

Concentration in Agricultural Markets: Special Notes and Talking Points

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Beef Packers: Smithfield's recent foray into the beef packing business could lead to further concentration during the coming years. Smithfield was in a bidding war for IBP with Tyson, proving that they see the potential for future growth in this sector. Smithfield CEO, Joe Luter, III, explained, "we want to expand into case-ready processed (beef) to complement our pork products." (*Investor's Business Daily*, 8/9/01) Smithfield also recently pursued the purchase of Packerland, Inc., a large cow-slaughter company based in Wisconsin. Although the Packerland deal fell through, this shows that Smithfield is attempting to find its niche within a segment of the cattle industry that it can control. Vertical integration is also increasing in the beef sector; a new GIPSA report indicates 32% of all beef marketed in 1999 was under captive supply. (USDA/GIPSA, January 18, 2002)

Pork Processing and Production: Concentration in pork packing has increased greatly in the last 15 years, from 34% for the top four packers in 1989 to 59% today. Industry leader Smithfield, not appearing as one of the top packers until 1996, has restructured the industry following the broiler model, with significant acquisitions in both processing and sow production. The firm has commented that they don't see expanding their U.S. production operations in the near future. Instead, they are looking across the globe for strategic options. Smithfield is producing hogs in Mexico, Canada, Brazil, Poland and China. At their facility in Veracruz, Mexico, Smithfield is expecting to increase their 14,500 sows to 56,000 in the next few years. -(*Successful Farming*, "Pork Powerhouses, 2001) In December 2001, Smithfield entered into a joint venture with Artal Holland B.V. (AFG Company) a meat processor and distributor to Chinese retail and foodservice customers. (Company press release, 12/26/01)

Animal Feed Plants: ADM and AGP had a joint venture, Consolidated Nutrition, that played a large role in the feed business, particularly when ADM acquired Moorman's in the 1990s. Consolidated Nutrition also had a significant presence in pork production in Wyoming. ADM bought AGP's 50% interest in Consolidated Nutrition that it didn't already own, and AGP bought out the ADM's 50% interest in AGP. Thus, ADM and AGP appear to be dissolving a significant joint venture. (*Feedstuffs*, 6/11/01)

Terminal Grain Handling Facilities/Corn and Soybean Exports: An entire body of work could be written detailing all of the activity and impacts of these developments. The most striking is the incredibly high level of control by the top 3 companies in corn and soy exports. Of these, we know that Zen Noh is a relatively minor player, leaving only Cargill and ADM with the real control of all U.S. corn and soybean exports.

Significant Developments in Terminal Grain Handling:

- Although **Cenex Harvest States** has a significant amount of terminal capacity, **CHS** is not a major exporter. **CHS** has a joint venture with **Cargill**, Horizon Milling, and may have other relationships with the major exporters to handle their capacity.
- Cargill has the largest terminal capacity of any company in the U.S., with more than 40 million bushels of terminal capacity. Along with their domestic operations, **Cargill** has an export capacity of 23,902,000 bushels in Canada. In Argentina and Brazil, **Cargill** owns 24,618,033 bushels of export terminal capacity.
- **ADM** has effectively partnered with large farm cooperatives in the U.S. and Canada to expand their global reach. Here, **ADM** partners with Growmark, CountryMark, Riceland, and Goldkist and has a 5-year lease on Farmland's grain facilities and elevators. In Canada, **ADM** currently owns 19% of **Agricore United**, Canada's largest farmer cooperative. **Agricore United** has 24,126,840 bushels of terminal capacity, the largest capacity in Canada. **ADM** also operates significant operations in the Caribbean region.
- Terminal capacity can also be used for imports. DTN News Service reported during 2001 that **Smithfield** was building an import facility on the Carolina Coast. In the January, 2002, issue of World Grain Magazine, **Bunge** sees potential for importing soybeans, where they have a significant capacity for processing and value-added product development. With this structure, **Bunge** can purchase their soy from lower-cost producers at their operations in South America.

-- Source: 2002 Grain and Milling Annual

Ethanol Production: Ethanol production has decreased its concentration ratio during the last 20 years because more and more facilities are being built, most of them owned by farmer created, new generation closed cooperatives.