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Recent Acquisitions of U.S. Meat Companies

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Abstract. In July 2007, JBS - a Brazilian company regarded as the world's largest meat processor - purchased the U.S. beef processor Swift & Co., then the third-largest U.S. beef processing company. In February and March 2008, JBS signed agreements to acquire the fourth- and fifth-largest U.S. beef packers, National Beef Packing Company and the Smithfield Beef Group, respectively. These planned acquisitions have undergone customary regulatory review by the U.S. Department of Justice's (DOJ's) Antitrust Division. On October 20, 2008, DOJ and 13 states filed a complaint in U.S. District Court to block the JBS buyout of National Beef Packing Company, citing concerns that it could contribute to higher consumer prices and also lower producer prices. That same day DOJ announced it would not challenge the JBS acquisition of Smithfield Beef Group. Some in Congress publicly applauded DOJ's lawsuit; opinion within the U.S. meat industry is mixed. If the DOJ lawsuit is not successful and JBS acquires National Beef in addition to Smithfield, this could raise the JBS combined share of the U.S. commercial cattle slaughter market to about 30%, assuming it does not divest some facilities. The proposed JBS acquisition of Five Rivers Ranch Cattle Feeding, which is part of the Smithfield deal, could make JBS the largest cattle feeder in the United States.



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CRS Report for Congress

Recent Acquisitions of U.S. Meat Companies

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Summary

In July 2007, JBS — a Brazilian company regarded as the world’s largest meat processor — purchased the U.S. beef processor Swift & Co., then the third-largest U.S. beef processing company. In February and March 2008, JBS signed agreements to acquire the fourth- and fifth-largest U.S. beef packers, National Beef Packing Company and the Smithfield Beef Group, respectively. These planned acquisitions have undergone customary regulatory review by the U.S. Department of Justice’s (DOJ’s) Antitrust Division. On October 20, 2008, DOJ and 13 states filed a complaint in U.S. District Court to block the JBS buyout of National Beef Packing Company, citing concerns that it could contribute to higher consumer prices and also lower producer prices. That same day DOJ announced it would not challenge the JBS acquisition of Smithfield Beef Group. Some in Congress publicly applauded DOJ’s lawsuit; opinion within the U.S. meat industry is mixed. If the DOJ lawsuit is not successful and JBS acquires National Beef in addition to Smithfield, this could raise the JBS combined share of the U.S. commercial cattle slaughter market to about 30%, assuming it does not divest some facilities. The proposed JBS acquisition of Five Rivers Ranch Cattle Feeding, which is part of the Smithfield deal, could make JBS the largest cattle feeder in the United States.

Background

JBS (JBS S.A., for “South America”) is a publicly traded Brazilian meat processing company, with headquarters in Sao Paulo. The company is active in the food sector (mainly meats and meat by-products), among other sectors. Its principal meat activities include preparation, packing, and delivery of fresh, chilled, and processed beef; it also produces ready-to-eat meals and canned and cooked beef, hides, and other cattle parts. JBS is regarded as the largest meat processor in the world, accounting for up to 10% of the world beef market, with many company name brands and product lines.

JBS was established in 1953 by the Batista family. In 1993, it began to expand its operations with a series of acquisitions throughout Brazil. Starting in 2005, it began to expand its operations outside of Brazil, starting in Argentina. It now has operations worldwide (mainly in South America, the United States, and Australia) and is a major

world exporter of beef products. Its recent acquisitions and expansion are part of its stated globalization strategy.

In July 2007, JBS purchased the U.S. beef processor Swift & Co. (now known as JBS-Swift & Co.), then the third-largest U.S. beef processor. Swift accounted for 12.6% of the 2006 commercial slaughter (about 4.8 million head) and had U.S. beef sales of \$5.6 billion in 2006 (four U.S. plants). JBS-Swift & Co. is reported to have since raised its overall capacity, operating at about 18,800 cattle head per day.¹

In March 2008, available reports indicated that JBS had nearly 40 meat processing plants in Brazil, Argentina, the United States, and Australia. Some reports indicated that it may have as many as 90 plants worldwide, including facilities in countries such as India and Italy. Under ongoing expansion plans, it is anticipated that JBS could reach 120 plants worldwide, and generate global annual revenues of US\$21.6 billion (nearly double its reported current levels). At that point JBS could be slaughtering up to 18 million cattle per year, also double its reported current levels.²

Recent JBS Acquisition Activity

In February and March 2008, JBS signed agreements to acquire the fourth- and fifth-largest U.S. beef packing companies, National Beef Packing Company and the Smithfield Beef Group, respectively. **Appendix A** provides preliminary and readily available information on the terms of the recent sales agreements between JBS and National Beef Packing Company and the Smithfield Beef Group. Combined, these two acquisitions could total nearly \$1.6 billion. (As part of its recent acquisition strategy, JBS also acquired an Australian beef processing company, Tasman Group.)³

Finalization of the sale of National Beef Packing Company and Smithfield Beef Group was subjected to the customary regulatory review by the U.S. Department of Justice's (DOJ's) Antitrust Division, which must approve the acquisition as required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (P.L. 94-435).⁴ In September 2008, JBS indicated that it is not considering further acquisitions of beef and pork facilities in North America.⁵ Media reports have indicated that JBS is considering expanding its beef operations in Australia.⁶

¹ Data from *Cattle Buyers Weekly*.

