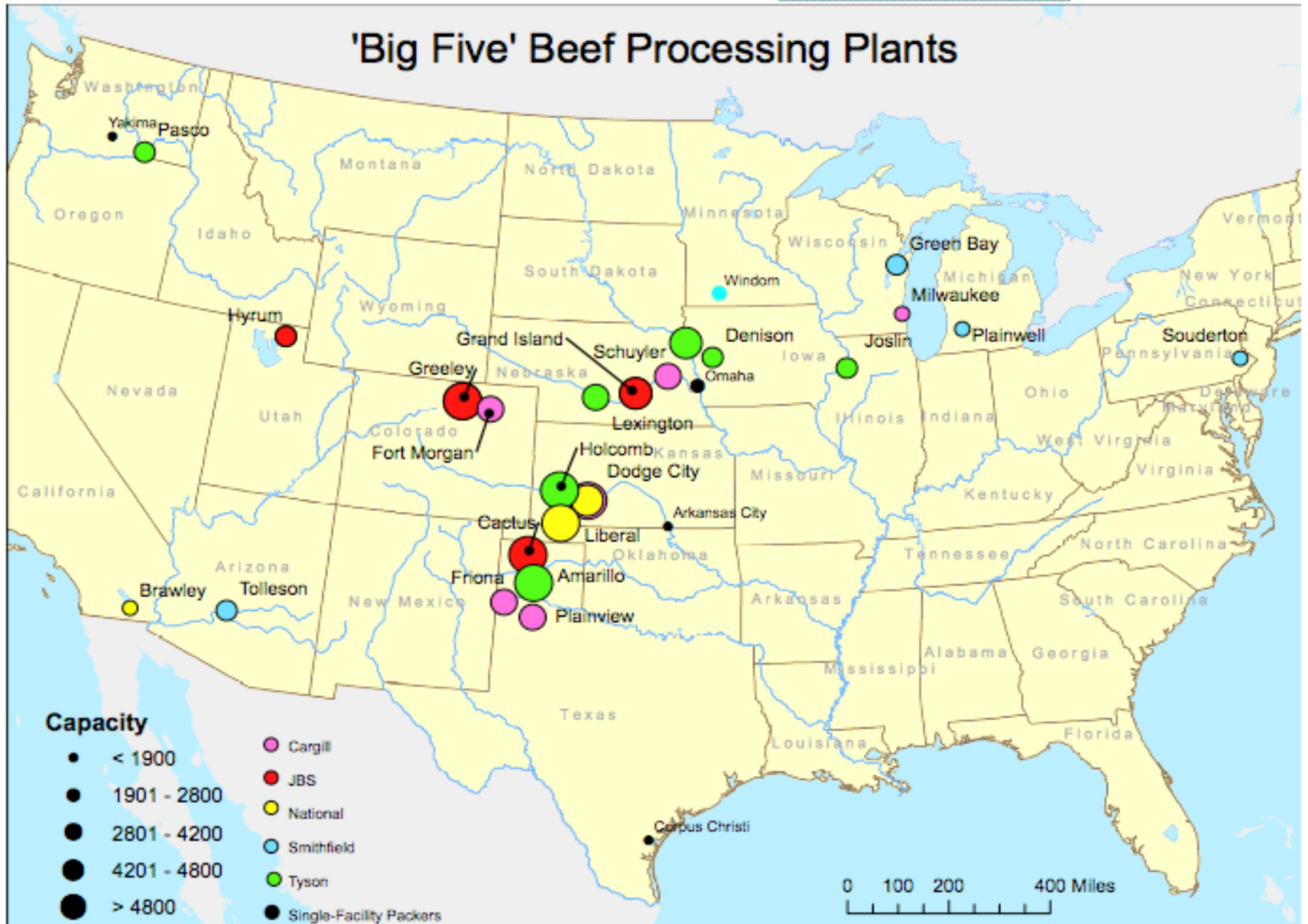
Cattle market puzzle (cont.)

- Yet most statistical analyses reveal little departure from competition
- Econometric studies based upon aggregate time-series data may have serious problems
- But are there reasons cattle markets may be more competitive than the tight oligopoly structure and anticompetitive procurement practices suggest?

Some unique factors that affect livestock competition

- Hogs and cattle go through separable vertical production stages at the farm level
 - Cow-calf → stocker → feeder
 - Sow-farrow → feeder → finisher
- Farm product is much more mobile at the upstream stages, i.e., you can ship a small animal a lot more cheaply and safely than a large animal
- Does this upstream mobility make procurement markets larger and enhance competition in the entire chain?
 - Can these upstream markets integrate regional markets at the processor stage?

'Big Five' Beef Processing Plants



Importance of capacity constraints

- In cattle, excess capacity recently has been at the processing stage . . . due to declining red-meat demand
 - Need to operate plants at capacity has probably stimulated competition among beef processors
 - Crespi & Xia (AJAE forthcoming) show that oligopsony power is a function of cattle inventories and stage of the cattle cycle

Competition in the hog market

- Hog procurement for the most part is no longer an open market
- In a typical contractual setting, the value marginal product (VMP) to contracting processor of a grower's hogs will exceed the opportunity cost (OC) of the grower
 - Selling hogs to another processor
- Price setting is essentially a bargaining game with price bounded by VMP and OC

Competition in the hog market (cont.)

- Hog processors insure presence of excess capacity in production relative to processing capacity
- Producers must be compensated by processors for the costs of excess capacity
- But presence of excess capacity eliminates any bargaining power producers might have
 - Contracts set producer returns to zero economic profits