Initiative 300 and the Structure of Nebraska’s Cattle Feeding Industry: Did the Law Make a Difference?

Azzeddine Azzam
University of Nebraska-Lincoln

December 4, 2002

Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

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Market Report	Yr Ago	4 Wks Ago	11/29/02
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	$66.71	$67.14	$72.96
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	86.90	*	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	93.35	87.05	93.04
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	105.57	102.70	111.10
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	34.50	30.00	31.50
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	*	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	98.10	79.99	83.26
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	56.62	*	84.87
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	124.80	156.52	164.35
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu	3.09	4.74	*
Corn, No. 2, Yellow Omaha, bu	1.96	2.39	2.31
Soybeans, No. 1, Yellow Omaha, bu	4.30	5.52	*
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.62	4.68	4.76
Oats, No. 2, Heavy Minneapolis, MN , bu	2.37	2.22	2.14
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	115.00	150.00	150.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	77.50	82.50	80.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	105.00	115.00	117.50

* No market.

In a recently completed study on the effect of Initiative 300 on the structure of Nebraska's cattle feeding industry, agricultural economists, Azzeddine M. Azzam from the University of Nebraska-Lincoln and John R. Schroeter from Iowa State University, in cooperation with UNL Ag Law specialist, David Aiken, found no statistical difference between how the size of feedlots has evolved in Nebraska and how they've evolved in other major cattle feeding states (Colorado, Kansas and Texas) that have no restrictions on corporate investment in cattle feeding. All four states studied have seen a trend of larger feedlots supplanting small-scale operations. The study was funded by a competitive National Research Initiative grant. USDA's Cooperative State Research, Education and Extension Service awarded the grant last year to the three professors.

Market structure is represented by the proportion of total feedlots in a state falling into each of the following size categories of capacity: less than 1,000; 1,000 - 1,999; 2,000 - 3,999; 4,000 - 7,999; 8,000 - 15,999; 16,000 - 31,999; and greater than or equal to 32,000. "Evolution" of market structure refers to the manner in which the size distribution changes from one year to the next. Thus, the focus of the study is on the ***relative*** importance of "big" vs. "small" feedlots in Nebraska, rather than on the overall scope of cattle feeding activity in the state.

A casual inspection of the raw data reveals that, in 1980, two years before Initiative 300 was adopted, 97 percent of Nebraska's feedlots had capacity of fewer than 1,000 head. Although they still make up by far the largest share of the state's feedlots, the percentage of the state's cattle feeding industry in such small operations has steadily declined since then, to 86.6 percent in 2000. Much of the shift in Nebraska has been to feedlots with capacities ranging from 1,000 to 3,999, which comprised 3.3 percent of the total in 1980 and nearly 9 percent by 2000. A similar evolution from small to large feedlots was seen in the other three states over the same period, although the latest numbers available from Colorado, Kansas and Texas are from 1995, not 2000.

However, the study emphasizes that casual inspection of the data is not enough to gauge the effect of the Initiative. One must not only statistically compare the evolution of market structure across the four states and within Nebraska between the pre- and post-Initiative 300 time periods, but also control for factors other than the Initiative that could be responsible for that evolution.

For any who might have hoped that Initiative 300 would slow the trend toward larger size feedlots, and increase the role played by small-scale feedlots, the results of the study are discouraging: The Initiative does not seem to have made a difference.

For those indifferent between large and small feedlots, as long as they are "family"owned, the findings of the study are encouraging: It is possible to regulate the structure of ownership without having the (potentially adverse) impact on size structure that the critics of anti-corporate farming laws claim.

Also, if one believes that the prevailing trend toward large-scale operation is cost-efficient, the findings could be good news for consumers concerned about higher beef prices. Keep in mind, however, that there may be other implications of size structure, beyond cost efficiency, about which the public might be concerned. The environmental impact of large vs. small feedlots is one example.

Concerning the reasons for finding no statistical difference between the feedlot size distribution trends in Nebraska, on the one hand, and in the other three states with no applicable anti-corporate farming restrictions, on the other, the study mentions three possibilities:

1. The kind of corporate investments that are barred in Nebraska are not attractive and, in fact, are not occurring in other states either. Anecdotal evidence suggests, however, that non-family farm corporations are major players in the cattle feeding industry in other states.
2. It may be that Initiative 300 restricts entry of new corporate-owned feedlots but does relatively little to constrain incumbent feedlots. A grandfather clause exempts corporate-owned feedlots that were already in operation in November 1982. It is likely that many feedlots currently operating in Nebraska are grandfathered corporations and the only restriction to which they are subject is a prohibition of additional land acquisitions. Some of these grandfathered corporations may have been able to expand their operations without adding new land.
3. Initiative 300's definition of authorized "family-farm" corporations allows for sale of up to 49 percent of the firm's stock to non-family-member investors. This feature improves the access to capital for family-farm corporations and may offset at least part of any capital-raising disadvantage, relative to non-family-farm corporations, that they otherwise would have faced.

The complete technical report is available at the website of the Center for Agricultural & Food Industrial Organization:

http://agecon.unl.edu/cafio/research/workingpapers/I300.pdf.

Constructive comments are welcome.

Azzeddine M. Azzam, (402) 472-5326
Professor & Director
Center for Agricultural &
Food Industrial Organization