

From: Kristin McGee [mailto:KMcGee@meatami.com]
Sent: Thursday, January 07, 2010 1:48 PM
To: ATR-Agricultural Workshops
Subject: Comments on 74 Fed Reg 43725

Good afternoon, I have attached comments, as well as two attachments, from Mark Dopp of the American Meat Institute.

Regards,
Kristin McGee

Kristin McGee
Executive Assistant to the President
American Meat Institute
Phone: (202) 587-4232
Fax: (202) 587-4300

Privileged or confidential information may be contained in this message. If you are not the addressee indicated in this message (or responsible for delivery of the message to such person), you may not read it, copy it or deliver or forward it to anyone. If this message has been received in error, you should destroy this message and notify us immediately.



January 5, 2010

Legal Policy Section
Antitrust Division
U.S. Department of Justice
450 5th Street, N.W.
Suite 11700
Washington, D.C. 20001.

Re: Agriculture and Antitrust Enforcement Issues in Our 21st Century Economy; Notice of public hearings and opportunity for comment; 74 *Fed. Reg.* 43725 (August 27, 2009).

Dear Mssrs. Weiser and Tobey:

The American Meat Institute (AMI) submits this letter and the attached document in response to an invitation from the United States Department of Justice and the United States Department of Agriculture (hereinafter collectively the Departments) for comments pertaining to the above-referenced *Federal Register* notice (the notice) published by the Departments. AMI is the nation's oldest and largest trade association representing packers and processors of beef, pork, lamb, veal, turkey, and processed meat products and AMI member companies account for more than 95 percent of the United States' output of these products. Many AMI members are directly involved in the acquisition of livestock and all are involved in the production and sale of meat and meat products. Because AMI members have a significant interest in the workshops scheduled for 2010, AMI submits the following comments for your consideration.

The notice listed several specific topics of interest to the Departments which include "buyer power ...vertical integration ...legal doctrines and jurisprudence, economics and current economic learning."¹ These topics are worthy of discussion in the context of competition in "agriculture," but do not capture other important issues and topics relevant to the issues of agriculture and antitrust enforcement.²

¹ 74 *Fed. Reg.* 43726 (Aug. 27, 2009).

² For ease of discussion, these comments and supplemental comments will adopt and use the notice's reference to "agriculture" in its broadest sense, including the production and distribution of food through to the consumer. To limit the dialogue, for example, only to the production and sale of livestock without recognizing the impact that the remainder of the distribution system and consumer demand have on industry structure is to ignore the realities of the market.

Accordingly, AMI's comments include a discussion about the importance of a consistent and uniform application of the antitrust laws, as well as a discussion of the impact of that certain, specific issues have on the meat industry and its structure.

In addition, based on the notice and statements made by officials with both Departments, AMI understands that an important part of the workshops will be the utilization of panels comprised of people with expertise on various topics that will be the focus of discussion at each workshop. To aid the Departments in assembling those panels to optimize the educational element of the workshops, through these comments, AMI is submitting for the Department's consideration the names of potential panelists to participate in the workshops in Iowa, Colorado, and Washington, D.C. For the agencies to glean the best understanding of industry structure and functions persons selected as panelists need to be experts in their respective fields with notable experience in same.

Existing Antitrust and Competition Statutes Are Equally Applicable and Effective for the Meat Industry as with All Other Industries.

Among the topics for discussion raised in the notice and elsewhere regarding the workshops is the "[A]pplication of antitrust laws to monopsony and vertical integration in the agricultural sector, including the scope, functionality, and limits of current or potential rules" and "[T]he effect of agricultural regulatory statutes or other applicable laws and programs on competition." AMI has long contended that, with respect to antitrust and competition, consumers, livestock producers, the meat industry, and all other sectors of the economy are best served by a consistent application of a uniform set of statutory requirements. To that end, AMI submits for the Departments' review and consideration, Attachment A, a submission by Professor Steven Calkins, former general counsel to the Federal Trade Commission and an expert on antitrust theory and enforcement.

Regulatory Policies, Particularly Food Safety Policies, have affected the Structure of the Meat Industry

An array of factors affect competition and industry structure in the meat industry, among them trade, international competition, changing consumer demand and expectations, and the changing structure of retail customers. Another very significant consideration, however, is the impact government regulatory policy has had on the structure of the meat industry. Admittedly, the meat industry is, in many respects, no different than other manufacturing sectors insofar as the applicability of various regulatory requirements, e.g., environmental and worker safety regulations. The meat industry is, however, subject to some unique regulatory requirements in at least one respect, and those requirements have very much affected the structure of the industry.

Specifically, federal food safety policy has been a significant contributing factor to increased concentration in the meat industry. The meat and poultry industry is one of the most intensely regulated industries in the economy, with

arguably only the nuclear energy industry subject to as much daily scrutiny. Meat and poultry packing and processing establishments are permitted to operate only if they receive a grant of inspection from the Food Safety and Inspection Service (FSIS or the agency) and those inspected establishments operate pursuant to daily, and in slaughter facilities continuous, oversight by FSIS inspectors, as provided by the Federal Meat Inspection Act (FMIA) or the Poultry Products Inspection Act (PPIA).³ This direct involvement and interaction in packing and processing facilities by government inspectors on a day in and day out basis affects and can hinder the ability of some plants, particularly those with fewer scientific resources, to compete in an increasingly science based, regulatory system. Interestingly, one could argue forcefully that the growing scientific knowledge base that leads to evolving food safety policies, and hence a much safer food supply, has also contributed to a more concentrated meat industry.

