

In The Cattle Markets

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Meat Industry Mergers and Acquisitions

Last week, the *Wall Street Journal* (*WSJ*) reported that Brazilian meatpacking giant, JBS, would soon be announcing a bid to purchase Pilgrim's Pride Corporation, one of the largest poultry companies in the US. According to the *WSJ* article, Pilgrim's Pride and Tyson Foods, Inc. both hold about a 22% share of the US poultry market. The bid for Pilgrim's comes less than a year after the Department of Justice (DOJ) filed suit to block JBS's purchase of National Beef. The National bid was part of a larger deal involving JBS's acquisition of the beef packing operations of Smithfield foods as well as the feeding operations of Five Rivers Ranch. These other components of the deal were allowed to go through, but the National purchase was scotched on the grounds of industry concentration. DOJ's formal complaint noted that, post-merger, over 80% of the beef packing industry would be controlled by a three-firm oligopoly consisting of the newly-configured JBS, Tyson Foods, and Cargill (for a copy of the DOJ complaint filed in US District Court in Northern Illinois, see <http://www.usdoj.gov/atr/cases/f238300/238388.htm>).

If JBS does, in fact, make a formal bid for Pilgrim's Pride, DOJ will be faced with an interesting decision on how to evaluate the deal. Under the Obama administration, DOJ has signaled their intention to bring a renewed focus to competition issues in the agricultural sector, even joining with USDA to announce a series of public workshops to be held in early 2010 to solicit input from stakeholders on agricultural competition issues. The potential acquisition of one meat industry behemoth by another will certainly generate competition concerns, both among industry participants and government regulators. Even so, it may be difficult for DOJ to find sufficient objective grounds to oppose the acquisition. For one thing, the acquisition will have no effect on industry concentration within the poultry sector because JBS currently has no stake in the poultry industry. DOJ may decide to define the market more broadly to include the entire meat industry rather than just the poultry industry. With that more expansive definition, the acquisition is likely to be big deal; however, aggregate industry concentration is not nearly as pronounced as within any individual sector, weakening any case that DOJ might desire to make in opposition to the acquisition. Finally, and probably most importantly, DOJ – consistent with regulatory guidelines – has typically been fairly lenient in evaluating mergers and acquisitions which involve the take-over of a firm that would very likely fail anyway. Pilgrim's Pride has been operating under bankruptcy protection since last year, and its prospects for survival as a stand-alone firm still aren't all that great. Having Pilgrim's taken over by a firm with no current stake in the poultry industry is likely to be more palatable to DOJ than having it taken over by one of its current competitors. If JBS really wants to make a serious push to acquire Pilgrims, this argument will probably carry the day. Still, after making noise about taking a new harder line on agricultural competition issues, DOJ will surely not relish the thought of giving the go-ahead

to a deal that will create a global, horizontally-integrated firm rivaling the scale of Tyson Foods. This will be interesting to watch.

[Last summer, as DOJ was evaluating the proposed National/Smithfield/Five Rivers acquisitions by JBS, I wrote an article on the issue (along with Darren Hudson at Texas Tech University) for the *Policy Issues* series published by the American Agricultural Economics Association. That article contains a more detailed discussion of DOJ guidelines for evaluating mergers and acquisitions and is available online at http://www.aaea.org/publications/policy-issues/policy_09_2008_02.pdf. -- JDA]

The Markets

Last week, cash trade was very slow to develop. On Thursday, there were some sales in Nebraska and Iowa/Minnesota, and the market looked pretty uneven. Prices (live basis) ranged from mostly \$84 to as low as \$82. On Friday, clean-up sales in this region looked a little better, with prices firmly at \$84. In the Southern Plains, trade was light on Friday. USDA-AMS called prices in that region steady at \$85, but business was very slow at best. Negotiated sales (cash and negotiated grid base) totaled less than 150,000 head last week, implying a substantial carryover on this week's show lists.

Despite some improvement in fed cattle prices week-before-last and a very shaky performance by corn futures, feeder and stocker cattle markets were generally off a bit last week. Oklahoma City prices were called \$1 to \$2 lower on feeder classes and \$1 to \$3 lower on stocker classes. The price trend across the Southeast was basically consistent with this performance. While some developing seasonal weakness in calf prices may have been a factor, it seems that caution on the part of buyers had a lot to do with last week's market. Feeding cattle has been a tough business for a while now; and the expected fall rally in fed cattle has yet to show up. That makes for little enthusiasm in the calf market.

On a positive note (as long as you're not a corn producer), the corn market took a pretty good hit last week. For the past few weeks, delayed crop development and expectations of unseasonably cool weather led traders to build a substantial weather premium into corn and soybean futures prices. With weather through the first part of September now looking very favorable for late season crop development, soybean futures fell sharply last week. This, along with the direct effect of favorable weather, pressured corn prices lower. The nearby (September) contract dropped just over 20 cents for the week, closing on Friday at \$3.20 ½.

		Week of	Week of	Week of
<i>Data Source: USDA-AMS Market News</i>		9/4/09	08/28/09	09/05/08
5-Area Fed Steer	all grades, live weight, \$/cwt	\$83.74	\$84.41	\$98.54
	all grades, dressed weight, \$/cwt	\$129.91	\$131.67	\$154.43
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$142.83	\$143.67	\$159.06
	Choice-Select Spread, \$/cwt	\$7.63	\$7.26	\$7.03
700-800 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	\$98.51	\$97.23	\$108.85
	Nebraska 7-market average, \$/cwt	\$102.90	\$103.64	\$115.10
	Oklahoma 8-market average, \$/cwt	\$100.50	\$100.62	\$112.96
500-600 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	\$102.02	\$101.00	\$110.23
	Nebraska 7-market average, \$/cwt	\$113.76	\$117.76	\$123.06
	Oklahoma 8-market average, \$/cwt	\$107.22	\$109.01	\$115.05
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.13	\$3.15	\$5.37
	DDGS Price, Nebraska, \$/ton	\$92.50	\$93.00	\$145.00
	WDGS Price, Nebraska, \$/ton	\$27.00	\$27.00	\$54.38