Trading Freedom for Equity

by **Wes Ishmael**

Current debate about market competition could shape producer opportunities for decades.

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Good, bad or otherwise, the federal government is shoving both dollars and legislative attention toward America's food production and supply chains in an effort to fix what it deems a broken system, as revealed by the pandemic.

"The COVID-19 pandemic led to massive disruption for growers, food workers and consumers alike. It exposed a food system that was rigid, consolidated and fragile. Meanwhile, those growing, processing and preparing our food are earning less each year in a system that rewards size over all else," said Agriculture Secretary Tom Vilsack on July 10.

At the time, Secretary Vilsack was announcing a number of efforts and investments the U.S. Department of Agriculture (USDA) intended, pursuant to President Biden's executive order on promoting competition.

"To shift the balance of power back to the people, USDA will invest in building more, better and fairer markets for producers and consumers alike," Vilsack explained. "The investments USDA will make in expanding meat and poultry capacity, along with restoration of the Packers and Stockyards Act, will begin to level the playing field for farmers and ranchers. This is a once-in-a-generation opportunity to transform the food system so it is more resilient to shocks, delivers greater value to growers and workers, and offers consumers an affordable selection of healthy food produced and sourced locally and regionally by farmers and processors from diverse backgrounds. I am confident USDA's investments in expanded capacity will spur millions more in leveraged funding from the private sector and state and local partners as our efforts gain traction across the country."

Yep, that's a mouthful to consider and digest.

Specifically, USDA announced its intent to invest $500 million in American Rescue Plan funds to expand meat and poultry processing capacity.

"USDA also announced more than $150 million for existing small and very small processing facilities to help them weather COVID, compete in the marketplace and get the support they need to reach more customers," according to the statement. "USDA is also holding meatpackers accountable by revitalizing the Packers and Stockyards Act, issuing new rules on 'Product of USA' labels, and developing plans to expand farmers' access to new markets."

Before the announcement, lawmakers were already entertaining a number of proposed laws aimed at everything from increasing price discovery in cash fed cattle markets to reauthorizing and tweaking Livestock Mandatory Reporting to enabling producers to sue packers without proving harm.

Markets are complex

Few question the fact that supply chain disruptions spawned by the pandemic skewed beef prices to extraordinary heights, while pressuring fed cattle prices. In turn, calf and feeder cattle prices suffered.

On the other hand, plenty of folks seem to disagree about the reasons.

Much of the price imbalance resulted from too little beef packing capacity relative to cyclically high fed cattle supplies (see Beware Unintended Consequences, page 42), a situation already etched in the market before the pandemic and other black swan events over the past two years. It also had to do with what economists term derived demand, which is demand resulting from the demand for another good or service.

In simple terms, think about beef calf demand. Ultimately, consumer beef demand dictates the number of beef cows in the inventory. Along the way, packer demand fluctuates with factors including wholesale beef demand and packer ability to process cattle. Feedlot demand varies with such things as packer demand, available pen space and all of the rest.

Never mind specific weights, classes or other attributes, at any given time, in any particular area, stocker and feedlot demand varies for calves to grow and feed. No matter how good or cheap, that next calf standing in the pasture or the sale barn pen has no value to a buyer whose trailers or orders are already filled.

Careful what you wish

That's worth remembering when considering proposed laws and regulations that would alter producer ability to buy and sell cattle in the ways they believe are most effective for their individual operations.

As an example, several proposed laws aim to bolster the number of weekly negotiated cash fed cattle transactions in order to increase cash price discovery. The preferred approach appears to be mandating a minimum specific percentage of fed cattle trade in the spot cash market.

Of course, that would also mean mandating the percentage of fed cattle that can trade outside the cash market, no matter the consequences. Those potential consequences include hamstringing what Alternative Marketing Arrangements (AMAs), such as formulas and grid pricing, have done to build beef supplies demanded more by consumers.

Such a law could also set a precedent for mandating how cattle must be traded in other portions of the market. If dictating the percentage of fed cattle traded by various marketing mechanisms is legal and acceptable, then logic suggests it would be difficult to argue against mandating the percentage of calves and feeder cattle that must trade via live auction, direct trade or video auction. Supposedly, such regulations would also be acceptable in seedstock markets, commercial replacement heifer markets, cull cow markets and all of the rest.

Bottom line, in my opinion, the notion of free marketing is like that of free speech. You either have it or you don't. Any shades of gray in between mean you don't. In both cases, such freedom also means accepting situations where you wish someone else's same freedom could be restricted.

Efficiency matters

Industry consolidation mentioned at the outset serves as another example.

"Concentration in food processing has contributed to bottlenecks in America's food supply chain, too," according to the USDA announcement. "Just a few meatpackers, with a few large processing facilities, process most of the livestock that farmers and ranchers raise into the meat that we buy. For example, just four large meat-packing companies control over 80% of the beef market alone. One of the lessons from the COVID-19 pandemic is that this system is too rigid and too fragile. When COVID slowed or shuttered meat processing, many farmers had no place to go."

There is plenty to read and question between the lines of a statement like that one.

It's true that four meat packers kill the majority of fed cattle each year. It's also true that such concentration, economy of scale and cost efficiency means consumers can purchase beef for less than what they otherwise could, all else being equal.

It's also certainly true temporarily closed, and apparently permanently slowed, packing capacity backed up fed cattle supplies, a situation the industry just now seems to be getting beyond (see Higher Money Ahead, page 48).

The industry needs more packing capacity — large, small or in between — especially if growing international demand for U.S. beef encourages expanding the nation's beef cow inventory. However, I don't understand how the labor forces at smaller facilities would have, necessarily, been more immune to COVID-19 than those at larger plants.

Ironically, supply and demand fundamentals suggest market leverage will be swinging back in the favor of producers before any potential new laws are approved or new beef packing capacity is constructed. At least that seems to be true as long as lawmakers and administrators don't artificially navigate free markets elsewhere. HW