food&water watch

FOOD

Taking on Corporate Power in the Food Supply

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Bad farm policy and unchecked corporate mergers have driven out independent family farmers, creating powerful agribusiness giants with massive market share. And after decades of government officials looking the other way, regulators are finally acknowledging that there might be a problem. In 2010, the U.S. Department of Agriculture (USDA) and the Department of Justice (DOJ) are conducting public workshops around the country to hear about the state of competition in agriculture markets.

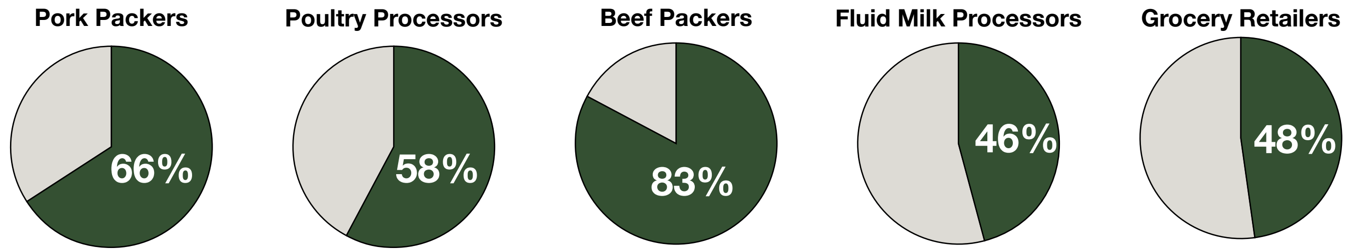
What they are likely to hear isn't good. Today, a tiny cabal of agribusinesses and food manufacturers has a stranglehold on every link of the food chain. These powerful interests can use their market dominance to control how food is produced, the prices that consumers pay and the prices that farmers receive. Access to locally grown, organic, sustainable, equitable food is hindered by a marketplace that is controlled top to bottom by a few firms and rewards scale over quality, sustainability or health. As a result of this concentration, consumers are paying more for their food, farmers are receiving less and those companies in the middle are soaking up the profits.

The presence of thousands of products on supermarket shelves hides the fact that a few companies own most grocery stores and produce most staple foods. The four largest companies in each industry slaughter nearly all the beef, process two-thirds of the pork, sell half the groceries and manufacture about half the milk in the United States. Only two firms sell two-thirds of the corn and soybean seeds. These national measurements can conceal much higher levels of concentration at the regional or local level, where one company may have a virtual lock on an industry. The top four supermarket chains control half of the national market, but on the local level the top four chains can control more than 70 percent of the marketplace.[1] These meatpackers, food processors and supermarkets contend that their size offers consumers more choice and affordability. In reality, these companies rarely pass their lower costs on to consumers through lower retail prices.

Market Concentration of Top Four Firms

At the beginning of the food chain, there are very few companies supplying farmers with inputs like seed and fertilizer, driving up farmers' cost of doing business. There are also few companies buying crops and livestock, so many farmers and ranchers are essentially forced to buy and sell at whatever prices these agribusiness giants offer. In the livestock sector, meat and poultry processors are increasingly involved in every single step of production to tightly manage all aspects of meat and poultry, "from genetics to grocery."[2] In the poultry industry, for example, growers do not even own the birds — they merely perform the service of raising

Percentage of the Market Controlled by the Top Four Firms



birds for the poultry processors under extremely rigid and often unfair contracts, while taking on the debt for building new facilities and the costs of manure disposal.

The consolidated market power of meat and poultry companies has forced livestock producers to become significantly larger and has encouraged them to adopt the more intensive practices used on factory farms. The theoretical gains from this increased economic efficiency ignores the considerable cost to communities and the environment from the system of industrialized agriculture. These intensive methods come with a host of environmental and public health costs such as air pollution, contamination of water with manure, and increased antibiotic resistance, none of which are ameliorated by the agribusiness industry.

