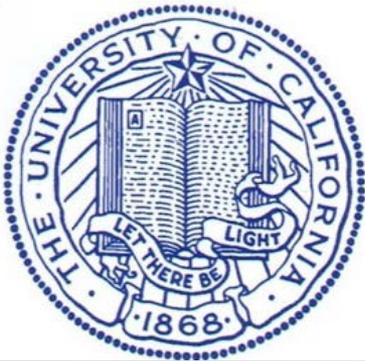


Concentration and Consolidation in the U.S. Food Supply Chain:

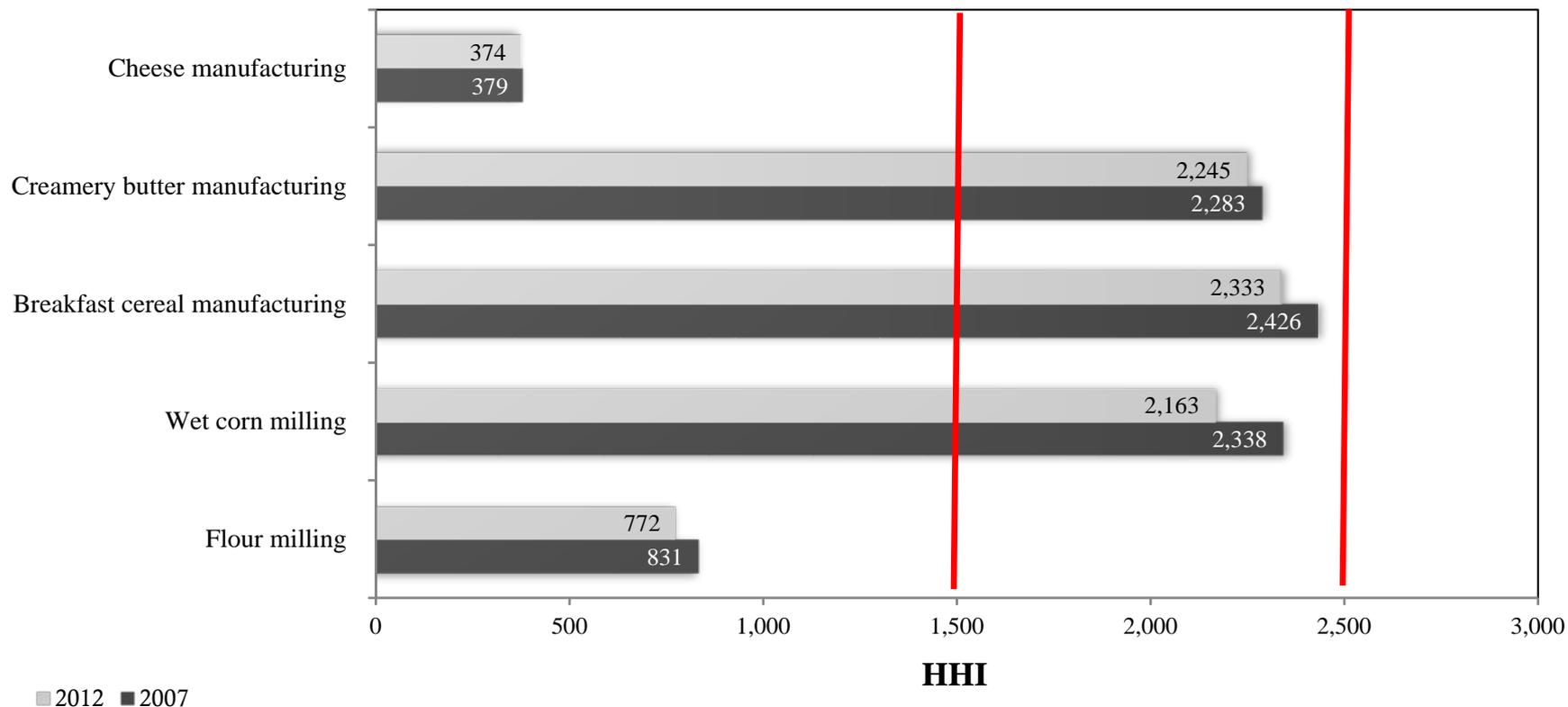
*The Latest Evidence and Implications for
Consumers, Farmers, and Cooperatives*

