

Food cartels tighten control over U.S. meat industry

by Robert Baker

A combination of a record drought, high interest rates, and federal anti-parity price policies has set the stage for another even bigger consolidation phase in the U.S. meat industry. The traditional independent producer—the corn and hog farmer in Iowa, the independent cattle rancher in Oklahoma and Texas—is being shoved aside to make way for the “money agriculture” systems of vertical integration by the meat cartel.

Millions of dollars of East Coast money have been earmarked for investment in meat production, according to Steve Marbery, editor of *Hog Farm Management* magazine. They smell profit, says a principal player in the scheme. “The money is there, but it is not coming through the traditional channels. The Bass Brothers, Cargill, Tyson, etc., have access to the capital, and whoever controls the capital will control the industry.”

Driven by what is seen as potential high returns on equity, the meat and grain processing giants (IBP, ConAgra, Cargill, etc.) have dug in and, as they have done in the broiler industry, are now rapidly pulling the net of vertical integration over the pork and beef industry as well.

By tapping into the big bucks of speculative investor capital, large high-tech pork production and cattle-feeding companies have positioned themselves for a phase of even more rapid growth and expansion. These mega-producers, who have the ability to produce hundreds of thousands of head per year, are now rapidly “networking” with the giant meat cartel packers and processors in a move that consolidates a major portion of pork and beef production and processing in the hands of a few very political and financial giants.

Cartels move into ‘factory pork’

Vertical integration has closed down markets for independent poultry producers. Now, pork producers face the same reality. Smithfield Foods, a Smithfield, Virginia firm, the fourth-largest U.S. pork packer, plans to be the first in the United States to vertically integrate and produce its own pork (Table 1). Two years ago, Smithfield Foods formed a partnership with Carroll’s of Warsaw, Inc., Warsaw, N.C., called Carroll Foods of Virginia. Today, this partnership plans to build one of the largest hog production units in the world. When finished, this pork production factory will consist of 100 separate production complexes, each housing

1,000 production sows. Each complex will produce about 20,000 baby pigs and grow them to market weight (235 lbs.). When at full production, this giant production operation will produce 2,000,000 hogs for slaughter all of which will be slaughtered at Smithfield Foods’ Virginia slaughtering plant.

According to the November issue of *Feedstuffs* magazine, National Farms, Inc., owned by the billionaire Bass Brothers—Edward, Robert, Sid, and Lee—of Fort Worth, Texas, is investing \$150 million in the meat industry. Probably the biggest owners of red meat on the hoof, the Besses own a \$50 million hog farm with 17,000 sows, which produces 350,000 market hogs per year. National Farms has hog operations in Nebraska and nine cattle feedlots which can hold 250,000 head of cattle, and more than 100,000 acres of ranch land from Nebraska to Texas. It sells cattle and hogs to packers. William Haw, president and chief executive of National Farms, Inc., has bought, on the Besses’ behalf, five feedlots in the last year, picked up distressed grassland ranches, and expects to double the hog operation within a year.

The Besses are not necessarily in red meat production for the long haul. According to *Forbes* magazine, some producers think that meat packers eventually will want to control the entire livestock production process. This suggests they may want to buy operations like National Farms and integrate from factory back to farm and feedlot. Haw says that he and the Besses will, if the price is right, be happy to sell their farms and feedlots. Seven years ago they sold 40,000 corn growing acres to Prudential when land prices were high.

A number of other major pork industry players (Table 1) have many or all of the requirements necessary for full-scale integration. Cargill, Inc., one of the big three pork packers, has all the tools for vertical integration; all it needs to do is expand its current Excel slaughtering plants. The giant feed company, Central Soya, has recently branched into contract hog feeding. Continental Grain, owner of Wayne feeds, and Louis Dreyfus Corp., are known to be contracting farmers to raise hogs for them. These giant international grain cartels have all the capital necessary to go big into pork production or buy out existing large producers.

Others (Table 1) are already big in the meat production business or heading in that direction. Tyson Foods, one of the largest vertical integrators in the poultry industry, is also one of the largest U.S. hog producers. British Petroleum, owner of Purina Mills, the largest U.S. feed manufacturer,

and Central Soya Co., the second-largest feed manufacturer, both plan to operate pork-processing plants in Indiana. Both plan a more formal farm-producer relationship. Central Soya plans "a fully integrated system," which will coordinate farmer producers to supply pork. Central Soya's chief executive officer, David Swanson, said the hog industry "is beginning a transition and, we believe, offers opportunities to Central Soya." He said "a form of vertical cooperation" will be important to the future of the hog industry.

