To: Rep Al Ott
From: Dick Vilstrup

Al, I thought this report may be of interest as you plan your Dec. 17th meeting in Madison.

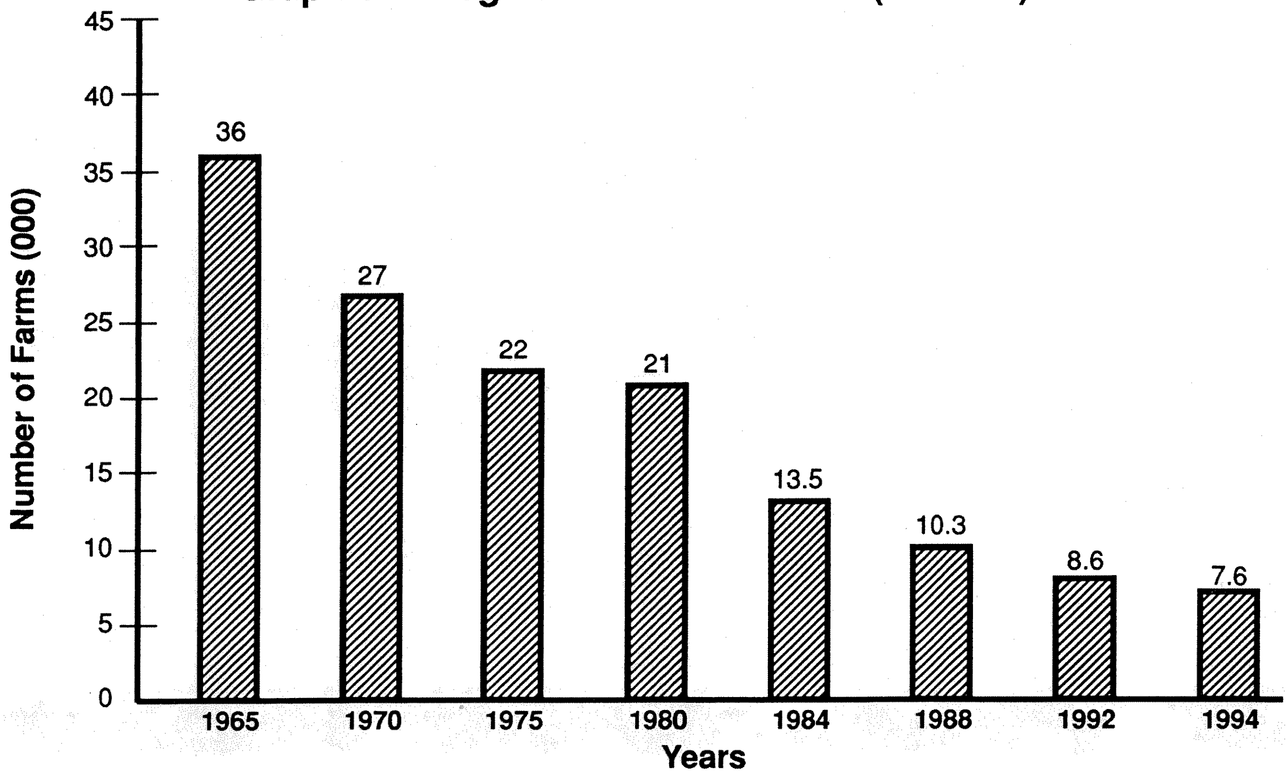
Kerri Retallick has more copies if you want them for the committee.

Dick

Chapter 3
Current Status & Intentions of Wisconsin Pork Producers

The number of Wisconsin pork farms has dropped from 21,000 in 1980 to 7600 in 1994 while the average number of hogs per farm has increased rapidly.

Graph 3-1. Hog Farms in Wisconsin (1965-94)



Age of Buildings

To determine future trends in numbers of pork operations in the state, pork producers surveyed were asked several questions on their current status and intentions.

Table 3-1.
What is the Average Age of Your Pork Buildings

	Average Age Of Buildings (Years)			
Size of Herd	Gestation	Farrowing	Nursery	Finishing
1000+	23	23	18	20
500-999	24	20	14	24
250-499	20	27	23	25
100-249	25	26	26	28

Wisconsin farrowing facilities are starting to age and the largest producers report the newest facilities possibility due to recent efforts to expand. The average age of nursery and finishing facilities was also lower for hog farms with more than 500 head (Table 3-1 - Oct. 1994)

Intentions of Wisconsin Pork Producers to Sell Facilities

An analysis was made of the intentions of Wisconsin pork producers to determine the number planning to sell or retire during the next 12 months during late 1994 and early 1995.

Table 3-2.
Do You Plan to Sell Your Pork Facilities Within the Next 12 Months?

Size of Herd	Percent (Yes)
1000+	1%
500-999	9%
250-499	5%
100-249	39%

Larger producers indicated that few plan to sell in the next 12 months. The large percentage of smaller producers reporting that they plan to sell was probably influenced by the extremely low hog prices during the survey period. (Table 3-2, previous page).