² "JBS's spending spree totals \$1.66 billion," *Cattle Buyers Weekly*, March 10, 2008.

³ A reported \$150 million sale involving 15,000 employees and 15 production units in Australia. "JBS completes Tasman Group purchase," *Leather International*, May 6, 2008, at [http://www.leathermag.com/news/fullstory.php/aid/13049/JBS_complete_Tasman_Group_purchase.html].

⁴ DOJ's and the Federal Trade Commission's *Antitrust Enforcement Guidelines For International Operations*, April 1995, at [<http://www.usdoj.gov/atr/public/guidelines/internat.htm>].

⁵ Steve Kay, "International Appeal: One year after acquiring Swift&Co., JBS USA's Wesley Batista weighs in on its global strategy," *Meat&Poultry*, Sept. 2008, at [<http://www.meatpoultry.com/archives/archives.asp>].

⁶ Steve Kay, "JBS looks to expand in Australia," *Meat&Poultry*, Aug. 27, 2008.

On October 20, 2008, DOJ and 13 states filed a complaint in U.S. District Court to block the JBS buyout of National Beef Packing Company, citing concerns that the deal could contribute to higher consumer prices and also lower producer prices. That same day DOJ announced it would not challenge the JBS acquisition of Smithfield Beef Group.⁷

The acquisition by JBS of the Smithfield Beef Group — the fifth-largest U.S. beef processor — will result in further consolidation of the U.S. beef packing industry. In combination with the 2007 acquisition by JBS of Swift & Co., this could raise the JBS share of the U.S. cattle slaughter market from under 13% to about 19% (based on 2006 data). If the DOJ lawsuit is not successful and JBS acquires National Beef Packing Company, this could raise the JBS combined share of the U.S. commercial cattle slaughter market to about 30% (assuming JBS does not divest some facilities).⁸ If JBS proceeds with the acquisition of Five Rivers Ranch Cattle Feeding, which is part of the Smithfield deal, this could make JBS the largest feeder in the United States.

Table 1 shows the market shares for the top U.S. packers and feeding companies based on available 2006 data (prior to changes in 2007 and 2008). For more information on the ongoing consolidation and concentration trends in the U.S. livestock industry, as well as information on the structure of livestock and meat production and marketing, see CRS Report RL33325, *Livestock Marketing and Competition Issues*.

Table 1. Top Beef Packers and Cattle Feeders, 2006

Cattle Slaughter		Cattle Feeding	
Company	Market Share ^a	Company	Market Share ^b
Tyson Foods	24.9%	Five Rivers Ranch Cattle Feeding	25.2%
Cargill Meat Solutions	20.8%	Cactus Feeders, Inc.	21.5%
JBS-Swift & Co.	12.6%	Cargill Cattle Feeders, LLC	14.0%
National Beef Packing Company	10.4%	Friona Industries, LP	10.3%
Smithfield Beef Group	6.0%	AzTx Cattle Company	6.0%
Top 5 firms	74.7%	Top 5 firms	76.9%

Source: *Cattle Buyers Weekly*.

a. Market share based on percentage of total number of U.S. commercial cattle slaughterer.

b. Market share based on percentage of total capacity (head per day).

⁷ U.S. District Court, Northern District of Illinois Eastern Division, complaint filed by the U.S. and 13 states vs. JBS S.A., Oct. 20, 2008; DOJ press release, “Justice Department Files Lawsuit to Stop JBS S.A. from Acquiring National Beef Packing Co.,” Oct. 20, 2008, at [http://www.usdoj.gov/opa/pr/2008/October/08-at-936.html]. See also John Wilke and Lauren Etter, “Brazilian Beef Purchase Is Challenged by the U.S.,” *Wall Street Journal*, Oct. 20, 2008.

⁸ Some media reports indicated the likelihood that JBS may be required to shed some plants under the acquisition (mostly located in the Southwest) to avoid anti-trust concerns. See, e.g., “JBS is Closer to Completing Acquisitions,” *Cattle Buyers Weekly*, Sept. 22, 2008.

Congressional and Industry Response

Congressional action on this issue has been relatively limited. Although Congress has considered legislation and held hearings on livestock market competition issues in general, it has not done so with regard to the JBS acquisitions in particular.