Cartels feed cattle

Shrinking cattle numbers and loss of financially distressed large-scale cattle feeders are changing the face of the feed-yard business (Table 2). New strongly capitalized, high-tech businesses plans to feed large numbers of company cattle. With many financially strapped Corn Belt feed yards only 50% filled, according to analysts, are keen to do contract cattle feeding for larger operations which furnish both the cattle and the financing, and pay the farmer a per-head fee for his feed, facilities, and labor. One family operation, Beef Belt Feeders, Scott, Kansas, custom feeds cattle for investors by charging \$104 per ton for feed and 5¢/head/day for yardage.

Approximately 26 million head of cattle will be fed out for slaughter in 1989, of which 80-90% will go through custom-feeding operations. The top 20 custom feedlots can feed out approximately 7.75 million head, an amazing 30%

TABLE 1

Potential pork integrators currently producing or contracting pork reduction

Smithfield Foods (P & C)
Cargill Inc. (P)
Central Soya/Ferruzzi (C)
National Farms Inc. (P & C)
Continental Grain (C)
Louise Dreyfus Corp. (C)
Gold Kist Pork (C)
Tyson Foods (P)
Bensen-Quinn (C)
Murphy Farms Inc. (C)
Land O'Lakes Coop. (C)
Prestage Feeds (P & C)

P = producers
C = contract hog production

of total production through this small number of lots. The top 10 producers account for 22% of total production, and the top 200 feedlots feed 50% of all fed cattle in 13 major feeding states.

Competition among the top beef packers is hot as cattle

TABLE 2

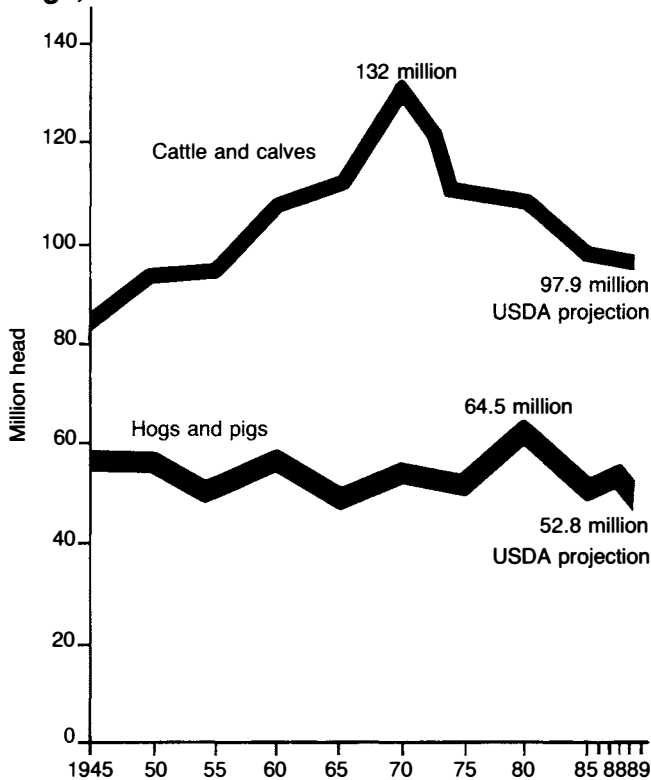
The beef industry's top five beef feeding operations

Name	Owner	One time feed lot capacity
1. Cactus Feeders Inc.	Paul Engler, Tom Dittmer	333,000
2. Con Agra Red Meat Co.	Con Agra Inc.	305,000
3. Caprock Industries, Inc.	Cargill, Inc.	273,000
4. Continental Grain Co.	Private	255,000
5. National Farms Inc.	The Bass family	249,000

Cow-calf producers:		No. Cows
1. King Ranch	Family owned	40,000
2. Desert Ranches of Florida	Mormon Church	34,000
3. Parker Ranch	Richard Smart Trust	19,200
4. Granada Corp. Inc.	David & James Eller	165,000
5. Hayt & Sons Ranches	Confidential	16,100

Slaughtering houses:		No. slaughtered (1987)
1. IBP, Inc.	Occidental Petroleum	7.8 million
2. Con Agra Red Meat Companies	Con Agra Inc.	Confidential
3. Excell Corporation	Cargill, Inc.	4 million-plus
4. National Beef Packing Co.	Idle Wild Foods, Inc.	1.2 million
5. Dubuque Packing Co.	Private	Confidential

FIGURE 1
The decline in U.S. numbers of cattle and hogs, 1945-89



numbers fall to their lowest level in 28 years. Second quarter packer losses and falling fed cattle marketing will have a big impact on beef packer survival.

