

## **Baby formula shortage: 'I haven't seen an industry this fragile,' economist says**

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On Wednesday, a Cato Institute economist warned lawmakers in a Senate hearing that without changes to U.S. trade policy, the nation's baby formula supply will remain on shaky ground.

That very day, Abbott Nutrition said it was forced to halt production at a Sturgis, Michigan, manufacturing facility at the center of a formula shortage that has thrown caretakers of infants nationwide into crisis mode.

Scott Lincicome, director of general economics for the libertarian non-profit research firm, told members of a Senate subcommittee for antitrust that poor federal trade policies fostered Abbott's market dominance — ultimately leading to the nation's critically low supply of infant formula.

"I've been looking at supply chains for the last two plus years...and I haven't seen an industry this fragile," Lincicome said. "It is about a textbook case of what happens when you put walls around the country and block all the imports, and then have a government contractor as a monopsonist in the market... it's a perfect storm for problems."

The nation's largest supplier of formula, Abbott Laboratories' (ABT) typically holds about 40% of the domestic market, but has had critically low production levels since it initially closed the Sturgis, Michigan facility in February due to a dangerous bacteria that infiltrated the plant. The baby formula market is so concentrated that one manufacturer's problems affected the nation's entire supply of formula. In the first week of May, 43% of the nation's regular supply of infant formula was out of stock, according to data collection firm Datasembly.

Abbott's formula production hit another snag Wednesday, as it announced another shut-down of the facility, this time due to flooding. The pause, which impacts its production of EleCare specialty formula, came as Lincicome and other witnesses answered lawmakers' questions about how Abbott's dominance contributed to the baby formula crisis.

'We block almost all foreign-made formula'

With just four other manufacturers including Abbott controlling 90% of the domestic formula supply, smaller manufacturers were unable to increase production fast enough to fill manufacturing and distribution gaps after the initial shuttering of the Sturgis facility.

Most international formula manufacturers couldn't step in because of labeling requirements and high taxes on imports, as The Atlantic's Derek Thompson has noted. According to the U.S. Food & Drug Administration, the U.S. normally produces 98% of formulas it consumes.

We block almost all foreign-made formula from the U.S. market," Linciome said.

Federal law further narrows competition by requiring each U.S. state to choose a single company to supply formulas available to low-income families under the Special Supplemental Nutrition Program for Women, Infants, and Children, known as WIC. The program, in place since 1989, provides food for about half of all U.S.-born infants, and today has only three market participants — Abbott, Reckitt and Nestle.

The crisis has raised the question of whether the tightly regulated formula industry needs more competition, and whether antitrust law and enforcement can combat future shortages.

'Extreme consolidation' in every sector

During Wednesday's hearing, Sen. Amy Klobuchar (D-MN) suggested that without amending antitrust laws and cracking down on enforcement, shortages of critical products will persist.

"The future of America's success both for families and our greater economy depends on how we approach competition policy today," said Klobuchar, who co-introduced a bill that would shift the burden to companies to prove that a merger or acquisition would not harm competition.

Barry Lynn, executive director for libertarian think tank Open Markets Institute, testified that market consolidation threatening the formula and other life-critical industries, like the drug industry, stems from antitrust policy during the Regan and Clinton administrations that prized efficiency over enforcement.

"We've been seeking efficiency through our industrial and through our antitrust system of regulation for 40 years now," he said, "and the result is extreme consolidation in every sector."

Consolidation is not the only factor that led to the shortage. Senator Richard Blumenthal (D-CT) said during the hearing that the shortages this year were caused by a combined betrayal of trust between Abbott and the FDA. He said the root cause has yet to be identified, noting that the Federal Trade Commission is still investigating what went wrong.

"Maybe it's giving that kind of power to Abbott, maybe it's capture of the agency," he said. "We have yet to know the full story."