More specifically, several FSIS policies and regulations regarding food safety, while almost undoubtedly enhancing the safety of the meat and poultry supply, have had a direct and meaningful impact on the structure of the industry, particularly in the meat industry. In the mid-1980's FSIS determined that the presence of a pathogen such as *Listeria monocytogenes* in a ready-to-eat meat product, e.g., hot dogs, cooked ham, or cooked turkey, caused the product to be adulterated pursuant to the FMIA or the PPIA. Adulterated products found to be in commerce are subject to recall, with the producing company incurring all of the costs associated with the recall.

In 1994 FSIS declared *E. coli* O157:H7 (*E. coli*) to be an adulterant in raw ground beef, a policy that has evolved through administrative fiat such that today *E. coli* is deemed to be an adulterant in all non-intact beef products, as well as beef products intended to be used in the production of nonintact beef products. Thus, the agency's policy today is such that not only is raw ground beef adulterated if found to contain *E. coli*, so are the components utilized to produce ground beef, as well as mechanically tenderized beef products, if they test positive for *E. coli*. Moreover, FSIS recently has expanded again its adulteration policies such that in 2009 in three separate instances the agency has asked meat companies to recall beef precuts because of the presence of particular strains either *Salmonella* Newport or *Salmonella* Tiphimuirum.

That the FSIS *E. coli* policy has led to industry consolidation, directly and indirectly, is indisputable. In that regard, in 1997 Hudson Foods engaged in the largest recall of beef products ever to that time, approximately 25 million pounds, because of the FSIS *E. coli* policy. Not long thereafter, Hudson Foods went out of business, with various parts of the company sold to different buyers. The Hudson Foods recall and a series of other *E. coli* related recalls served as a model, and a warning, prompting several mid-sized, family owned, generally single plant cattle slaughter and beef production companies to take action to preserve and protect the equity the families had built in the business. In several instances the company simply "cashed out" and sold their operations to larger, more diversified companies. In at least one other instance, two cattle slaughter and beef processing companies,

³ 21 U.S.C. 601 *et seq.* and 21 U.S.C. 451 *et seq.*

both in the “Top 10” in terms of size of operation, merged to better position themselves and enhance survival in the event of *E. coli* recalls, which have subsequently occurred.

In addition, in 1996 FSIS promulgated the Hazard Analysis, Critical Control Point/Pathogen Reduction final rule (HACCP), which also included mandatory sanitation standard operating procedures (SSOPs). By all scientific measures, the HACCP rule, which also, has enhanced in a marked way the safety of the meat and poultry supply. Specifically, since the implementation of HACCP in 2000 the prevalence rate of *E. coli* O157:H7 in ground beef products has been reduced by 45%, the incidence rate of foodborne illness associated with *E. coli* O157:H7 has seen a 44% reduction, and there has been a 74% reduction in the prevalence of *Listeria monocytogenes* in ready-to-eat products.

The above-discussed benefits of mandatory HACCP and SSOPs are laudable and noteworthy. These two regulatory programs, however, also notably affected industry structure. Specifically, these two regulatory programs are document intensive and it is indisputable that they increased the cost of doing business on all federally and state inspected establishments. When FSIS published the HACCP rule it estimated the present value for all industry costs over a 20 year time period at between \$968 million and \$1.156 billion.⁴ Without question, food safety needs to be the number one priority of the meat industry, regardless of size of operation. But considering the enormity of the costs associated with HACCP and SSOP implementation, and the plethora of regulatory requirements that flowed from that rule, it is also unquestionable that the HACCP rule, along with other food safety related policies, has had an effect on the structure of the meat industry.

Research has been done Examining and Explaining the Rationale for the Existing Current Market Structure and other Significant Factors Continue to Influence that Structure

As the Departments undoubtedly are aware, significant research has repeatedly been done regarding livestock markets generally, with some focused on the hog and pork markets, some on cattle and beef markets, and some focused on both. For example, in 1996 the Grain Inspection, Packers and Stockyards Administration (GIPSA) conducted a study regarding the structure and concentration in the meat packing industry. In 2007 a GIPSA commissioned study done by the Research Triangle Institute conducted a comprehensive Livestock and Meat Marketing Study.⁵ Time and time again the research supports the conclusion that the meat and livestock industry is evolved based on a drive for efficiencies and other competitive forces. In moving forward in examining the issues attendant to “Agriculture and Antitrust Enforcement Issues in Our 21st Century” this collective body of work should not be discounted or discarded.

Although the discussion above focuses on an element that has affected meat industry structure over the last 15 years, food safety policy, there are a number of

⁴ 61 *Fed. Reg.* 38806, 38956 (July 25, 1996).