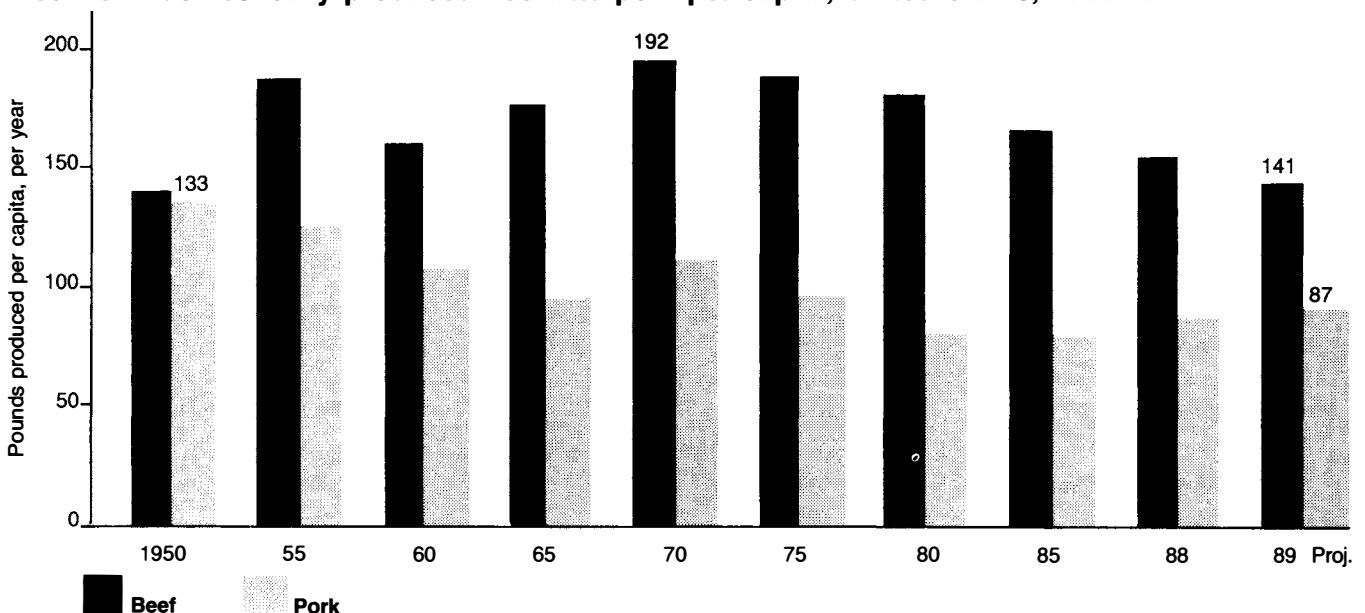
In 1920, when the federal government moved to curb the power of a few companies over the meat industry, the top five packers—Wilson, Armour, Cudahy, Swift, and Morris—controlled 46% of beef slaughter in the United States. That effort 68 years ago eventually succeeded in breaking what had been called the “greatest trust in the world.” But powerful new firms have arisen.

The fight among the big three (IBP, ConAgra, and Excel) will intensify, and smaller packers will find it hard to survive. Today, according to Agriculture Department statistics, the big three slaughter 62% of all heifers and steers in 1987, sell 80% of the boxed beef, and by 1995, will slaughter 85% of all fed cattle. Some experts say the big three in hogs are the same as in beef and that they control 30-40% of the hog market. Steve Kay, publisher of *Cattle Buyers Weekly*, believes every packer other than the big three is vulnerable to takeover. ConAgra was ready to buy Dubuque Packing Co., but IBP, Inc. bullied the Justice Department and threatened to buy National Beef Packing and Hyplains Packing if ConAgra got the go-ahead.

Cartels combine feeding and slaughter

Iowa Beef Packers Inc. (IBP, Inc.), owned by Armand Hammer’s Occidental Petroleum Inc., slaughtered 7.8 million head in 1987 and is the world’s largest beef processor. IBP’s determination to stay on top is exemplified by the

FIGURE 2
Decline in domestically produced beef and pork per capita, United States, 1950-89



installation of a \$20 million satellite communications system five years ago to direct its 80-plus staff buyers. Cactus Feeders, Inc., of Dumas, Texas, the largest cattle feeder in the United States, marketed 780,000 head in 1987. Co-owner Paul Engler, who ran IBP's beef slaughter from 1972 to 1975, is working out an arrangement to feed cattle for IBP, Inc. National Farms, owned by the Bass family, intends to market all its company-owned cattle through IBP.