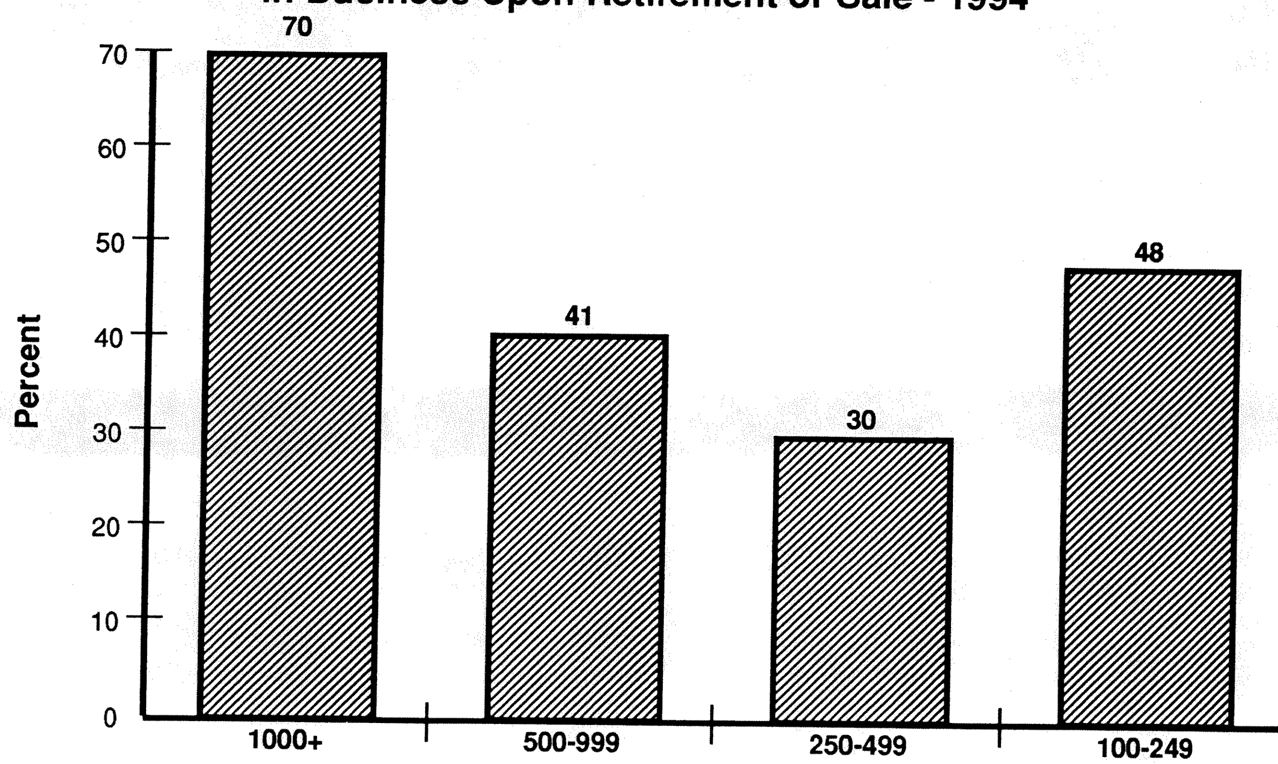
Retirement

The study indicated that only a limited number of producers in the largest group will be leaving the industry because of retirement. More producers in the 500-999 head group reported plans to retire in the next twelve months than in the other three categories (Table 3-3).

Table 3-3.
Do You Plan to Retire From Your Pork Operation During the Next 12 Months?

Size of Herd (Head)	Indicating Retirement (Number)
1000+	1
500-999	12
250-499	8
100-249	7

Graph 3-2. Percent of Producers Reporting That Their Facilities Would Stay in Business Upon Retirement or Sale - 1994



Status of Facilities Following Retirement or Sale

It is expected that some of the Wisconsin pork producers will be retiring or selling each year. Producers participating in the survey were asked if their facilities would remain in business upon retirement or sale to determine the impact of their exit from the pork industry.

About seventy percent of the largest producers indicated that they felt that their facilities would remain in business following retirement or sale. Forty-one percent of the 500-999 head group indicated that their operation would stay in business with only 30% of the 250-499 head group reporting their facilities would be used for pork production after retirement or sale (Graph 3-2).

Expansion of Facilities and Plans for the Future

An analysis was conducted to determine if Wisconsin producers have followed the national trend to expand buildings and facilities. Producers in all size categories were asked if they had expanded facilities during the past 12 months.

Table 3-4.

Have You Expanded Your Pork Facilities Within the Past 12 Months? Oct. 1994

Size of Herd	Percent (Yes)
1000+	17%
500-999	6%
250-499	2%
100-249	3%

Data from respondents indicated that most of the expansion during the past year in Wisconsin was reported by producers with over a thousand hogs (Table 3-4).

New Pork Facilities

Producers were then asked a closely related question concerning the building of new facilities during the past year.

Data from respondents clearly indicate that most of the new pork facilities constructed during the past year in Wisconsin were completed by producers with over 500 hogs (Table 3-5).

Table 3-5.

Did You Build Any New Pork Facilities Within the Past 12 Months? Oct. 1994

Size of Herd	Percent (Yes)
1000+	14%
500-999	11%
250-499	2%
100-249	3%

Future Expansion of Facilities

Pork producers are reporting plans for expansion during the next twelve months. Most of the expansion planned will be in the producers group with 500-999 hogs (26%) and the group with over 1000 hogs (13%). Plans for expansion in the groups with 100-499 hogs were limited (Table 3-6).

Table 3-6.