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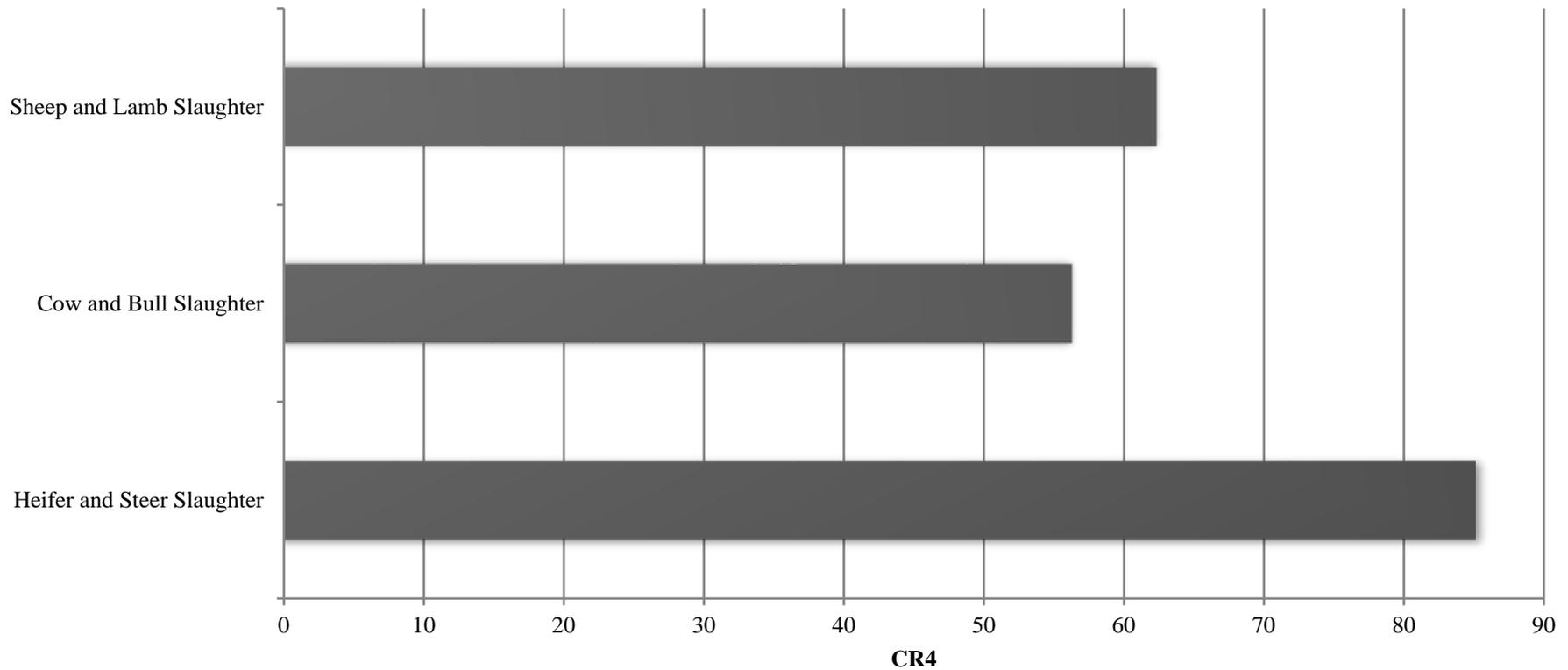
Introduction and Overview

- Food demand worldwide projected to grow 70 or more 2010-2050
- Challenge of feeding 11.2 billion people by 2100
- Consumers demand an increasingly diverse suite of products—quality differentiation in many forms
- Ag asked to contribute to energy production and environmental quality
- Efficiency gains from rising consolidation, concentration, and vertical coordination, but concerns about market power