⁵ An exhaustive compilation of the plethora of studies examining the meat and livestock industry is attached hereto as Attachment B.

other factors relevant to the meat industry that the Departments must factor into any calculus examining industry structure and the application of antitrust theory. Among those factors are the changes in consumer, and accordingly retailer, expectations. It is critical that the Departments consider the role and influence that retailers have not only on the meatpackers, but also livestock producers.

The Departments also must consider the role that financial institutions play in market structure. This issue also has been characterized by some as risk management but regardless of its caption, the fact is that financing, at all levels of the production and distribution chain, play a significant, if not the driving, role in the structure of the industry and the tools and devices used therein. Another factor not mentioned in notice or elsewhere is the impact that trade has on the markets and prices received not only for livestock but also for meat. The significant growth in and reliance on export markets over the last 20 years and the impact that adverse events, e.g. BSE in December 2003 and H1N1 in 2009, can have on markets cannot be overestimated and need to be part of any analysis the Departments conduct when examining market behavior and structure and their interrelationship with the antitrust laws and enforcement.

That the industry has and will continue to evolve is clear, as evidenced by the impact that the markedly increased diversion of corn to ethanol production, fueled by government subsidies and tax credits, has had on input costs for those who raise livestock, including partially or largely vertically integrated hog and pork producers. These and other events highlight a fundamental point, articulated by Professor Calkins in Attachment A, knee jerk public policy shifts or actions in the antitrust area that are designed to favor or accommodate a specific industry, or segment of an industry, in response to market behavior are ill-conceived and should not be implemented. The antitrust laws and the longstanding policies underlying serve well the interest of consumers and the affected industry.

Workshop Panels Should Include Persons with Specific, Substantive Expertise

AMI respectfully submits for the Departments' consideration the following people to serve as panelists in one or more of the workshops. AMI may supplement this submission with additional names, as appropriate. The person named in each of the categories listed below have considerable experience working in, with, or on behalf the meat industry and as such their participation on the panels would benefit and enrich the constructive dialogue the Departments seek to foster.

For the Departments' benefit, the nominated panelists are divided into four categories:

- packer/processors -- because of the unique and extensive nature of the extensive government inspection program, as discussed above, as well as the unique aspects of live animal acquisition and marketing the products thereof;

- legal/antitrust attorneys – because any discussion about the application and enforcement of the Sherman and Clayton Acts to the meat industry requires an understanding of those laws as well as the industry;
- finance/banking – because the meatpacking and livestock production industries are so dependant on their ability to borrow working capital and capital for fixed assets; and
- economists/academicians – because it is important for the Departments to appreciate and understand not only the markets, but also the considerable body of economic research, and the findings of that research, that has been done over many years with the respect to the meat industry.

Accordingly, AMI submits the following names for the Departments' consideration.

Packer/Processor

Steve Hunt – Chairman, National Beef/U.S. Premium Beef

Ken Bull -- Vice President – Cattle Procurement, Cargill Beef Business Unit of Cargill Meat Solutions

Gary Machan/Noel White – Tyson Foods

Legal/Antitrust Attorneys

Kim Walker – Faegre & Benson

Mark Ryan – Mayer Brown

Phil Kunkel – Gray Plant & Mooty

Finance/Banking Representatives

Mark Greenwood -- AgStar Financial Services

Economists/Academicians

Dillon Feuz – Utah State University

Steve Koontz – Colorado State University

John Lawrence – Iowa State University

Steve Meyer – Paragon Economics

Ron Plain – University of Missouri

Clem Ward – Oklahoma State University

Conclusion

Agricultural competition policies regarding the livestock and meat sector should be founded on the same, fundamental antitrust principles that apply to the economy as a whole. Such an approach encourages the right of individual persons

or companies to follow the path that best suits their economic interests, within the legal parameters established by the Sherman Act and the Clayton Act. The contemplation of antitrust or farm policy that deviates from this approach by favoring one sector over another or inhibiting or restricting a competitive market should be rejected.

If you have any questions regarding these comments, the supplemental comments that AMI intends to file, or anything else regarding this matter, please contact me at (202) 587-4229 or mdopp@meatami.com.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mark D. Dopp", with a horizontal line extending to the right.

Mark D. Dopp
Senior Vice President,
Regulatory Affairs and General Counsel

Enclosure

Submission to the Department of Justice/USDA Workshops.
Agriculture and Antitrust Enforcement Issues in our 21st Century Economy

Stephen Calkins

January 6, 2010

I. Introduction and Overview

A. Qualifications and Background

I am associate vice president for academic personnel and professor of law at Wayne State University, where I have long taught courses in antitrust and consumer law. I also serve as of counsel to Covington & Burling, the firm with which I practiced before I entered academia.¹

My career has been devoted in large part to competition and consumer law and policy. I graduated from Yale College in 1972, *magna cum laude*, with honors in Political Science and Economics. I graduated from Harvard Law School in 1975, *cum laude*, after studying antitrust with Philip Areeda and administrative law with Stephen Breyer. My first position was as attorney advisor to a Commissioner of the Federal Trade Commission. Thereafter I practiced with Covington & Burling before joining the Wayne Law faculty. Since joining Wayne Law, I have taught as a visiting professor at the Universities of Michigan, Pennsylvania, and Utrecht (the Netherlands).