Are There Any Plans to Expand Your Pork Facilities Within the Next 12 Months? Oct. 1994

Number Head	Percent (Yes)
1000+	13%
500-999	26%
250-499	2%
100-249	3%

Type of Siting Used in Pork Production

Single Site:

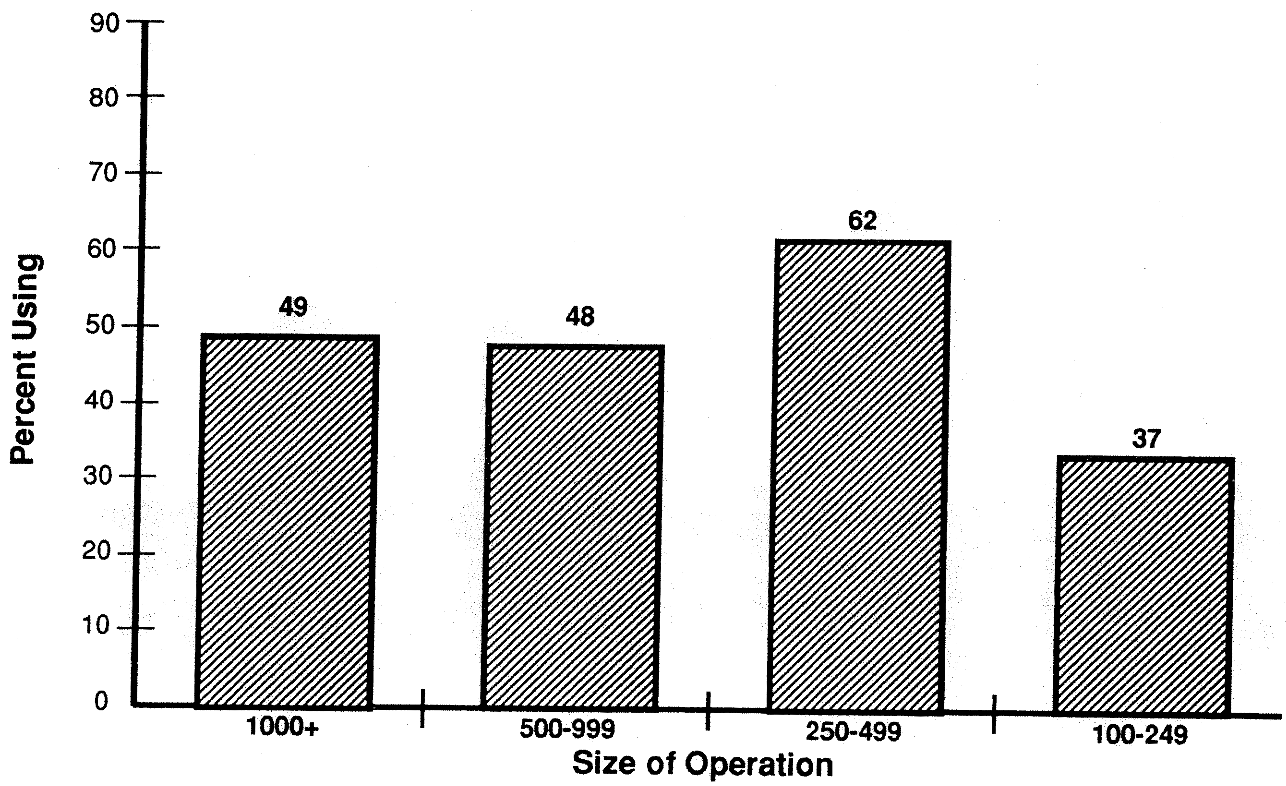
Nearly half of the producers reported they were using a single site system for pork production. Sixty-two percent of the producers with 250-499 indicated they are currently using the single site system (Graph 3-3, next page).

Multi-Site:

