

June 16, 2022

Melissa R. Bailey
Associate Administrator
Agricultural Marketing Service, USDA
1400 Independence Ave SW
Washington, DC 20250

RE: USDA Agricultural Marketing Service request for public comment – “Competition in Food Retail and Distribution Markets and Access for Agricultural Producers and Small and Midsized Food Processors” – Docket Number AMS-AMS-22-0026; Federal Register Pages 15194-15198

Dear Associate Administrator Bailey:

On behalf of the nearly 20,000 family farmer, rancher, and rural members of the South Dakota Farmers Union (SDFU), thank you for the opportunity to comment on competition in food retail and distribution markets. We are pleased to provide comments and information that will assist USDA in preparing a report connected to the Executive Order on Promoting Competition in the American Economy. Competition and diversity in food retailing and distribution and fair access for smaller food processors is essential for the health and economic wellbeing of farm families and rural communities. The Farmers Union Fairness for Farmers campaign works to bring these issues into the national spotlight by describing the devastating impact monopolies have had on family agriculture.¹

Competition and market power in food retailing and distribution

As USDA’s request for comment on competition in food retail and distribution markets indicates, there has been a distinct trend toward increased concentration in food retail for several decades. The share of single-store firms or local chains has declined from 55 percent in 1977 to 35 percent as of 2007, while the concentration ratio of the four largest food retailers rose from less than 15 percent in 1990 to 34 percent in 2019.²

¹ <https://nfu.org/fairness-for-farmers/>

² USDA Economic Research Service (ERS), “Retail Trends,” Last updated December 22, 2021. <https://www.ers.usda.gov/topics/food-markets-prices/retailing-wholesaling/retail-trends/>

The rise of dominant food retail chains is a key component of market power problems facing farmers and others throughout food and agricultural supply chain. Retailer market power has led to lower prices at the farm gate, retailers' pricing strategies can increase the volatility of farm income, and there is little evidence that the efficiencies from streamlining and coordinating food marketing through vertical integration have contributed to higher prices at the farm level.³

Dominant chains use their buyer power to dictate terms and conditions to their suppliers. In turn, suppliers may be discriminating against independent grocers and wholesalers and prompting further consolidation among food manufacturers.⁴ Whether consolidation in manufacturing and processing begets more retail consolidation or vice versa may not be perfectly clear. Nevertheless, the spiral and ongoing march of further consolidation means that consumers increasingly have fewer choices in products to shop for, independent businesses struggle to start or sustain their businesses, and farmers and ranchers and smaller food processors have fewer buyers for their goods. The decline in independent food retailing and distribution may also hurt workers through downward wage pressure.^{5 6}

Structural and logistical challenges for rural and independent food retailing

Rural areas face unique challenges in food retailing. Rural stores receive and sell produce with a lower frequency than their suburban and urban counterparts, which means distributors must often make multiple or more frequent stops to unload trucks or cannot move full truckloads. This increases the cost of moving refrigerated products, leading to higher prices for rural consumers. Less frequent deliveries can also limit access to quality produce. Improving rural

³ Richard J. Sexton, "Grocery Retailers' Dominant Role in Evolving World Food Markets," Choices, Agricultural and Applied Economics Association, 2nd Quarter 2010 25(2). <https://www.choicesmagazine.org/magazine/article.php?article=125>

⁴ "Buyer power and economic discrimination in the grocery aisle: kitchen table issues for American consumers," *The National Grocers Association*, March 2021.

⁵ Daniel Flaming et al., "Hungry at the Table: White Paper on Grocery Workers at the Kroger Company" (Economic Roundtable, January 11, 2022), <https://economicrt.org/publication/hungry-at-the-table/>

⁶ Stacy Mitchell, "Why Small Businesses Matter for Workers," *Institute for Local Self-Reliance*, April 18, 2018. <https://ilsr.org/how-small-businesses-benefit-workers/>

food logistics may give independent retailers and their distributors a greater chance at success and improve price and quality for rural consumers.⁷

National and large regional grocery chains invest in distribution centers to improve logistical capacity for their proprietary supply chains. Independent regional distributors need access to similar warehousing especially for cold chain deliveries to reduce transportation costs. In countries outside the United States, these warehousing alternatives are recognized as a critical public infrastructure.⁸

Challenges and opportunities for local and regional wholesale

Food hubs and related aggregation facilities are important for supporting early career farmers who are diversifying their marketing strategies from direct markets to intermediated wholesale markets, especially for fresh fruits, vegetables, and other specialty crops. They also help more established farmers extend their market access and sales volume as a strategy to bring the next generation into the farm business. While food hubs can be a crucial part of local and regional supply chains, major scaling issues remain. Limited mid-scale logistics infrastructure leaves most farmers beholden to large distribution wholesalers and their terms of doing business. Large wholesalers dominate the market and smaller suppliers have limited marketing options. Additional support and investment are needed to help local and regional wholesale markets thrive.