I have authored, co-authored, or co-edited a long series of publications on competition and consumer law. Books listed on my C.V. include ABA ANTITRUST SECTION, CONSUMER PROTECTION LAW DEVELOPMENTS (2009) (member of editorial board); ANTITRUST LAW: POLICY

¹ Although this submission reflects my individual views, it is submitted at the request of and with funding provided by the American Meat Institute. These views are personal and do not necessarily reflect the views of any organization with which I am or have been associated.

AND PRACTICE (4th edition 2008) (w. Rogers, Patterson & Anderson); ANTITRUST LAW AND ECONOMICS IN A NUTSHELL (5th ed. 2004) (w. Gellhorn & Kovacic) (*translated into Spanish and published in Mexico by Comisión Federal de Competencia Mexico, USAID, and the US Embassy* (2008)); and ABA ANTITRUST SECTION, ANTITRUST LAW DEVELOPMENTS (2d ed. 1984) (member of editorial board). My work on the 1984 book resulted in my winning the American Bar Association Section of Antitrust Law, Fiftieth Anniversary Publications Award (2002).

During the first part of the Clinton Administration, I served as General Counsel to the Federal Trade Commission, a position to which I was appointed by Chairman Robert Pitofsky. As general counsel, I was the Commission's principal legal advisor, and worked on the full array of Commission activities including the amendment of the Merger Guidelines. I was given the Federal Trade Commission Award for Distinguished Service in 1997.

My work in competition law has resulted in my serving three three-year terms on the Council of the American Bar Association Section of Antitrust Law as well as a three-year term on the Council of the ABA Section of Administrative Law & Regulatory Policy. I am a member of the American Law Institute, a former chair of the Association of American Law Schools Section on Antitrust and Economic Regulation, and a Senior Fellow of the American Antitrust Institute. I served as counsel to the American Bar Association Section of Antitrust Law, Special Committee on the Role of the Federal Trade Commission (1988-89).

I speak widely on competition law and policy issues in the U.S. and abroad. My academic service has included giving advice to U.S. and foreign government officials. Only recently I testified as a panelist at the DOJ/FTC Horizontal Merger Guidelines Review Project

(2009). Previous testimony includes presentations before the Antitrust Modernization Commission, the DOJ/FTC Hearings on Single-Firm Conduct, and at FTC workshops.

B. Overview

This testimony sets forth a simple but important point: the U.S. antitrust laws have stood the test of time and neither need to be nor should be amended to apply more stringent standards to particular industries. The genius of the antitrust laws is the establishment of a common law system of adjudication that allows for adaptation to meet evolving needs and learning. That system cannot work properly if tensions about the proper application of the law are met, not by evolution of general standards, but by subjecting different parts of the economy to different rules.

II. Testimony

A. The Special Nature of Antitrust Law

“Antitrust laws in general, and the Sherman Act in particular, are the Magna Carta of free enterprise. They are as important to the preservation of economic freedom and our free-enterprise system as the Bill of Rights is to the protection of our fundamental personal freedoms.” *United States v. Topco Associates, Inc.*, 405 U.S. 596, 610 (1972). Yet for all their importance, the critical parts of what we know as the antitrust laws are surprisingly brief and of the broadest possible applicability. Each year I tell my students that almost the entire antitrust course concerns the application of three short statutory provisions: Sherman Act Section 1 and 2, and Clayton Act Section 7. The critical wording is magisterial: contracts, combinations, and conspiracies in restraint of trade are illegal; it is unlawful to “monopolize, or attempt to monopolize, or combine or conspire . . . to monopolize;” and acquisitions where “the effect of

such acquisition may be substantially to lessen competition” are not permitted. 15 U.S.C. §§ 1 & 2; *id.* § 18.²

The unusual nature of the antitrust laws was described by Chief Justice Hughes in *Appalachian Coals, Inc. v. United States*, 288 U.S. 344, 359-60 (1933): “As a charter of freedom, the [Sherman] Act has a generality and adaptability comparable to that found to be desirable in constitutional provisions.” As Professor Herbert Hovenkamp has written, the Sherman Act “can be regarded as ‘enabling’ legislation—an invitation to the federal courts to learn how businesses and markets work and formulate a set of rules that will make them work in socially efficient ways. The standards to be applied always have and probably always will shift as ideology, technology and the American economy changes.” HERBERT HOVENKAMP, *FEDERAL ANTITRUST POLICY* 53 (3d ed. 1994).

Congress wisely thought it better to set out very general standards and then trust the courts to apply those standards in light of evolving economic understanding and particular facts. “Congress . . . did not intend the text of the Sherman Act to delineate the full meaning of the statute or its application in concrete situations. The legislative history makes it perfectly clear that it expected the courts to give shape to the statute's broad mandate by drawing on common-law tradition.” *National Society of Professional Engineers v. United States*, 435 U.S. 679, 688 (1978). Courts have accepted this assignment to shape what is known as antitrust law, whether

² Obviously my quoting selected words omits language, such as the need to affect interstate commerce, that can matter in individual cases. Also, where appropriate during the antitrust course—which is not often—I mention the more detailed language of parts of the Clayton Act, the Robinson-Patman Act, and the Federal Trade Commission Act.

to make standards more stringent, *see, e.g., Topco*, or less, *see, e.g., State Oil Co. v. Khan*, 522 U.S. 3 (1997).