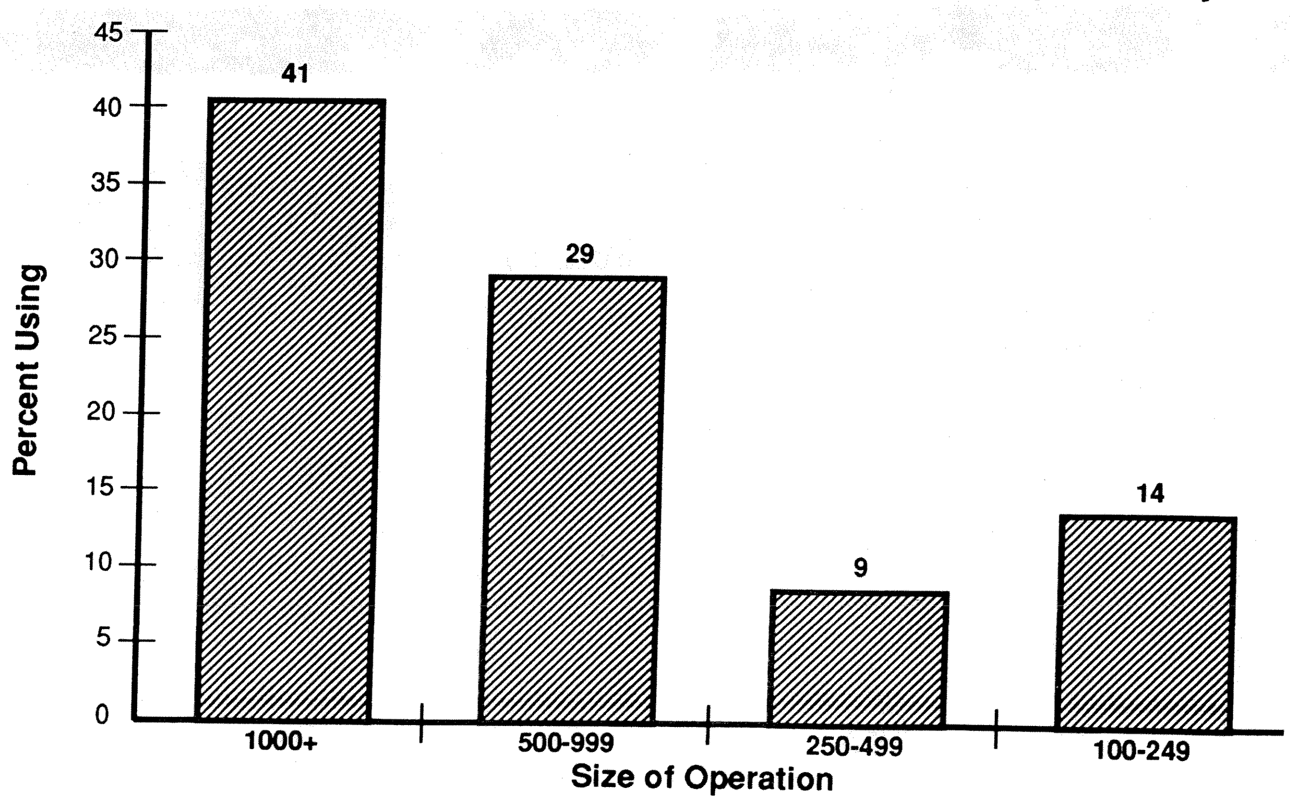
Recently there has been a growing number of producers using multi-site systems to reduce disease and to take advantage of specialization using multiple locations.

Larger producers reported a wider use of multi-site production systems. Twenty-nine percent of the 500-999 head group and forty-one percent of the 1000 and over group indicated utilization of the multi-site system (Graph 3-4, next page).

Graph 3-3. Percent of Producers Using Single Site Production



Graph 3-4. Percent of Producers Reporting Use of the Multiple Site System



Types of Buildings Used

An attempt was made to identify types of buildings currently used by pork producers. Larger producers used the most confinement buildings for gestation, farrowing, nursery and finishing. Less than three percent of all operators used open lots for farrowing.

Smaller operations reported using more open lots for farrowing. This group of pork producers also indicated using more open ventilated buildings.

Factors Considered Important in Siting Buildings

Recent environmental concerns have resulted in new regulations and guidelines for siting pork facilities. Producers participating in the survey were asked to rank a list of building siting concerns in order of importance.

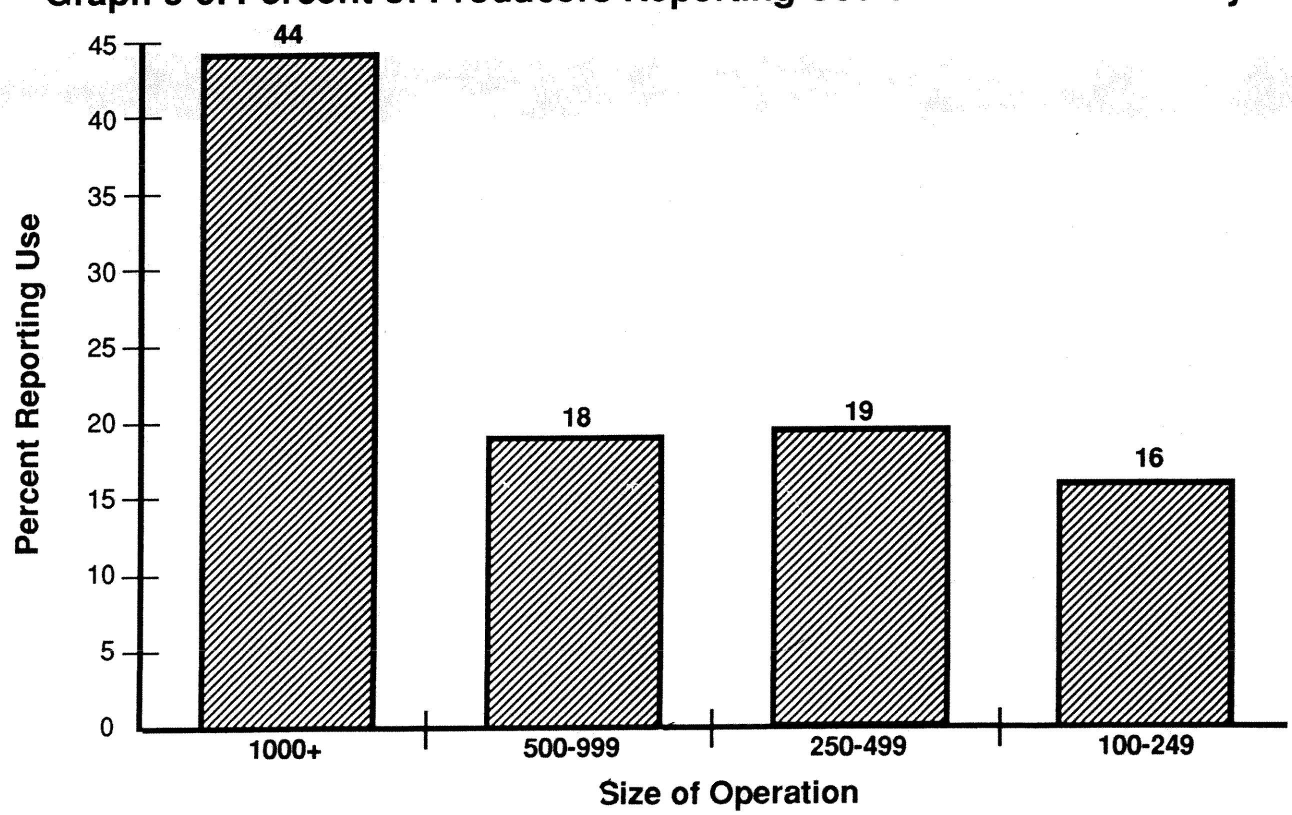
The leading concern or factor listed in siting hog buildings involved Department of Natural Resource regulations. Real estate taxes were ranked number two by smaller producers and number six by the larger producers. Township ordinances and neighbor attitudes were of greater concern to larger producers. Distance to markets was a greater concern to smaller producers. Acreage available for manure disposal was ranked high by all producer groups.

