Food demand worldwide projected to grow 70–110 % by 2050

Challenge of feeding 11.2 billion people by 2100

Consumers demand an increasingly diverse suite of products

Ag asked to contribute to energy production and environmental quality

And also preserve a place for small farms and firms in the supply chain
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 declines 28% from 2007 to 2012
  - 2012 = 42.6
  - 2007 = 59.4
Food Retail Concentration

- 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?

Source: USDA, ERS calculations using data from U.S. Census Bureau, Monthly Retail Trade
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
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
A New Way to Think about Market Power in Ag Input Markets

- Standard views including those held by DOJ/FTC on buyer power are fundamentally flawed
- Short-run v. long-run tradeoff – market power will cause farm resources to exit
- Buying firms need to be able to internalize the benefit of preserving “stock” of farms
- Highly concentrated procurement markets may be better for farmers than looser concentration
- Proposed policies and regulations can deter emergence of MAMs
Efficiency and Distributional Impacts of Market Power

Symmetric Oligopoly-Oligopsony Power

- Consumer Surplus
- Farmer Surplus
- Profit
- DWL
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 – 110% growth in production required by 2050
Conclusions

• Concentration has stabilized, 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

• Policies should support, not hinder, emergence of symbiotic relationships between farmers and downstream buyers

• Policy challenge is to support small farms and rural America without destroying the efficiency benefits of consolidation and vertical coordination