Consumers Pay More

Protecting the interests of consumers has been the guiding principle behind federal antitrust law and enforcement for decades. But in practice, as long as increased concentration has not directly harmed consumers (through massive retail price increases, for example), the U.S. Department of Justice has taken a hands-off approach to industry consolidation.[3] Agribusiness companies contend that through mergers and acquisitions they can provide efficiencies of scale that benefit consumers. But in reality, consumers rarely see a decrease in what they pay for food at the grocery store.

Higher food prices in America hurt families struggling to make ends meet, especially during an economic crisis. In 2008, U.S. grocery store food prices rose by 6.6 percent, the biggest increase since 1980.[4] Since the mid-1980s, the cost of a typical basket of groceries, adjusted for inflation, has risen relatively steadily.[5] In contrast, the share of money spent at grocery stores that went to farmers fell from about one third in 1980 to 19 percent in 2006.[6] Even USDA has recognized that high levels of concentration allow the largest companies to extract more of the economic value from food transactions, but "consumers typically bear the burden, paying higher prices for goods of lower quality."[7] For example, according to USDA, the low-cost pork produced from large-scale hog operations, where the animals are bred to gain weight quickly, "may not have the flavor or texture some buyers seek."[8]

But Farmers Receive Less

Even when the consumer food prices increase moderately, food processors and retailers largely capture most of consumers' dollars; little of the value of food sold in grocery stores trickles back to farmers.[9] Some studies have found that when the cost of farm goods increases, these costs are totally and immediately passed onto consumers through higher food prices, but when the farm prices fall back down, grocery store prices do not drop as quickly or completely.[10] Supermarket chains can also pressure produce and processed food suppliers to lower prices or pay special promotional fees, and these suppliers, in turn, can leverage farmers into low-price contractual relationships with shippers or manufacturers.

Farmers are also squeezed at the other end of the production cycle as their costs increase due to lack of choices. Crop producers buy seeds from only a few companies and

the few companies that sell genetically modified seeds hold patents on the specific traits so they still profit from seed sales by other firms. In 2009, nearly all (93 percent) of soybeans and four-fifths (80 percent) of corn cultivated in the United States were grown from seeds containing genetically engineered traits covered by Monsanto patents.[11] Only a few companies manufacture tractors and other farm equipment and a handful of global companies control the fertilizer market. In 2002, the four largest companies sold three-quarters (77.8 percent) of the phosphate fertilizer and more than half (53.9 percent) of the nitrogen fertilizer sold in the United States.[12] This concentration means farmers have few options for where they get their inputs and what prices they pay.

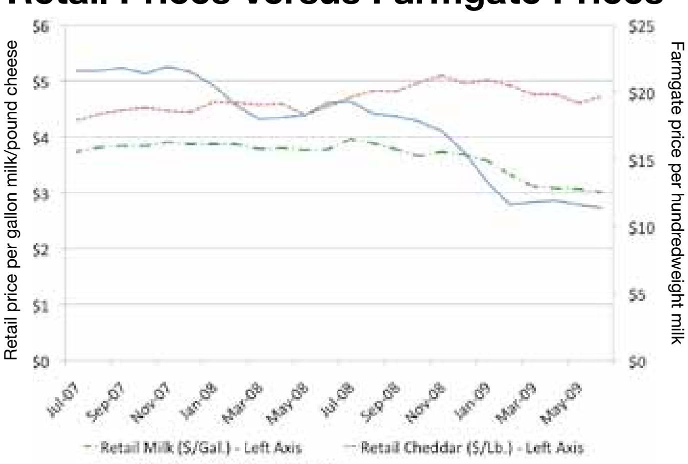
Case Study: 2009 Dairy Crisis

During the summer of 2007, milk prices reached a record $21.70 per hundred pounds of fluid milk (known as a hundredweight).[13] Over the next two years, the prices farmers received for milk fell by nearly half (47.7 percent) from $21.60 per hundredweight in July 2007 to $11.30 in June 2009.[14] The production costs for farmers did not fall, however. The cost of feed rose 35 percent and the cost of energy rose by 30 percent during 2008.[15] Many dairy farmers lost between $100 and $200 per cow every month in 2009.[16]

Since milk prices began collapsing, the price consumers paid for dairy products has fallen modestly — if at all. Between July 2007 and June 2009, the real price farmers received for milk fell by nearly half, but the retail price for fresh whole milk fell only half as fast (declining by 22.6 percent) and the price of cheddar cheese actually increased by 5.8 percent.