Table 3-7.

Factors Most Important In Siting Hog Buildings

100-499 Head (Rank)	500-1000+ Plus (Rank)
1. DNR Regulations	1. DNR Regulations
2. Real Estate Taxes	2. Township Ordinances
3. Distance to Mkts.	3. Neighbor Attitudes
4. Acreage Available	4. Acreage Available
5. Township Ordinances	5. Soil Types
6. Soil Types	6. Real Estate Taxes
7. Neighbor Attitudes	7. Climate Conditions
8. Climate Conditions	8. Roads & Highways
9. Roads & Highways	9. Distance to Mkts.

Graph 3-5. Percent of Producers Reporting Use of "All In-All Out" System



Production Methods and Practices Used

Producers in the survey were asked if they were using several newer pork production practices. Adequate buildings, facilities and adoption of new technology and practices may all be necessary to increase pork production in Wisconsin

"All In-All Out" System

The use of the "all in - all out" system has been widely adapted by producers with over 1000 head of hogs (42 percent). Less than twenty percent of the producers with 100-999 head had adopted the production practice (Graph 3-5, previous page).

Split Sex Feeding

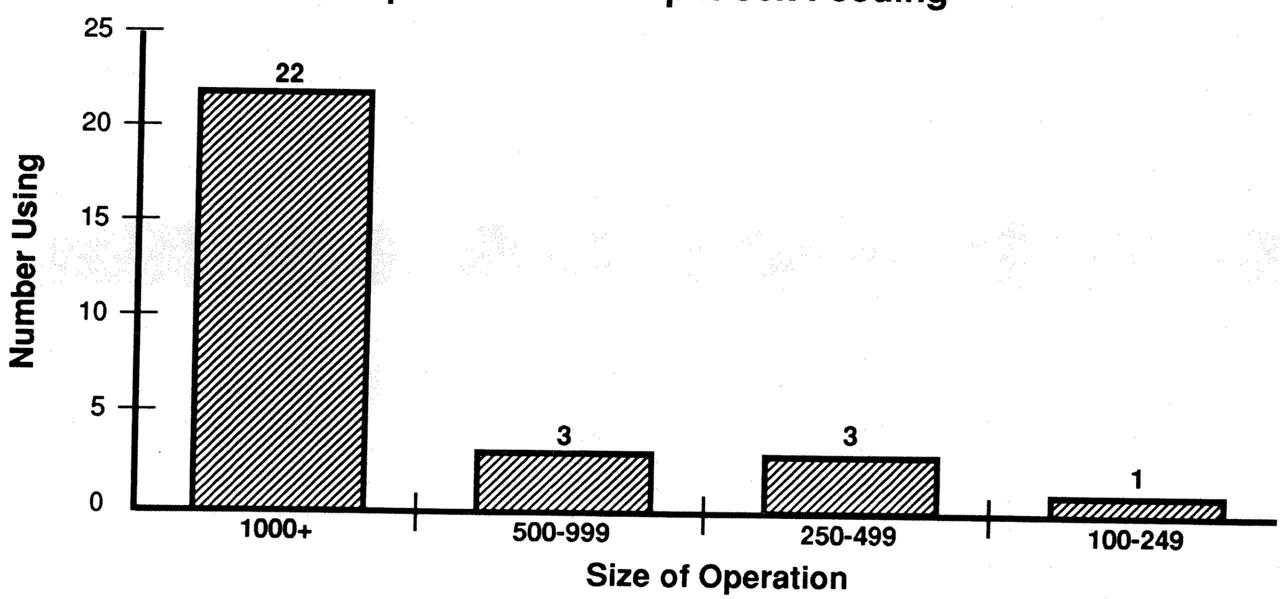
The production practice of split sex feeding has been adopted by many of the larger pork production units nationwide. Wisconsin producers in the survey were asked if they used the practice of split sex feeding.

