

Daily Livestock Report

In case you could not get to Secretary of Agriculture Tom Vilsack's letter regarding MCOOL on Friday, here is the URL: <http://www.ams.usda.gov/AMSv1.0/getfile?dDocName=STELPRDC5075457>.

This has the potential to turn into a huge boondoggle with U.S. consumers confused, Canadian producers hurt and the U.S., Canada and Mexico involved in a big trade dispute. Keep in mind that WTO cannot change U.S. law so any action take by WTO against the U.S. in response to a still-pending trade case by Mexico and likely-reinstated case by Canada will result in tariffs on U.S. products going to these markets. Mexico was the largest market for U.S. beef and third largest for U.S. pork in 2008 and the largest BY FAR for beef and pork variety meats. Canada was the second largest market for U.S. beef in 2008 and the fourth largest for U.S. pork.

JBS Swift announced on Friday that it was dropping its effort to purchase National Beef Packing. The announcement comes after unsuccessful negotiations with the Department of Justice's Anti-Trust Division which had filed suit to block the acquisition last year under the Clayton Act which bars mergers that will harm competition in either product or supply markets. The merger would have added plants in Kansas and California to the old Swift lineup (in Colorado, Kansas, Nebraska and Utah) plus the former Smithfield Beef Group plants in Wisconsin, Nebraska, Pennsylvania, Michigan and Arizona. The National plants in Kansas and California were especially concerning to DOJ in light of JBS-Swift's holdings in the high plains and Arizona. JBS-Swift will still own Five Rivers Feeders, the former cattle feeding operation of Smithfield Foods.

The tables at right provide some of the factors that entered DOJ's challenge and, ultimately, the failure of this part of the merger. According to 2007 beef plant capacities estimated by Cattle Buyers Weekly, the U.S. beef slaughter sector had a 4-firm concentration ratio (CR-4) of 66.5%. That is, the top four firms in the sector had a market share of 66.5%. More important to DOJ, the industries Herfindahl-Hirschman Index (HHI), which is computed as the sum of the squared market shares of all firms in the sector, was somewhere near 1370. The HHI measures not only concentration but the dispersion of that concentration. If one firm is dominant, HHI will grow dramatically. For instance, if one firm held a market share of 60, the HHI of that one firm would be 3600 so adding in the squared shares of others could drive the HHI well over 4000.

The bottom table shows that CR-4 would grow by only 11.5 points if the entire merger had been allowed but that HHI would have grown by nearly 50%. Add to this general increase in concentration the regional concerns voiced by DOJ and it certainly appears that this part of the merger was doomed — or at least set for a long, costly court battle.

So what becomes of National? The producer-owners clearly wanted to sell when the JBS-Swift deal was made. They had suffered through some awful times for packer margins in 2007 that had resulted in a large amount of debt. But in the year since the announced takeover, beef packer margins reached record highs and have, no doubt, provided some much needed relief for National's balance sheet. Those margins are still good from a historical perspective and adding value to current fed cattle prices looks like a good idea!

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E-Livestock Volume	2/23/09	2/20/09	2/16/09
LE (E-Live Cattle):	10,304	15,536	Holiday
GF (E-Feeder Cattle):	1,713	2,286	Holiday
HE (E-Lean Hogs):	7,191	11,203	Holiday

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2007 Beef Packing Capacity/Market Share Situation

Rank	Company	Head/Day	Share	Share ²
1	Tyson Foods	32,600	23.8%	565.7
2	Cargill Meat Solutions	29,000	21.2%	447.7
3	JBS Swift	15,850	11.6%	133.7
4	National Beef Packing	13,700	10.0%	99.9
5	Smithfield Beef Group	8,350	6.1%	37.1
6	American Foods Group	6,500	4.7%	22.5
7	Greater Omaha Packing	2,700	2.0%	3.9
8	Nebraska Beef	2,600	1.9%	3.6
9	AB Foods	1,600	1.2%	1.4
10	FPL Foods	1,500	1.1%	1.2
11	Sam Kane Beef Processors	1,400	1.0%	1.0
12	Caviness Beef Packers	1,200	0.9%	0.8
13	Creekstone Farms	1,200	0.9%	0.8
14	XL Four Star Beef	1,125	0.8%	0.7
15	L & H Packing	1,000	0.7%	0.5
	Others	16,740	12.2%	50.0
Total		137,065	100.0%	
CR-4 Estimate			66.5%	
HHI Estimate				1370.4

Beef Packing/Market Share Situation After JBS Acquisitions

Rank	Company	Head/Day	Share	Share ²	
1	JBS Swift	20,500			
	National Beef Packing	14,000			
	Smithfield Beef Group	8,050	42,550	31.1%	966.7
2	Cargill Meat Solutions	29,000	21.2%	449.0	
3	Tyson Foods	28,700	21.0%	439.8	
4	American Foods Group	6,500	4.7%	22.6	
5	Greater Omaha Packing	2,800	2.0%	4.2	
6	Nebraska Beef	2,600	1.9%	3.6	
7	AB Foods	1,600	1.2%	1.4	
8	FPL Foods	1,500	1.1%	1.2	
9	Sam Kane Beef Processors	1,400	1.0%	1.0	
10	Caviness Beef Packers	1,200	0.9%	0.8	
11	Creekstone Farms	1,200	0.9%	0.8	
12	XL Four Star Beef	2,200	1.6%	2.6	
13	L & H Packing	1,000	0.7%	0.5	
	Others	14,605	10.7%	113.9	
Total -- Largest 73 plants		136,855	100.0%		
CR-4			78.0%		
HHI Estimate				2008.0	