ConAgra, Inc., of Omaha, Nebraska, owns ConAgra Red Meat Companies which is the second-largest beef packer after it purchased a large portion of Swift. It also became the second-largest cattle feeder when it merged with Monfort of Colorado after purchasing Interstate Feeders of Malta, Idaho, and has the capacity to feed out about 762,000 head per year. The third-largest cattle feeding operation, Caprock Industries, Inc., is owned by Cargill, Inc., which owns the third-largest beef packer, Excel Corporation. Caprock can potentially feed out about 680,000 beef cattle and Excel Corporation is projected to slaughter 4 million head for 1988.

Continental Grain owns two feed yards in Dalhart, Texas and one each in Oklahoma, Kansas, and Colorado and has the capacity to feed out 635,000 head per year.

Cartels control poultry

Sources at the U.S. Department of Agriculture acknowledge that poultry production has the highest degree of vertical intergration (Table 3). Of the projected 198 million turkeys to be produced in 1988, 90% are produced by a handful of vertically integrated feed companies, owned by giant food cartels. Twenty companies completely control 80% of turkey meat production, from hatching to grocery shelf.

In the broiler industry, almost 100% is produced by big corporations. The April 1988 issue of *Broiler Industry* magazine reports that in 1987, the top 4, 8, and 20 producers accounted for 36%, 56%, and 79% of broiler production, respectively. The ConAgra-Holly Farms merger brings together two industry giants in stiff competition with Tyson Foods, Cargill, Continental Grain, and other big poultry producers.

Under the onslaught of the cartels, farmers and ranchers have been hit with lower and lower profit margins, and are being forced out of business. The national trend in meat production is that farms that have been in family control for generations are being turned into production tools for the cartel food producers. As a direct result of the farm financial crisis, many farmers cannot borrow the money needed to purchase feeder livestock and feed or rebuild liquidated breeding herds. As an alternative—many times with their local bankers' blessing—farmers are contracting their labor, management skills, and production facilities to cartel-owned feed companies. Under these contracts, the feed companies purchase the feeder livestock and the feed, and hire the farmer to custom feed them until they go to market.

Along with the disappearance of the independent farmer

TABLE 3

Largest poultry producers

Con Agro (B)
Cargill (B)
Continental Grain (B)
Tyson Foods (B)
Holly Farms (B)
Perdue (B)
Gold Kist (B)
Campbell Soup (B & T)
Seaboard (B)
Corbett Enterprises (B & T)
V.F. Weaver (T)

B = broilers

T = turkeys

and rancher, there has taken place a drastic shrinkage of cattle numbers. Cattle and calf numbers (Figure 1) in the United States have fallen to around 99 million head for 1988 based on USDA reports, and are expected to fall to 97.6 million head in 1989. This is an amazing 26% drop from the high in 1975 of 132 million head. Not only are total cattle numbers at a critical low, but the amount of beef produced per person (Figure 2) has fallen 26% from a high of 192 lbs. per person in 1970 to 141 lbs. per person projected for 1989. At this, the lowest level in 30 years, beef imports are almost five times higher than beef exports.

The USDA projects hog numbers (Figure 1) to go lower next year, as higher grain prices will cause negative returns and breeding herd liquidation. *EIR* projects pork production per person (Figure 2) in the United States for 1989 to all to 87 lbs. per person, which is down 35% from a high in 1950 of 133 lbs. per person.

With the lowest pork and beef production per capita in almost 30 years (Figure 2), if "free trade" "supply and demand" theory were correct, meat producers would be seeing some of the highest profits in history. But the real value of inflated livestock prices paid to the producer is at an all-time low. The selling price of beef in 1988 is projected to be the highest in history, averaging 72.3¢ per pound, but closer evaluation reveals a different story. Table 4 compares Jan. 1 cattle and hog inventories from 1945 through the USDA projected inventories for 1989. This table also lists the average selling price for each year, and next to it the purchasing power of that particular years average price, as expressed in 1988 inflated dollars.