Antitrust evolves through agency decisions and through litigation followed by criticism and analysis. For review of the evolution of several rules, see Stephen Calkins, *In Praise of Antitrust Litigation: The Second Annual Bernstein Lecture*, 72 ST. JOHN'S L. REV. 1 (1998). I have previously likened our antitrust system to a conversation in which many parties participate in the search for truth. See Stephen Calkins, *The Antitrust Conversation*, 68 ANTITRUST L.J. 625 (2001). In this conversation, the two federal agencies and state attorneys general play special parts.

A good example is provided by treatment of horizontal restraints. As I recounted in *In Praise of Antitrust Litigation*, the law moved from increasingly expansive application of the per se rule to more general reliance on the rule of reason, to a more nuanced application of a middle ground commonly known as the “quick look.” The “quick look” movement was partially rebuffed in *California Dental Ass'n v. FTC*, 526 U.S. 756 (1999) (a case in which I represented the FTC at an earlier stage). The FTC and the DOJ Antitrust Division responded by addressing the matter in their *Antitrust Guidelines for Collaborations Among Competitors* (2000), and then the FTC issued adjudicative opinions, upheld by the courts of appeals, that established an “inherently suspect” category of analysis. *North Texas Specialty Physicians v. FTC*, 528 F.3d 346 (5th Cir. 2008); *Polygram Holding, Inc. v. FTC*, 416 F.3d 29 (D.C. Cir. 2005). What some regarded as a setback to enforcement seems to be on its way toward being overcome. All of this happened without legislation.

B. Merger Law

Merger law is a special part of antitrust law. It has seen substantial changes in enforcement standards and offers unusual opportunities to adjust to evolving understandings. At one time, mergers with quite small market shares were condemned, leaving Justice Potter Stewart famously to protest that “[t]he sole consistency that I can find is that in litigation under [Clayton Act] § 7, the Government always wins.” *United States v. Von’s Grocery Co.* 384 U.S. 270, 301 (1966) (Stewart, J., dissenting). The Justice Department set out an approach to merger analysis in its 1968 Merger Guidelines, and then set out a quite different approach in its 1984 Merger Guidelines and in the joint DOJ-FTC 1992 Horizontal Merger Guidelines (revised with respect to efficiencies in 1997). As of this writing, the antitrust agencies are embarked on a substantial effort to update these guidelines.

The Government’s Merger Guidelines, although nominally only a statement of how the agencies evaluate mergers, in fact have substantial influence on courts. *See Chicago Bridge & Iron Co. v. FTC*, 534 F.3d 410, 431 n.11 (5th Cir. 2008) (“Merger Guidelines are often used as persuasive authority when deciding if a particular acquisition violates anti-trust laws.”); *United States v. Kinder*, 64 F.3d 757, 771 (2d Cir. 1995) (“Although it is widely acknowledged that the Merger Guidelines do not bind the judiciary in determining whether to sanction a corporate merger or acquisition for anticompetitive effect, courts commonly cite them as a benchmark of legality.”) (citation omitted). Because of the deference accorded the Merger Guidelines, the antitrust agencies are unusually able to influence the evolution of this body of law.

Consider how merger law has responded to three separate instances where there was concern that standards had become too permissive:

(1) In *United States v. Baker Hughes Inc.*, 909 F.2d 981 (D.C. Cir. 1990), and *United States v. Waste Management, Inc.*, 743 F.2d 976 (2d Cir. 1984), courts rejected merger challenges based on analysis of entry barriers that some observers regarded as troubling. See, e.g., HOVENKAMP, *supra*, at § 12.6. The 1992 Horizontal Guidelines sharpened the discussion of entry analysis, with language very close to positions rejected by courts. See Hillary Greene, *Guidelines Institutionalization: The Role of Merger Guidelines in Antitrust Discourse*, 48 WM. & MARY L. REV. 771, 800-801 (2006). Courts have responded by giving weight to the revised guidelines and upholding challenges to mergers. See, e.g., *FTC v. CCC Holding Inc.*, 605 F. Supp. 2d 26 (D.D.C. 2009); Hillary Greene, *supra*.

(2) During the 1980s and 1990s, courts rejected a series of challenges to hospital mergers (including ones on which I worked). See, e.g., Thomas L. Greaney, *Night Landings on an Aircraft Carrier: Hospital Mergers and Antitrust Law*, 23 AM. J.L. & MED. 191 (1997). The FTC responded by doing some merger retrospectives to improve our understanding of hospital mergers; commentators offered thoughts; and the FTC recently successfully challenged (post-consummation) a hospital merger in *Evanston Northwestern Healthcare Corp.*, Dkt. No. 9315 (FTC Aug. 6, 2007). Even more recently, the FTC filed a court complaint against a hospital merger that the parties abandoned, *Inova Health System Foundation*, Dkt. No. 9326 (FTC complaint filed May 9, 2008; merger abandoned), and it won a consent order undoing a closed hospital merger it alleged was anticompetitive, *Carilion Clinic*, Dkt. No. 9338 (FTC consent order Dec. 1, 2009).