However, both Chairman Harkin of the Senate Agriculture Committee and Senator Grassley publicly applauded DOJ's October 20 lawsuit that could block JBS from acquiring National Beef Packing Company. In addition, in June 2008, Senator Kohl wrote a letter to DOJ's Assistant Attorney General expressing concern about the acquisition and its potential effect on consumer prices and market competition, as well as options for independent ranchers to sell their cattle. In the letter, Senator Kohl urged DOJ to "bring an antitrust enforcement action to block these acquisitions."⁹

Opinion within the U.S. livestock industry is somewhat mixed, reflecting both support of and opposition to the acquisition. Opposition has been voiced by groups concerned about the potential for increased market concentration and vertical integration in the livestock sector, which they fear could lead to lower producer prices. Leading this group is the Ranchers-Cattlemen Action Legal Fund, United Stockgrowers of America (R-CALF USA).¹⁰ This group initiated a multi-signatory letter to DOJ — including more than 70 national, state, and local industry organizations — urging the Department to block the acquisition.¹¹ The National Farmers Union expressed support for DOJ's lawsuit, claiming it is the "right move to make."¹² Other national farmer organizations, including the American Farm Bureau Federation (AFBF) and the National Cattlemen's Beef Association (NCBA), expressed support for the outcome of DOJ's investigation.¹³ However, other groups such as the Kansas Livestock Association (KLA) support the JBS acquisitions, citing the potential for enhanced financial stability of the processing sector following the sale.¹⁴

⁹ Letter to Thomas Barnett, Assistant Attorney General, DOJ, from Senator Kohl, regarding JBS-Swift acquisition of National Beef and Smithfield Beef (June 24, 2008).

¹⁰ R-CALF USA represents cow-calf operators, cattle backgrounders, and feedlot owners in 47 states, along with other local and state association affiliates.

¹¹ Letter to Thomas Barnett, Assistant Attorney General, DOJ, from 72 signatory organizations, regarding JBS Swift acquisition of National Beef and Smithfield Beef (March 25, 2008).

¹² NFU press release, "Dept. of Justice Moves to Block JBS-Swift's National Beef Purchase," Oct. 21, 2008, at [<http://nfu.org/news/2008/10/21/nfu-dept-of-justice-moves-to-block-jbs-swift%e2%80%99s-national-beef-purchase.html>]. NFU represents farmers and ranchers in all states.

¹³ "Groups weigh in on DOJ decision to file antitrust lawsuit," *Agri-Pulse*, Oct. 22, 2008. AFBF is a national farmer/rancher association; NCBA is the largest national group of cattle producers.

¹⁴ Letter to Thomas Barnett, Assistant Attorney General, DOJ, from the Kansas Livestock Association, regarding JBS Swift acquisition of National Beef and Smithfield Beef (Sept. 25, 2008). KLA represents Kansas's beef business.

Appendix A. Information on National Beef Packing Company and Smithfield Beef Group

	National Beef Company	Smithfield Beef Group
Company Overview	On February 29, 2008, JBS signed agreements to acquire the fourth-largest U.S. beef packing company, National Beef Packing Company (parent company, U.S. Premium Beef). National Beef is headquartered in Kansas City, MO.	On March 4, 2008, JBS signed agreements to acquire the fifth-largest U.S. beef packing company, Smithfield Beef Group (parent company, VA-based Smithfield Foods) and its subsidiary cattle feedlot operation, Five Rivers. Smithfield Beef is headquartered in Green Bay, WI.
Market Share and Capacity	National Beef accounted for 10.4% of the 2006 U.S. commercial slaughter (about 3.5 million head) and had U.S. beef sales of \$4.6 billion in 2006. Its current capacity is about 13,800 cattle head/day.	Smithfield Beef accounted for 6% of the 2006 U.S. commercial slaughter (about 2 million head) and had U.S. beef sales of \$2.6 billion in 2006. Its current capacity is about 8,050 cattle head/day.
Active Facilities	National Beef has three beef processing plants (Dodge City, KS, Liberal, KS, Brawley, CA); two case-ready beef processing plants (Hummels Wharf, PA, Moultrie, GA); one plant specializing in portioned products for commercial establishments and end consumers (Kansas City, KS); and one refrigerated transportation company (Liberal, KS).	Smithfield Beef has four beef processing plants (Green Bay, WI, Plainwell, MI, Souderton, PA, and Tolleson, AZ); one grease producing plant (Elroy, PA); one cattle feedlot unit (South Charleston, OH); and one transportation division. Acquisition would include Five Rivers, comprising ten cattle feedlot units with a one-time feeding capacity of 811,000 cattle units (operations in CO, ID, KS, OK, TX).
Reported Sales Terms	It is reported that National Beef will be acquired for a total enterprise value of approximately US\$985 million, whereby JBS will pay members of National Beef total proceeds of about \$465 million in cash and \$95 million in JBS stock, with another \$425 million in National Beef's current debt and liabilities.	It is reported that Smithfield Beef will be acquired for a total enterprise value of approximately US\$565 million, which includes about \$465 million for Smithfield's beef processing properties, and \$100 million for a 100% share of Smithfield's feedlot subsidiary Five Rivers. It is reported that JBS plans to increase the working capital in Five Rivers by approximately \$200 million.

Source: Compiled by CRS using available data and information from *Cattle Buyers Weekly* and official press releases (e.g., from U.S. Premium Beef on its agreement to sell National Beef Company to JBS S.A., dated March 4, 2008).