The growing spread between what consumers pay and what farmers receive is captured by the dairy processors and retailers that dominate the industry. In June, the Utah Commissioner of Agriculture noted, "We are concerned that retailers have not reduced the retail price of milk to reflect the huge reduction in the wholesale level."[17] Meanwhile, Dean Foods, which controls around 40 percent of the nation's fluid milk supply,[18] had profits of $240 million in 2009.[19]

Retail Prices Versus Farmgate Prices



Low Prices for Farmers Drive Factory Farms

Some farmers have responded to the intense price pressures from meatpackers and processors by shifting to more intensive, larger operations with more livestock on each farm. Since farmers receive less for each animal they sell, many have tried to recoup their earnings by selling more animals. During the 1990s, the number of animals on large farms grew rapidly. According to USDA, the number of farms containing more than 5,000 hogs tripled between 1992 and 2007, and the share of all hogs that were raised on these factory farms grew from 17 percent to greater than half (60 percent) in 2007.[20] The dairy industry experienced similar changes. The average farm size more than doubled (from 61 to 133 cows) from 1992 to 2007, but the percentage of cows in the largest operations increased from one out of 10 in 1992 to four out of every 10 dairy cows living on facilities containing more than 1,000 cows in 2007.[21] These facilities aren't notable just for their size. The way animals are raised is different, and the controversies of industrialized agriculture play out on these massive factory farms.

The dense concentration of so many animals also leads to concentrated production of huge volumes of animal waste. Unlike a city, where human waste ends up at a sewage treatment plant, untreated livestock waste washes out of the confinement buildings into large cesspools, or lagoons. These waste pools can leak or burst, especially during storms, spilling into local waterways, killing fish and spreading the waste and odor across the community. Giant commercial confined livestock and poultry operations produce half a billion tons of manure each year, more than three times as much as that produced by the entire U.S. population.[22] Taxpayers paid $179 million between 2003 and 2007 to cover manure management costs just for industrial dairies and hog operations (not counting chickens or cattle).[23]

Larger animal operations also rely on increased application of veterinary medicines and chemicals including antibiotics and hormone treatments to cope with the density of animals on their farms and to maximize the animals' growth. For example, factory farmers typically mix low doses of antibiotics (below the amount used to treat an actual disease or infection) into animals' feed and water to promote their growth and to preempt outbreaks of disease in the overcrowded, unsanitary conditions. The routine use of antibiotics on confined livestock can reduce the effectiveness of antibiotics on human patients by providing a breeding ground for antibiotic-resistant bacteria.[24] These costs are borne by consumers and the community, but are not accounted for in the economic analysis that has been used for years to justify big agribusiness mergers. These are some of the very real costs of cheap food that do not get paid for at the grocery store.

Consumers and Farmers Need Antitrust Enforcement

The current concentration in the meatpacking and processing industry benefits neither livestock producers nor consumers. Farmers and ranchers could receive better prices for their livestock if there were more competitors bidding for their livestock, and consumers would likely see lower retail prices if there were more competitors for their customer dollars.

How To Fix It

USDA, DOJ and Congress have allowed concentrated agribusiness power to reach these unprecedented levels. They can take concrete actions to curb market power that harms consumers and farmers. This year, DOJ and USDA are convening long-overdue workshops on the consolidation warping food and farm markets. This is an important first step, but there is more that should be done.

Tell your member of Congress to support a ban on packer and processor ownership of livestock and reform the rules for using captive supply contracts, practices that let meat companies manipulate the prices paid to farmers for their livestock. They can start by cosponsoring S. 1086, the Livestock Marketing Fairness Act.

Endnotes

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