(3) The government also suffered a setback in *United States v. Oracle Corp.*, 331 F. Supp. 2d 1098 (N.D. Cal. 2004), which rejected the government’s approach to unilateral effects analysis. Now the government is attempting to sharpen the unilateral effects discussion in the Merger Guidelines. All this happened without legislation.

The above examples all concern government setbacks in the courts. The system also adjusts, however, to perceived missteps by the agencies themselves. Indeed, these hearings are a prime example of what can follow when a presidential campaign highlights claimed laxness in enforcement policy. Not surprisingly, the Obama Justice Department has made clear its intention to be more aggressive in challenging mergers. Our system permits and, indeed, facilitates, these adjustments—without legislative change.

C. The Role of Congress

Over the years, Congress has taken an active role in antitrust enforcement. Through the appropriation and authorization processes, and through oversight hearings, Congress has let the agencies know its view on how they are performing and on how antitrust law, in general, is developing. See, e.g., Hearing on the State of the Airline Industry: the Potential Impact of Airline Mergers and Industry Consolidation, Before the Senate Committee on Commerce, Science & Transportation (Jan. 24, 2007); Senate Judiciary Committee Hearing, “Examining Health Care Mergers in Pennsylvania,” (April 9, 2007). The Government Accountability Office has conducted many studies related to competition. See, e.g., GAO Report, Energy Markets: Estimates of the Effects of Mergers and Market Concentration on Wholesale Gasoline Prices (June 2009).

What Congress has not generally done, thankfully, is to respond to concerns about under-enforcement by amending the antitrust laws to impose higher standards on particular industries. To be sure, concerns about over-enforcement have occasionally resulted in exemptions or partial exemptions, but this has been controversial.³ Where the concern has been about under-enforcement, Congress has properly responded through oversight and improved funding.

³ The American Bar Association Section of Antitrust Law has consistently taken the position that the special nature of the antitrust laws almost always makes industry-specific exemptions unnecessary and unwise. See, e.g., Statement of Ilene Knable Gotts on behalf of the American Bar Association Before the Subcommittee on Courts and Competition Policy of the House Judiciary Committee concerning H.R. 3596 "The Health Insurance Industry Antitrust Enforcement Act of 2009" 1 (Oct. 8, 2009):

The American Bar Association has repeatedly embraced the view that industry-specific exemptions from the antitrust laws are rarely justified, and that evidence that the exemption results in consumer benefit should exist to justify any such exemptions.

The underlying rationale for the American Bar Association's position – sometimes expressed and sometimes implied – is that the Sherman Act has served the nation well for nearly 120 years because it is a simple and very flexible statement of competition policy that is interpreted by the courts based on the facts and circumstances of each particular case. This flexibility eliminates, in most cases, the need for industry-specific exemptions. . . .;

ABA Section of Antitrust Law, Comments on the Railroad Antitrust Enforcement Act 2-3 (December 2008):

The Section believes that the common law process through which the antitrust laws promote both allocative efficiency and consumer welfare is flexible and evolutionary. It adapts to the unique circumstances of markets and industries, to changing technologies and circumstances, and to the development and growth of legal and economic theory. . . .

. . . Over a century of development has shown that the antitrust laws are the best guardian of competition, and are capable of growing to accommodate the unique characteristics of particular industries. . . .

This restraint has been beneficial for particular industries and for antitrust law in general. Where wrong decisions have been made and wrong results reached, it is probably because the law in general needs recalibration one way or another—not because there should be industry-specific standards. The majestic language of the antitrust laws can reach the right result without substantive amendment. Thus, the bi-partisan Antitrust Modernization Commission, after careful study, concluded that the antitrust laws, including merger law, were sufficiently flexible that the laws need not be revised to apply different rules “to industries in which innovation, intellectual property, and technological change are central features.” REPORT AND RECOMMENDATIONS OF THE ANTITRUST MODERNIZATION COMMISSION (April 2007). Similarly, in THE NEXT ANTITRUST AGENDA: THE AMERICAN ANTITRUST INSTITUTE’S TRANSITION REPORT ON COMPETITION POLICY (October 2008), the American Antitrust Institute expressed concern about competition in agriculture but did not call for legislative change.⁴ As the ABA Antitrust Section commented in opposition to previously proposed legislative changes, “there is already in place a well developed and principled approach for evaluating competition issues that has withstood the test of time. This approach should not be tinkered with lightly.” Section of Antitrust Law, American Bar Association, Comments Relating to Proposed Agribusiness Legislation Pending Before the 106th Congress 10 (August 2000). Nor do competition concerns

⁴ I contributed modestly to this report.

require amendment of other statutes.⁵ Indeed, it is important to the evolution of antitrust standards that unhappiness about outcomes causes pushback on general standards.

D. Conclusion

My bottom line is simple. The antitrust system is majestically general and fully capable of evolving as needed to reach right results. If wrong results are being reached, the last thing Congress should do is to craft industry-specific rules. Doing so is both unnecessary and harmful, since it would remove part of the impetus for needed evolution in general standards.

⁵ Although I have not studied the Packers and Stockyards Act, 7 U.S.C. § 181 et seq., with the same care that I have studied the antitrust laws and thus cannot comment on particular issues or interpretations, there is no reason why the same laws that protect competition in most of the economy could not protect competition in agriculture. As noted more generally in this testimony, the antitrust laws are fully capable of addressing the particular facts of a wide variety of industries. Industry-specific legislation is rarely the right way to go.