Food Manufacturer Concentration

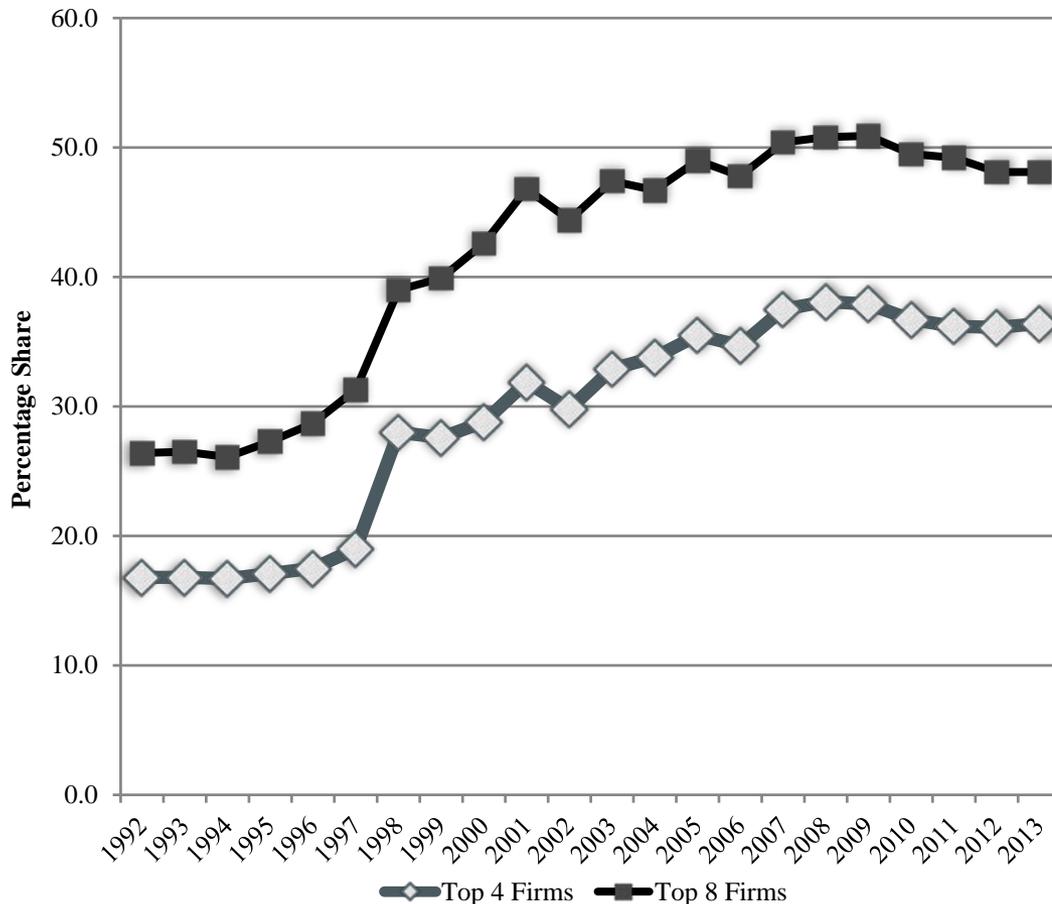
- How do we measure – HHI, CR4
- 2012 Averages – CR4 = 48.3%, HHI = 1,108
- Five-year Increase – CR4 1.8%, HHI 11.8%



Public Statistics and Relevant Markets

- Animal (except poultry) slaughter CR4 increases 2% from 2007 to 2012
 - 2012 = 60.7
 - 2007 = 59.4

Food Retail Concentration



Source: USDA, ERS calculations using data from U.S. Census Bureau, Monthly Retail Trade

- Supermarket revolution worldwide
- What are the relevant geographic markets for food retailing?
- Role of Walmart and supercenters
- Implications of online food retailing
- Do we care about food prices in the U.S. anymore?

Role of Contracts and Vertical Coordination in Modern Agriculture

- Growth from 11 – 35 % between 1969 and 2013
- Contract dominate exchange for most commodities except grains, oilseeds
- Why the increasing role of contracts/coordination?
- What are the policy concerns surrounding agricultural contracts?
 - * GIPSA and related regulations

Buyer Power in Farm-Product Procurement Markets

- Predominant policy concern today regarding ag concentration is processors' and retailers' power over farmers
- High concentration and few selling options in local procurement markets
- Lock-in through contracts between buyers and sellers
- Ability of small farms to compete in this environment
- Implications for vitality of rural America

Concentration, Coordination, and the Challenges Facing Agriculture

- Evidence is strong that consolidation is efficiency enhancing
- Similarly strong evidence that vertical coordination is efficiency enhancing
- Evidence of market-power abuses and efficiency losses from market power is weak
- We should not impose policies that diminish U.S. Ag's ability to compete and contribute to 70% or more growth in production required by 2050

Challenges/Opportunities for Cooperatives

- Historic rationale for cooperative action has been homogeneity—farmers share substantial similarities in products produced, inputs demanded and will benefit from acting collectively
 - Marketing cooperatives' pooling practices
- Modern agriculture is predicated on heterogeneity and differentiation
- Cooperatives must evolve to embrace the heterogeneity of modern agricultural markets

Conclusions

- Food manufacturing and retailing concentration is increasing, albeit slowly, but published statistics don't define relevant markets
- Implications of agricultural consolidation for consumers are positive on balance
- Implications for farmers are more complex and small farms are harmed
- Policy challenge is to support small farms and rural America without destroying the efficiency benefits of consolidation and vertical coordination

For More Information . . .

- Saitone, T.L. and R.J. Sexton (2017) “Concentration and Consolidation in the U.S. Food Supply Chain: The Latest Evidence and Implications for Consumers, Farmers, and Policymakers” *Economic Review*, Special Issue, available online at www.KansasCityFed.org