Food cartels tighten their grip

Many recent leveraged buyouts and mergers involve food companies, and it's bad news for farmers and consumers.

Thanks to a frenetic pace of mergers and acquisitions over the past decade, the U.S. food industry is now so concentrated, that even the Government Accounting Office sounded the alarm over monopolistic pricing practices, in a report issued last October. The result of the trend is rising profits for the food cartel companies, while smaller entrepreneurs and the family farmer are driven out of business.

While most of the economy is depressed, the earnings of 11 large independent food companies are expected to climb nearly 13% this year, according to the annual industry review of *Business Week*. The reasons are not hard to find.

The biggest players in this dirty game have been leveraged buyout specialists. According to an August 1991 report by Anthony Gallo of the USDA Economic Research Service, there were 4,500 mergers, acquisitions, and leveraged buyouts (LBOs) in "the food marketing system" between 1982 and 1990. The largest buyout of all time was the $24.7 billion LBO of RJR/Nabisco by Kohlberg Kravis and Roberts (KKR) in 1989, and the third largest was the acquisition of Kraft Inc. by Philip Morris Co. Inc. in 1988 for $12.644 billion. Another notable deal was the $5.8 billion purchase of Pillsbury by the British conglomerate, Grand Metropolitan PLC, in 1989.

In 1989 the food and tobacco industries were the most active areas of mergers and acquisitions, as measured by value, and the tenth most active, as measured by number of transactions. In 1990, the sector was the sixth most active, measured by value. The second largest deal-of-the-year in 1990 was Philip Morris's purchase of French coffee and chocolate maker Jacobs Suchard for $3.8 billion.

It is now estimated that the Kraft subsidiary of Philip Morris controls 57% to 70% of the national cheese market. In addition, Philip Morris paid $5.6 billion in 1985 to buy out General Foods (Brim, Jell-O, Kool-Aid, Maxwell House, Post, Sanka, Tang). Philip Morris also owns Oscar Mayer (Claussen, Louis Kemp, Louis Rich), and Miller Brewing.

Another food conglomerate which has grown monstrously through acquisitions is ConAgra, the sales of which have exploded from $1.7 billion in 1981, to $19.5 billion in 1990. In 1990, ConAgra purchased the remnants of Beatrice Co. from KKR for $1.3 billion, emerging as the second largest food processor in the United States, behind Kraft. ConAgra controls 23% of domestic flour milling, and is also one of the four largest meatpackers, who together control 70% of the meat market. ConAgra now owns Armour, Banquet, Butterball, Chun King, Healthy Choice, Hunt-Wesson, La Choy, Monfort, Orville Redenbacher's, Patio, Peter Pan, Reddi-Whip, Sizzlean, Swift-Eckrich, Swiss Miss, and Taste O'Sea.

In October, the General Accounting Office reported to Congress that the USDA has failed to ensure that competitive markets exist in the national beef market, with 70% of the market controlled by Iowa Beef, Cargill, ConAgra, and National Beef. (A monopoly is considered to exist if a company or cartel dominates 65% of the market).

The GAO report argued that "packers are more able to engage in anti-competitive behavior to depress prices paid to livestock producers." The study said the USDA was unable to identify "on an ongoing basis anti-competitive practices such as price manipulation or the apportionment of territory." This is polite talk for the common knowledge that the USDA and the Department of Justice stood by while the food monopolies grew.

In 1972, GAO noted, the smallest packing plants had 41% of the business and the largest had 8%. By 1989, the ratios had been reversed, with the smallest plants having 8% of the market, while the largest had 67%. The big packers are systematically underpaying farmers.

Perhaps the food conglomerate that most warrants examination, however, is KKR. Besides controlling RJR/Nabisco, KKR controls the nation's largest food retailer, Safeway Inc., as well as another major food retailer, Stop & Shop Cos.

Moreover, KKR now holds 15% of ConAgra, as a partial payment for the sale of Beatrice. KKR had swallowed Beatrice for $8.2 billion in 1986, but the deal quickly ran into financial difficulties, partly as a result of unresolved product liability cases. Consequently, KKR was unable to realize the profits it had made on other LBOs, and proceeded to break Beatrice into 10 major pieces, which were sold for a total of $7.7 billion, before the last major chunk taken by ConAgra for $1.3 billion.

Thus, KKR—perhaps the largest business concern in the U.S.—stands as a link between food processors such as ConAgra and food retailers such as Safeway, achieving a degree of control that approximates the control "from upstream to downstream" of the large integrated oil companies.