Summary Page

Recent Studies on U.S. Meat Industry Structure

GAO “BEEF INDUSTRY: Packer Market Concentration and Cattle Prices.” (1990)

<http://161.203.16.4/d22t8/142827.pdf>

“Implications of Increased Regional Concentration and Oligopsonistic Coordination in the Beef Packing Industry” (1991)

Azzam, A.M. and J.R. Schroeter

Western Journal of Agricultural Economics. 16(2): 374-381.

“Packer Concentration and Captive Supplies.” (1994)

Clement E. Ward, Oklahoma State University and Ted C. Schroeder, Kansas State University.

<http://cals.arizona.edu/arec/wemc/cattlemarket/PckrConc.pdf>

“Statement of DAVID TURETSKY, Deputy Assistant Attorney General, Antitrust Division, U.S. Department of Justice.” (1995)

Committee on Commerce, Science, and Transportation United States Senate

<http://www.usdoj.gov/atr/public/testimony/0651.htm>

www.usdoj.gov/atr/public/testimony/0651.pdf

“Concentration in the Red Meat Packing Industry.” (1996)

Packers and Stockyards Programs

Grain Inspection, Packers and Stockyards Administration

<http://archive.gipsa.usda.gov/pubs/packers/conc-rpt.pdf>

“Effects of Concentration On Prices Paid for Cattle.” (1996)

S. Murthy Kambhampaty, Paul J. Driscoll, Wayne D. Purcell, Everett B. Peterson

Grain Inspection, Packers Stockyards Administration RR 96-4

<http://archive.gipsa.usda.gov/pubs/packers/rr96-4.pdf>

“Agricultural Concentration.” (1998)

James Mintert, Ph.D. James Mintert, Ph.D.

Dept. of Agricultural Economics Dept. of Agricultural Economics - Kansas State University

<http://www.agmanager.net/livestock/marketing/presentations/files/ConcentrationInAg.pdf>

“Packer Concentration, Captive Supplies and Fed Cattle Prices.” (1998)

Summarized by John D. Lawrence

Extension Livestock Economist

Director, Iowa Beef Center

www.econ.iastate.edu/classes/econ135/lawrence/Captive%20Supplies%20and%20price.ppt

“Econometric Analysis of Fed Cattle Procurement in the Texas Panhandle.” (1999)

John R. Schroeter, Azzeddine Azzam

Grain Inspection, Packers Stockyards Administration

<http://archive.gipsa.usda.gov/psp/issues/txpeer/part1.pdf>

“Packer Concentration and Captive Supplies.” (1999)

Clement E. Ward, Oklahoma State University

<http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-1733/F-554web.pdf>

“The U.S. Beef Industry Cattle Cycles, Price Spreads, and Packer Concentration.” (1999)

Kenneth H. Mathews, Jr., William F. Hahn, Kenneth E. Nelson, Lawrence A. Duewer, Ronald A. Gustafson

<http://www.ers.usda.gov/Publications/TB1874/>

“USDA ACTIONS ON CONCENTRATION” (1999)

<http://www.usda.gov/news/releases/1999/04/0155>

“Vertical Coordination in the Pork and Broiler Industries: Implications for Pork and Chicken Products” (1999)

Steve W. Martinez

Agricultural Economics Report No. (AER777)

<http://www.ers.usda.gov/publications/aer777/>

“Consolidation in U.S. Meatpacking.” (2000)

James M. MacDonald, Michael E. Ollinger, Kenneth E. Nelson, and Charles R. Handy

Agricultural Economics Report No. (AER785)

<http://www.ers.usda.gov/publications/aer785/>

“Structure Change and Competition in Seven U.S. Food Markets.” (2000)

A.J. Reed, J.S. Clark

Economic Research Service Technical Bulletin Number 1881

<http://www.ers.usda.gov/publications/tb1881/tb1881.pdf>

“Structural Change in U.S. Chicken and Turkey Slaughter” (2000)

Michael Ollinger, James MacDonald, and Milton Madison

Agricultural Economic Report No. (AER787)

<http://www.ers.usda.gov/publications/aer787/>

“Understanding Structural Change in the Food Industry” (2000)

FoodReview Vol 23, Issue 2.

<http://www.ers.usda.gov/publications/foodreview/may2000/>

“Statement of JoAnn Waterfield, Deputy Administrator, P&S Programs, GIPSA.” (2001)

<http://www.gipsa.usda.gov/GIPSA/webapp?area=newsroom&subject=landing&topic=cc-ch01>

“The effects of U.S. meat packing and livestock production technologies on marketing margins and prices.” (2001)

Brester, G.W., & Marsh, J.M.

Journal of Agricultural and Resource Economics, 26, 445-462.

“Comments on Economic Impacts of Proposed Legislation to Prohibit Beef and Pork Packer Ownership, Feeding, or Control of Livestock.” (2002)

Fuez, D., G. Grimes, M.S. Hayenga, S.R. Koontz, J.D. Lawrence, W.D. Purcell, T.C. Schroeder, and C.E. Ward.
<http://www.econ.iastate.edu/faculty/lawrence/Acrobat/Johnsonamendment.pdf>.