For example, in 1950 farmers were selling cattle for 23.3¢ per pound. To have the same purchasing power, today's farmer would need \$1.20 per pound to buy the same amount of goods as 23.3¢ did in 1950. Using this evaluation for both

hogs and cattle, Table 4 reveals that the real purchasing power of today's cattle prices is lower than the prices received by producers 60% of the time during the last 43 years. Likewise, the real purchasing power of hog prices is at a historic low. Farmers are receiving 43¢ per pound for pork today, whereas in 1945 the price farmers received was 14¢ per pound but had the purchasing power of \$1.09 per pound in 1988 dollars.

Experts speak out

John Conner, a Purdue University economist and one of the nation's leading experts on the effects of monopolistic trends in the food manufacturing industries, said the impact of this growing level of concentration will be felt first by the livestock producer. Producers, he said, can expect to be paid less for their livestock. As for consumers, Conner said that

once the top firms shift to highly advertised brand products, as is expected soon, prices will rise significantly above the level that would have existed in a highly competitive marketplace.

Another recognized expert on food industry concentration is Bruce Marion, professor of agricultural economics at the University of Wisconsin. Referring to the dominance of the Big Three packers, Marion told the House Judiciary Committee, "This rate of concentration is unprecedented. There is no parallel in any of the industries—food and nonfood—with which I'm familiar."

Congressional and land grant university studies have shown that in some regions of the country, the major firms control more than 80% of the cattle-buying market. A decade ago, Rep. Neal Smith (D-Ia.), as chairman of the House Small Business Committee, held hearings to investigate the growing influence of a few meat packers over livestock prices. But farm and livestock groups downplayed his findings. The American Farm Bureau Federation and the National Cattle-men's Association opposed Smith's legislative efforts, 10 years ago, to curb packer control, but today are alarmed.

The USDA's Packers and Stockyards Administration tried to limit the control packers had over cattle supplies during the 1970s, but dropped the effort during the Reagan administration years. According to the Nov. 7 *Des Moines Register*, some high USDA officials say privately that the agency was rebuffed repeatedly by the Justice Department in recent years when it tried to raise some legal questions over the impact on farmers of allowing mergers in the meat packing industry.

Jens Knutson, economist at the American Meat Institute, which represents packers, noted that mergers have played a major role in the dominance of a few firms in cattle and hog packing. While IBP has relied mainly on internal growth, he told Congress, ConAgra and Cargill "have relied heavily on merger." Bruce Marion told a congressional committee that several recent packing mergers appear to have violated the Clayton Antitrust Act.

Many economists and financial elites would consider the trend toward vertically integrated meat and livestock production the wave of future progress. Many consider it to be the natural outcome of advanced technology in livestock production and processing.

Many centuries ago, during the feudal age of Europe, the land and livestock were controlled by a few rich aristocrats. Farmers worked as serfs in drudgery in order to receive physical subsistence to produce crops and tend livestock. Since that time, many battles have been fought to make it possible for farmers and livestock producers to independently own their land and raise livestock with dignity. Until the present time, this has been the basis of U.S. food security.

What many perceive as "progress" toward control of food by a few, is really a big step backwards. The cartels today, like the aristocrats of centuries before, need serfs to survive.