Survey data revealed that 22 larger Wisconsin producers (over 1000 head) reported using the split sex feeding system. Only seven producers in the 100-999 head groups reported adopting the split sex feeding program (Graph 3-6).

Artificial Insemination

Artificial insemination (AI) has been available for many decades but new technology and practices have increased AI use in recent years. Only twenty-two producers in the survey indicated they use artificial insemination in their herds. Seventeen producers reported plans to use AI in their swine herd in the future.

Graph 3-6. Use of Split Sex Feeding



Chapter 4
Wisconsin Pork Producers and the Environment

The Environment

About three-fourths of the largest pork producers reported storing manure in pits, while one-fifth used lagoons and nearly half also utilized solid storage (Table 4-1). In the middle two size categories, very few (less than 10%) utilized lagoons. Most were about evenly divided between using pits and solid storage. About three-fourths of the small pork producers relied on solid manure storage while about one-sixth used pits and extremely few used lagoons.

Table 4-1.
What Type of Manure Storage Do You Use?

Size of Herd	Pit (%)	Lagoon (%)	Solid (%)	Other (%)
1000+	76	20	44	3
500-999	44	4	47	6
250-499	42	9	47	2
100-249	16	3	74	7

The vast majority of the manure was handled by spreaders, particularly among smaller pork producers. Liquid manure injection was utilized by over a third of the largest producers but its use declined rapidly as the size of the pork operations decreased (Table 4-2). The traveling gun method was used by 13% of the largest producers but was very rare in the smaller categories. Only several of the very large producers used the center pivot system.

Table 4-2.
What Type of Manure Handling Do You Use?

Size of Herd	Center Pivot (%)	Liquid Injection (%)	Traveling Gun (%)	Spreader (%)
1000+	4	37	13	68
500-999	2	19	5	74
250-499	0	14	2	84
100-249	0	3	0	97

The timing of manure application varied considerably. There was a tendency for the larger producers to apply manure less often than the smaller producers. Relatively few, about one-tenth, applied manure daily, but weekly application was quite common, ranging from 28% among the largest to 49% among the smallest production units (Table 4-3). About half of the largest farms reported seasonal application, while only about one-fourth of the farms in the other categories did so.

Table 4-3.
How Often Do You Apply Manure In Your Operation?

Size of Herd	Daily (%)	Weekly (%)	Monthly (%)	Seasonally (%)
1000+	7	28	17	48
500-999	14	39	19	28
250-499	18	42	15	25
100-249	3	49	19	29

Very few pork producers reported any neighbor complaints about environmental problems. About one-sixth of the producers in the largest two categories reported neighbor complaints about odors (Table 4-4). Complaints about traffic, noise and runoff problems were almost nonexistent.

Table 4-4.
Have You Had Any Complaints from Neighbors About Your Pork Operation?

Size of Herd	Odors (% Yes)	Traffic (% Yes)	Noise (% Yes)	Runoff (% Yes)
1000+	17	2	0	1
500-999	14	6	3	3
250-499	10	0	0	0
100-249	3	0	3	0

More than one-half of the pork producers reported that their pork facilities were within one-quarter mile of their closest neighbor's residence (Table 4-5). Over 98% of the producers in the largest categories reported that their operations were less than a mile from their nearest neighbor's house. About one-tenth of the producers in the smaller two categories reported that their pork operations were more than one mile from nearest neighbor's house.

Table 4-5.
What Is the Distance from Your Pork Operation to Your Nearest Neighbor's Residence?

Size of Herd	0-.25 Miles (%)	.25-1.0 Miles (%)	1.0-2.0 Miles (%)	2.0+ Miles (%)
1000+	50	48	2	0
500-999	69	31	0	0
250-499	51	41	4	4
100-249	60	28	6	6