“Consolidation in Meatpacking: Causes & Concerns” (2002)

Economic Research Service
Agricultural Outlook pp. 23-26
<http://www.ers.usda.gov/publications/agoutlook/jun2000/ao272i.pdf>

“Controversies in Livestock Pricing” (2002)

Economic Research Service
Agricultural Outlook
<http://www.ers.usda.gov/publications/agoutlook/Dec2002/ao297f.pdf>

”The U.S. Food Marketing System, 2002: Competition, Coordination, and Technology Innovations Into the 21st Century”. (2002)

By J. Michael Harris, Phil R. Kaufman, Steve. W. Martinez, and Charlene Price
Agriculture Economic Report No. 811
<http://www.ers.usda.gov/publications/aer811/aer811.pdf>

“Vertical Coordination of Marketing Systems: Lessons From the Poultry, Egg and Pork Industries” (2002)

Steve Martinez
Agricultural Economic Report No. (807)
<http://www.ers.usda.gov/publications/AER807/>

“Where’s the Beef: Small Farms Produce the Majority of Cattle” (2002)

Economic Research Service
Agricultural Outlook
<http://www.ers.usda.gov/publications/agoutlook/Dec2002/ao297g.pdf>

“Economic and Structural Relationships in U.S. Hog Production” (2003)

William D. McBride and Nigel Key
Agricultural Economic Report No. (AER818)
<http://www.ers.usda.gov/publications/aer818/>

“Interstate Livestock Movements” (2003)

Dennis A. Shields and Kenneth H. Mathews, Jr.
Electronic Outlook Report from the Economic Research Service LDP-M-108-01
<http://www.ers.usda.gov/publications/ldp/jun03/ldpm10801/ldpm10801.pdf>

“Social Welfare and the Market Power – Efficiency Tradeoff in U.S. Food Processing: A Note.” (2003)

Professor in the Department of Agriculture and Resource Economics, University of Connecticut
USDA No. 2001-34178-10542

“Technological Changes in Beef and Pork Production: Effects on Marketing Margins and Prices” (2003)

by John M. Marsh and Gary W. Brester.

<http://www.choicesmagazine.org/2003-4/2003-4-06.htm>

“U.S. Hog and Poultry Marketing: Similar Paths, Similar Outcomes?” (2003)

Economic Revenue Service

Amber Waves – Diet and Health

<http://www.ers.gov/amberwaves>

“Agricultural Concentration.” (2004)

USDA

Part of the Farm Bill Forum Comment Summary & Background

www.usda.gov/documents/Agricultural_Concentration.doc

“Market Integration of the North American Animal Products Complex” (2005)

William F. Hahn, Mildred Haley, Dale Leuck, James J. Miller, Janet Perry, Fawzi Taha, and Steven Zahniser

Electronic Outlook Report from the Economic Research Service LDP-M-131-01

<http://www.ers.usda.gov/publications/ldp/may05/ldpm13101/ldpm13101.pdf>

“Spot and Alternative Marketing Arrangements in the Livestock and Meat Industries” (2005)

Mary K. Muth, Gary Brester, John Del Roccili, Stephen Koontz, Brigit Martin, Nicholas Piggott, Justin Taylor, Tomislav Vukina, Michael Wohlgenant

RTI International Contract No. 53-32KW-4-028

Grain Inspection, Packers Stockyards Administration

http://151.121.3.117/psp/issues/livemarketstudy/LMMS_Interim_Report.pdf

“Structural Change in the Meat, Poultry, Dairy, and Grain Processing Industries” (2005)

Michael Ollinger, Sang V. Nguyen, Donald P. Blayney, Bill Chambers, and Ken Nelson

Economic Research Report No. (ERR3)

<http://www.ers.usda.gov/publications/ERR3/>

“Effect of Food Industry Mergers and Acquisitions on Employment and Wages.” (2006)

Michael Ollinger, Sang V. Nguyen, Donald P. Blayney, Bill Chambers, and Ken Nelson

Economic Research Report No. 13

[Http://www.Amc.gov](http://www.Amc.gov)

“Food Industry Mergers and Acquisitions Lead to Higher Labor Productivity” (2006)

By Michael Ollinger, Sang V. Nguyen, Donald P. Blayney, Bill Chambers, and Ken Nelson

Economic Research Report No. (ERR-27)

<http://www.ers.usda.gov/Publications/ERR27/>

“GIPSA Livestock and Meat Marketing Study Final Reports” (February 2007)

RTI International

Health, Social, and Economics Research

Research Triangle Park, NC 27709

RTI Project Number 0209230

<http://www.gipsa.usda.gov/GIPSA/webapp?area=home&subject=imp&topic=ir-mms>

“Antitrust Modernization Commission: Report and Recommendations.” (April 2007)

D. Garza, J. Yarowsky, B. Burchfield, W. Cannon, Dennis Carlton, M. Delrahim, J. Jacobson, D. Kempf, S. Litvack,
J. Shenefield, D. Valentine, J. Warden

http://www.amc.gov/report_recommendation/amc_final_report.pdf