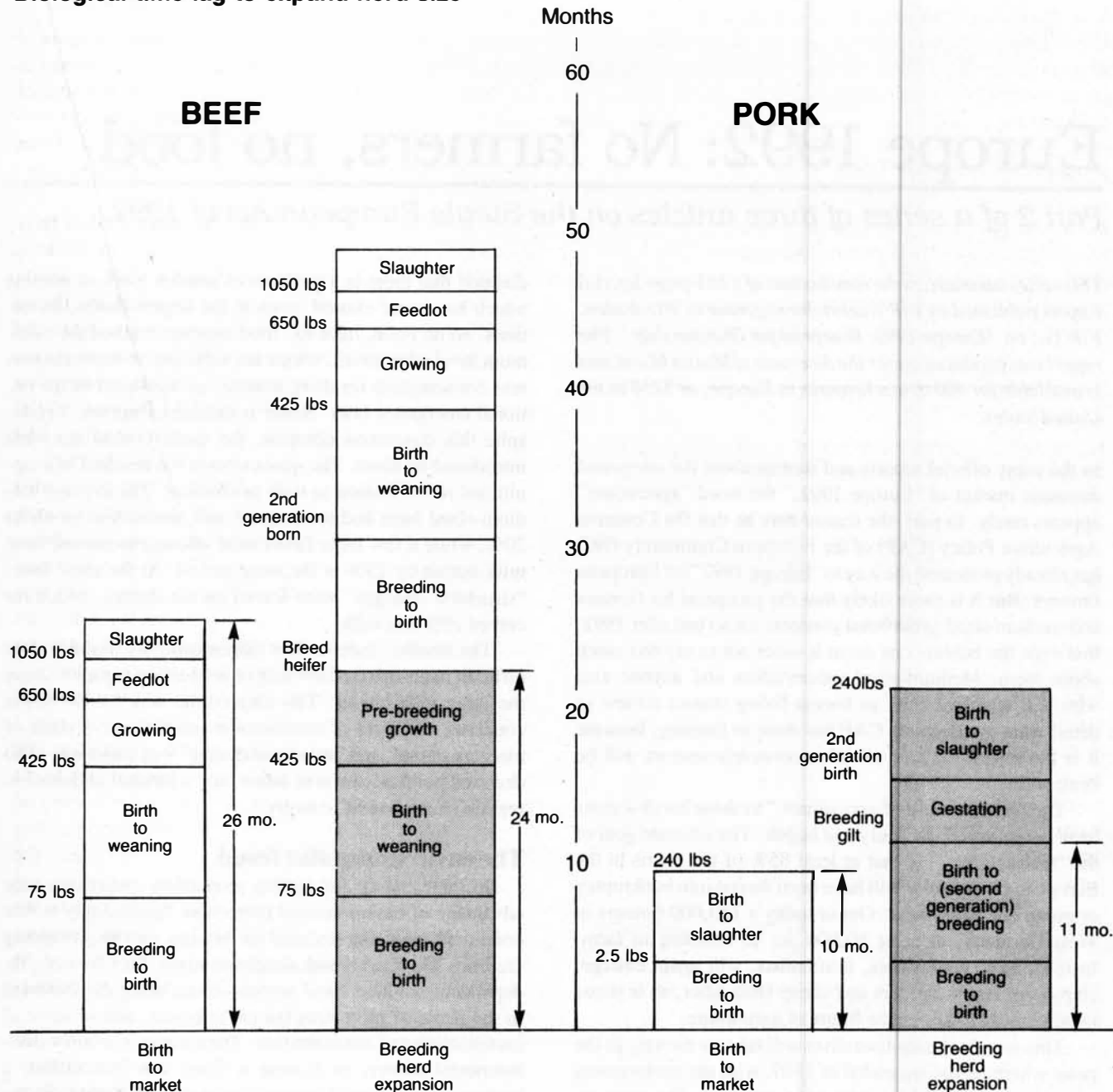
TABLE 4
Number of cattle and hogs, and real price to the farmer, declined 1945-89

Beef	Cattle & calves millions head	Average price to farmer cents/lb	Purchasing power in 1988 inflated dollar cents/lb
1945	85.7	12.1	94.5
1950	77.9	23.3	120.1
1955	96.6	15.6	70.6
1960	96.2	20.4	81.3
1965	109.0	22.0	80.3
1970	112.0	27.1	79.5
1975	132.0	32.2	66.8
1980	111.0	62.4	89.5
1985	110.0	53.7	59.6
1988	99.0	72.3	72.3
1989	97.0	78.0	78.0

Pork	Hog & pigs millions head	Average price to farmer cents/lb	Purchasing power in 1988 inflated dollar cents/lb
1945	59.3	14.0	109.0
1950	58.9	18.0	92.8
1955	50.5	15.0	67.9
1960	59.0	15.3	60.1
1965	50.8	20.6	75.2
1970	56.7	22.7	66.6
1975	54.9	47.9	99.4
1980	64.5	39.0	56.0
1985	52.3	44.5	49.4
1988	55.5	43.0	43.0
1989	53.4	43.0	43.0

FIGURE 3

Biological time lag to expand herd size



Without profit levels that will allow producers to replace older and less productive sows and cows with younger more productive stock, the breeding herd will decline in numbers, and meat production will go down. The chart indicates the amount of time needed to produce pork and beef animals for either slaughter or the breeding herd. It takes at least 26 months to produce a feeder steer from conception (nine months) to slaughter (15 months). A market hog takes about 10 months from conception (114 days) to slaughter (5-6 months). However, a longer time and more expense is necessary to grow and raise breeding stock.

In beef production, an additional 24 months (shaded area) is needed before a young female calf is old enough to conceive and produce a second generation calf. In pork production, an additional 11 months (shaded area) is needed to prepare a young female to conceive and produce a second generation pig. The lag time needed to produce breeding stock is expensive for the farmer-producer. When profits are too low or negative, the breeding herd is not replaced as older and less productive females are culled out.