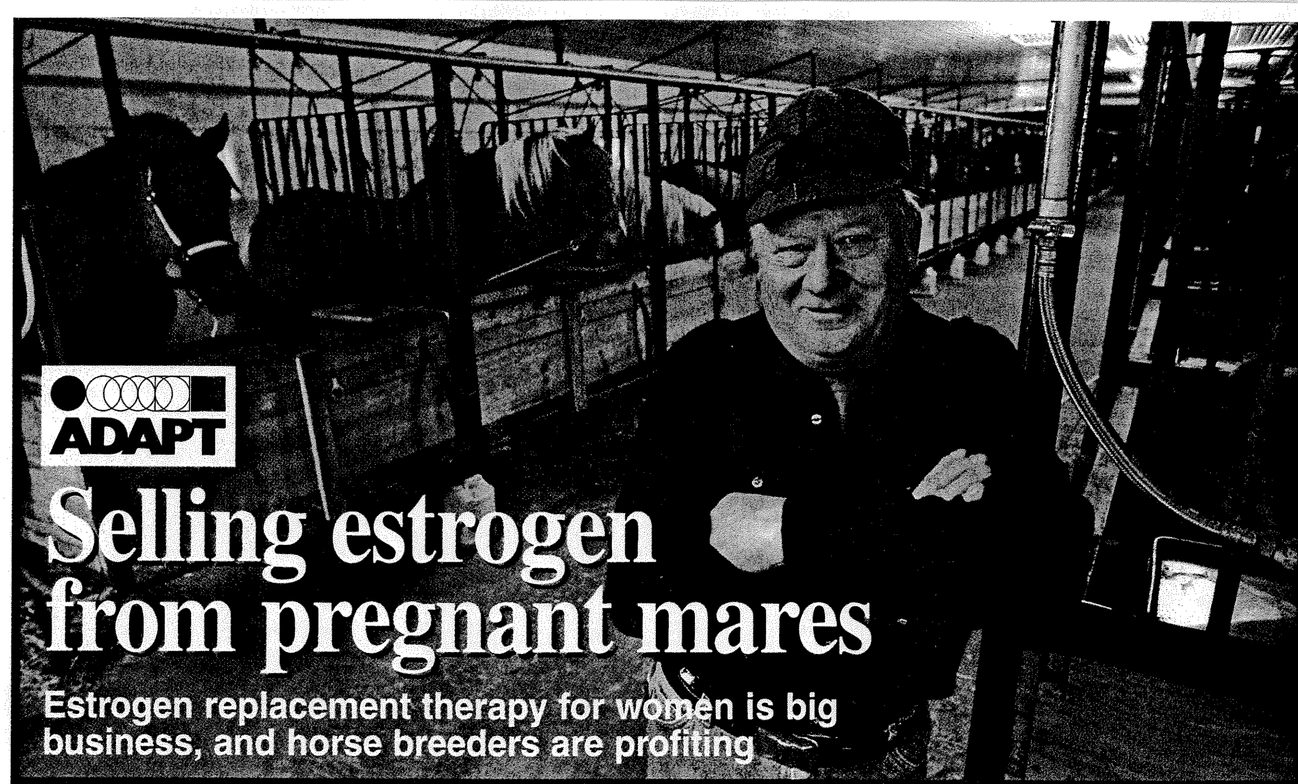
The average pork production operation was about 4 to 6 miles from the nearest town (Table 4-6). In about three-fourths of the cases, the nearest town had a population of less than 5,000 (Table 4-7).

Table 4-6.
What Is the Distance from Your Pork Operation to the Nearest Town or City?

Size of Herd	Miles
1000+	6.4
500-999	4.2
250-499	6.4
100-249	4.7

Table 4-7.
What Is the Population of Your Nearest Town or City?

Size of Herd	Number of People 0-5,000 (%)	5,000-50,000 (%)	Over 50,000 (%)
1000+	74	24	2
500-999	72	25	3
250-499	76	22	2
100-249	85	15	0



ADAPT

Selling estrogen from pregnant mares

Estrogen replacement therapy for women is big business, and horse breeders are profiting

Photographs: Mitch Kezar

Dave (above) and Beverly Schubert raise Percherons near Brainerd, Minnesota. Their mares, plus Clydesdales and Belgians leased from neighbors, are used to produce conjugated estrogen for Natural Biologics.

By Betsy Freese
Livestock Editor

By the year 2000, 50 million menopausal women in the U.S. will be candidates for estrogen therapy. What does this expanding market mean to agriculture? The active ingredient in Premarin, the leading estrogen replacement drug and the most prescribed drug in the nation after amoxicillin, is conjugated estrogen processed from pregnant mare urine.

There are 425 horse ranchers in Canada and 25 in North Dakota producing conjugated estrogen for Wyeth-Ayerst Laboratories, the makers of Premarin. The waiting list is long. But a new company has started up in Minnesota to challenge Premarin. Natural Biologics (NB) has opened a $9 million processing facility in Albert Lea to produce the first generic version of Premarin. FDA approval is pending.

NB contracts with farmers to house 50 or more mares and collect urine during their pregnancies. Equipment from dairy farms is often used in the urine collection barns. Mares are fitted with a harness and collection vessel, a flexible gravity-flow noninvasive device. Mares are exercised and given stall space for freedom of movement.

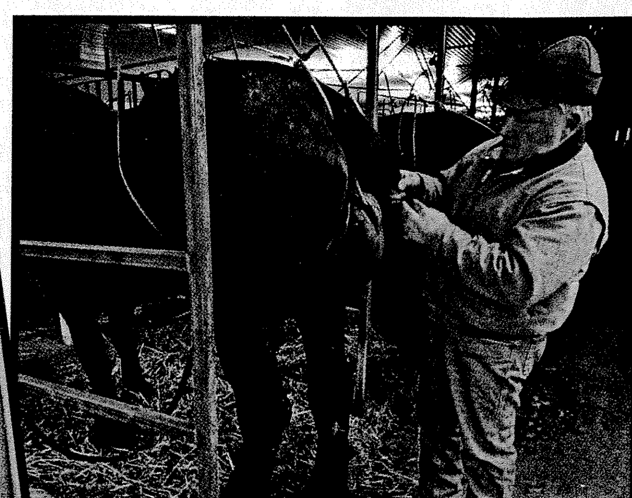
Including the foal, producers gross $1,200 to $1,800 per mare. NB provides instructions on facilities, collection equipment and operation. Contact NB for more information. SF

For more information

Natural Biologics
1215 Hershey Street
Albert Lea, MN 56007
Phone: 507/373-1542

North American Equine Ranching Information Council (horse breeders selling pregnant mare's urine)
Web site: www.naeric.org

The process of collecting urine is comparable to collecting bulk milk from dairy farms. Collection vessels are placed on mares (far right), then Beverly Schubert dumps the urine into a stainless tank. The urine is shipped under refrigeration to the processing plant.