Information infrastructure

The digital transformation of our food system gives competitive advantages to businesses in food and agriculture supply chains that are most able to invest in these changes.⁹ Amazon's entry into the food sector, first through their acquisition of Whole Foods, and now through regional distribution centers known as "dark stores", has spurred other large food retailers to follow suit and invest in distributed ledger systems (blockchain technology). Independent food

⁷ Evangelista, Pietro, Bettina Williger, Girma Gebresenbet, and Serena Micheletti. "Managing Logistics and Supply Chain in Rural Areas: A Systematic Analysis of the Literature and Future Directions." In *New Metropolitan Perspectives*, edited by Carmelina Bevilacqua, Francesco Calabrò, and Lucia Della Spina, 157–66. Cham: Springer International Publishing, 2021.

⁸ Miller, Michelle, "Identifying Critical Thresholds for Resilient Regional Food Flows: A Case Study from the U.S. Upper Midwest," *Frontiers in Sustainable Food Systems* 5 (2021): 371

⁹ Ciruela-Lorenzo, Antonio Manuel, Ana Rosa Del-Aguila-Obra, Antonio Padilla-Melendez, and Juan Jose Plaza-Angulo. "Digitalization of Agri-Cooperatives in the Smart Agriculture Context. Proposal of a Digital Diagnosis Tool." *Sustainability* 12 (February 2020).

businesses and their supply chains are at a disadvantage in the wholesale markets dominated by large grocery chains in part due to information asymmetry and lack of resources to develop their own digital business ecosystems.^{10 11 12}

Better and more affordable open-source digital tools and an information infrastructure designed for independent businesses can reduce information asymmetry in food supply chains and give smaller players a greater opportunity to succeed.¹³

Local and Regional Meat Processing infrastructure, Rules, and Regulations

Strengthening local and regional processing infrastructure is a necessary component of promoting greater competition and opportunities for local and regional retail, distribution, and to provide additional marketing opportunities for farmers and ranchers. SDFU appreciates the \$1 billion USDA made available through loan guarantees, gap financing, and technical assistance to support new and expanding local and regional slaughter facilities for livestock. USDA has also provided various programs to help small and very small processing facilities weather the challenges they faced during the COVID-19 pandemic.

While increasing processing capacity is helpful, it is also important that regulatory frameworks provide reasonable flexibility to small and very small processing facilities. Federal inspection requirements and fees can be burdensome for small facilities, causing many to operate under federally approved state inspection programs. However, even though state inspection programs must meet a standard of at least equal to federal inspection standards, state-inspected meat is not allowed to be sold across state lines. SDFU supports allowing interstate sales of state-inspected meat and providing appropriate regulatory flexibility that reflects the operating conditions in small and very small facilities.

Conclusion

¹⁰ Livingstone, C., and I. Knezevic. "From Online Cart to Plate: What Amazon's Retail Domination Means for the Future of Food." *Journal of Agriculture, Food Systems, and Community Development* 9, no. 4 (2020): 311–29.

¹¹ Navickas, Valentinas, and Valentas Gruzauskas. "Big Data Concept in the Food Supply Chain: Small Markets Case." *Scientific Annals of Economics and Business* 63 (December 17, 2016).

¹² Moss, Diana, Gregory Gundlach, and Riley Krotz. "Market Power and Digital Business Ecosystems: Assessing the Impact of Economic and Business Complexity on Competition Analysis and Remedies." Technology, Competition Policy. Washington, D.C.: American Antitrust Institute, June 1, 2021. https://www.antitrustinstitute.org/wp-content/uploads/2021/06/AAI_digital-ecosystems_FINALV5.pdf

¹³ Miller, Michelle. "Big data, information asymmetry, and food systems." *Journal of Agriculture, Food Systems, and Community Development* (2021). <https://doi.org/10.5304/jafscd.2021.111.017>

Thank you again for the opportunity to submit comments. If you have any questions or would like to discuss SDFU's position further, please contact Doug Sombke, SDFU President, via e-mail at dsombke@sdfu.org or by phone at 605-350-4211. We appreciate your consideration.

Sincerely,

Doug Sombke
President