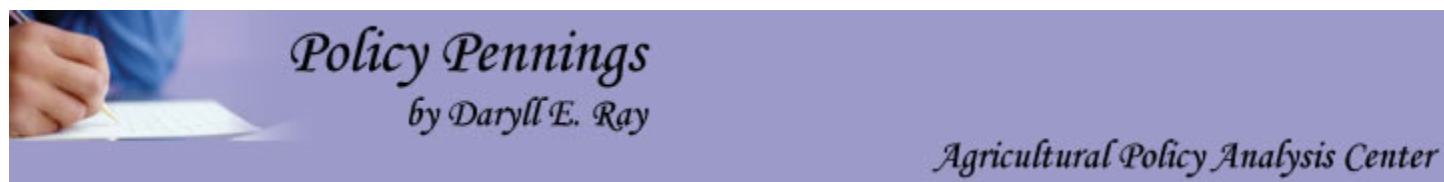


University of Tennessee Economist Cites Taylor Domina Work

Highly regarded and widely read University of Tennessee economist Dr Daryl Ray chose to devote a series of columns to the work of Dr Robert Taylor and [David A Domina](#) on problems affecting market concentration in American Agriculture.

This is the first of Dr Ray's columns, reprinted with permission of the author:



June 11, 2010

1. **National measures of poultry market concentration not the same at producer level**

The issue of the lack of economic power of poultry producers was the focus of a May 21, 2010 workshop held by Agriculture Secretary Tom Vilsack and US Attorney General Eric Holder in Normal, Alabama. Last week we reported on the comments of poultry growers themselves as well as a response by a representative of the National Chicken Council.

This week we highlight portions of the written testimony provided by C. Robert Taylor, the Alfa Eminent Scholar and Professor of Agricultural Economics at Auburn University, and [David A. Domina](#), an Omaha, Nebraska trial lawyer with experience in agricultural and anti-trust issues. The paper, "Restoring Economic Health to Contract Poultry Production," and their oral testimony can be found at http://www.competitivemarkets.com/index.php?option=com_content&task=view&id=347&Itemid=50.

The first part of their paper provides an overview of the issues as seen by the authors. In the second part, Taylor and Domina identify and examine available data on the profitability of producers. For the third part, they look beyond the specific numbers to identify the economic

rationale and factors that are at play in the integrated poultry market in the US. Lastly, they list some recommendations for eliminating what they see as “huge power imbalances in the poultry industry.”

Taylor and Domina argue that “farmers and ranchers are unable to bargain effectively with purchasers of major ag commodity products in the United States.” The reason they give is familiar to most agricultural producers. While there are a large number of agricultural producers, they have only a limited number of purchasers for their production. In economic language, this is called monopsony (buyer) power—as compared to the more familiar monopoly (seller) power.

“This is acutely true in the poultry industry where producers cannot bargain for a supplier relationship due to market structure, cannot own their birds, and are dependent on the whims of a single processor for continuing business to meet significant capital debt service requirements on their poultry facilities,” Taylor and Domina write.

They point out that this monopsony problem in agricultural markets is not a new problem. It was true a century ago and “led to enforcement of the newly-enacted antitrust laws and the adoption of the Packers and Stockyards Act of 1921.”

Setting the stage for the rest of their paper, the authors write, “Concern must focus on the basic purposes of antitrust laws. The authors believe the most significant evil, at which antitrust laws are aimed, is concentration. Antitrust laws serve the fundamental purpose of ensuring freedom of business opportunity. They are not designed to prevent growth, nationwide businesses, or success. But, they are designed to prevent monopolies, monopsonies, and abuse of market power. Market concentration in too few corporate hands poses risks of price, biosecurity, and lack of redundancy to all American consumers.”

Much of the rest of the first part of the paper provides a systematic analysis of the complaints that growers brought to the workshop in Normal, Alabama. The industry is vertically integrated with integrators who “dictate physical size and equipment specifications for grow out house and equipment. Locations or placements of grow out facilities are fully dictated by the integrators.” Taylor and Domina describe the company management operations as a “command-and-control structure” that virtually takes away all of the decision-making responsibilities from the producers, making them serfs on their own property.

In arguing that “growers’ capital and labor are ‘captive’ to the integrator,” they write, “new growers borrow all funds for construction of houses and equipment, offering a small acreage of land as collateral. Integrator-mandated house and equipment modifications send growers to creditors and rob them of any equity they manage to earn. It may take 20-30 years to pay off the amortized debt for a poultry facility, but the integrators contract is seldom more than five, and often only two or three, years long. Recent contracts, some covering several years, actually only guarantee the grower a single flock. Renewal time puts the integrator in control and leaves the producer with no power to bargain.”

They also address problems in assessing the level of concentration in the poultry market. One tool is to look at the concentration ratio, CR, or the percent of the market that is controlled by the

top firms—often the top 4 (CR4) or 8 (CR8). At the national level, the CR4 for broiler production has been reported by the GAO (Government Accountability Office) to be 57 percent. Another measure of concentration is the Herfindahl-Hirschman Index (HHI), which for broilers is 1,200.

Both measures suggest a moderate level of concentration but ignore the fact that, for farmers, broiler production functions in a local market, often as small as 80 miles in diameter with a processing plant in the middle. What is ignored is that “the integrators have nearly absolute control of their respective growers. From an antitrust perspective, the integrator ‘defines’ the relevant market for grower services” within that area.

They also note that while integrators have a full measure of information both on the economics of their competitors and their growers, “growers typically have little or no information on the economics of contract production.” This leaves growers and potential growers at a disadvantage when they deal with the companies.”

In the next column we will take a look at Taylor and Domina’s economic analysis of contract poultry production.

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