

Implications of Banning Packer Ownership of Livestock, Iowa and the U.S.

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Recently a group of Land Grant University agricultural economists (including me) prepared an analysis of possible implications of an amendment to the Farm Bill passed by the Senate that would prohibit packers from owning, feeding, or controlling livestock for more than 14 days prior to slaughter. We identified several concerns that we viewed as possible unintended consequences of the bill, many of which hinge on the interpretation of the word “control” in the amendment. While the authors of the amendment did provide exemptions for cooperatively owned or smaller packers, the interpretation of “control” is less clear. A question and answer exchange on the floor of the Senate attempted to clarify the amendment. The author of the amendment said that it would allow contracting between producers and packers and that it was similar to state laws that ban packer ownership. There is concern that, while the discussion about the intent of the amendment was discussed, it is not clearly defined in the amendment itself.

Iowa has legislation that makes it unlawful for packers to own, control, or operate a feedlot or contract for the care and feeding of the swine in this state. Yet, Iowa’s law doesn’t appear to have caused the market disruptions identified in the analysis of the federal bill. How do the laws differ and can the Iowa law serve as a model for the federal law.

Why the Concern?

The pork and beef sectors are increasingly coordinated regarding scheduling, quality attributes, production processes, and food safety. These traits are increasingly complex, and in some cases, not detectable visually or at line speed in processing plants. This coordination is driven by branded product development and demand for more predictable quality from retailers and final consumers. Therefore, formal relationships that specify desirable traits and the values placed on them are needed to assure the process and product. Producers have also been able to secure better financing terms by having a formal marketing agreement. If “control” is interpreted to limit the packer’s ability to coordinate supply chains and assure markets for producers, the amendment would slow further product development or reverse the trend back to a commodity market and jeopardize financing opportunities for many producers.

How is Iowa’s Law Different?

First, Iowa is only one state and the influence of its law is limited to its borders. Second, the Iowa legislation limits ownership by packers but specifically allows for marketing contracts, thus allowing for formal coordination between producers and packers. Many different types of marketing contracts are used in Iowa today. Under Iowa’s law, packers are able to develop branded products, prescribe production practices, schedule animals to their plants, and pay value-based premiums. Producers have access to a wide range of risk management tools and can secure competitive financing terms. If “control” in the Senate amendment is interpreted to be like Iowa’s law, some of the concerns identified by the ag economists are lessened.

Would Iowa’s Law Work at the Federal Level?

The necessary scheduling, quality, and coordination functions can occur through contracts rather than ownership if contracting is not restricted. Packers could sell their production companies to other businesses and enter into a contract to secure the coordinated supply from these or other producers. Research has not shown a negative impact on livestock prices due to packer ownership, and thus higher prices are not expected to result from the ban, but other outcomes are possible. First, a rushed sale of production assets by packers may lower the value of other production assets owned by producers causing balance sheet problems. Second, if there were economic advantages to vertical integration that can't be duplicated with contracts, the US beef and pork industries would be at a competitive disadvantage to foreign companies and poultry producers. Third, many packers in fringe areas of production have relied on some degree of livestock ownership or contracted supply to insure enough livestock to keep their plant viable. Blocking these ownership or contract agreements will jeopardize these plants that are important to many producers in that region and during times of large supplies important to all producers.

If the amendment is interpreted to define who can or cannot own livestock but allow formal contract agreements between packers and producers, the impact on the marketplace will be less than if it bans such marketing agreements. The intent of the agricultural economists who wrote the analysis was to questions what could arise from the amendment if the wording is not clarified. Hopefully, these details will be clearly defined before the amendment becomes law.