District hog prices hit historic lows

By EDWARD LOTTERMAN
Agriculture Editor

"It's just like I stuffed a $50 bill in the ear of every one of them hogs as they went on the truck." That mildly expurgated statement by a Minnesota farmer expresses the frustration felt by many district hog producers in late 1998 as prices dropped precipitously.

Several producers expressed dismay with hog prices at a special ag crisis meeting convened by South Dakota governor Bill Janklow in mid-September. Prices had just dropped below the $30 per hundredweight level at that point. By the end of November prices were well below $20, with one buyer quoting a price of $14.52 in Thanksgiving week. And in December prices fell still further, dropping below $10 at scattered points on several days.

These are the lowest prices in current dollars since mid-1965, and, adjusted for inflation, the lowest prices ever in the history of the United States, well below those of 1933 when the incoming Roosevelt administration took the step of killing baby pigs in a controversial effort to curtail supplies. While current prices had recovered to about $20 per hundredweight by mid-January, they were still well below 1997's average price of about $53.

Supply is the key issue in this price trough. The U.S. Department of Agriculture estimates that 1998 production will hit 18.1 billion pounds of pork, up by 2.7 billion pounds over 1997. That translates to a 17.5 percent increase. And while grain producers can blame reduced demand in Asia for at least some of their price woes, this is not true for pork. Exports through September are reportedly up 28 percent over the same period in 1997.

Americans are eating more pork, too, as sharply lower prices at the farm translate into modestly lower prices in supermarkets. In the first 9 months of 1998, Americans ate 7.6 percent more than in 1997, a large increase considering that prices have dropped only 2 percent at the meat counter.

Only on the Web

For those interested in learning more about the Roosevelt administration's attempt to curb hog supplies through a controversial killing program, visit the Minneapolis Fed's Web site and click on *fedgazette* to find the article, "The porcine slaughter of the innocents."

minneapolisfed.org

Canadian imports

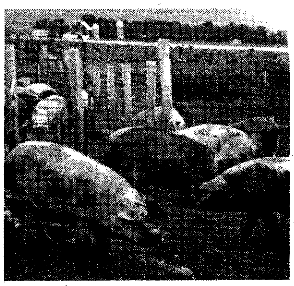
As producer anger about low hog prices spreads, the issue of the impact of hogs imported from Canada is becoming a hot one in parts of the Ninth District. It is a much bigger issue in eastern South Dakota and southwestern South Dakota than in other pork-producing areas such as Iowa, Illinois, Missouri or North Carolina. That is because many Canadian hogs are slaughtered at the John Morrell plant in Sioux Falls, S.D. While hog imports are not large relative to domestic production, they are highly visible when they roll down Interstate 29, which parallels the Minnesota-Dakotas border.

Furthermore, following protests earlier in 1998 on grain imports from Canada, some political leaders have seized on Canadian hogs as the primary reason for low U.S. prices. Just how important are these imports?

There is little evidence that such imports are a significant factor in low prices. Hog imports have increased in recent years, from around 1 million per year in the early 1990s to nearly 4 million in 1998. That is a lot of hogs, but still only about 4 percent of total U.S. slaughter. Moreover, the increase in shipments from 1997, when hog prices were quite favorable to producers, to 1999 is less than a million head. It is hard to make a convincing case that an increase in imports equal to 1 percent of total slaughter is responsible for a 60 percent or more drop in prices.

Contract prices

The changing structure of the hog industry (see the April 1996 *fedgazette*, on-line at minneapolisfed.org) may contribute to a gap between the publicized "spot" prices paid for hogs in open markets and the average received by all producers. As hog production has shifted into larger-scale facilities, an increasing proportion of total production has come under some form of vertical integration involving contractual relationships with feed suppliers or with hog processors. Such contracts usually contain price provisions, including some minimum price or some formula linking prices to market conditions and feed costs. These contractual price provisions are frequently not disclosed to the public, though individual producers sometimes share such information with friends and neighbors.



words is "price discovery" as accurate and as transparent as it would have been without the contracts?

Some smaller independent hog producers call for the prohibition of packer contracts, saying that they are too one-sided and that an individual producer has little bargaining power compared to a packer. But other producers and some hog producer associations maintain that the contracts are freely entered into by both sides and that the majority of all hogs are still sold in daily spot markets. A number of farm organizations and some livestock economists have proposed that packers be allowed to continue to offer contracts under whatever terms they see fit, but that these firms also be required to publicly disclose the terms of such contracts and how many animals they buy each day or week on contract. Reports could be made to U.S. Department of Agriculture's Packers and Stockyards Administration, the agency mandated to regulate the industry.

Many observers note that the poultry industry went to a system of nearly 100 percent contracting and that it is a vibrant one with growing market share and relative financial stability for both producers and processors. While they differ in opinion as to whether or how soon contracting will come to dominate pork production to the degree it does poultry, they generally agree that such vertical integration need not pose a threat to the family farm. Most turkeys and chickens are raised in facilities owned and managed by families. But some hog producers argue vehemently that they will become mere "hog janitors," in the words of some, contractual servants of packers, with little real independence in management or other decision-making.

Coming on the heels of ongoing spirited debates about the environmental effects of the expansion of large, capital-intensive hog facilities, the current collapse of prices should ensure that hogs are the center of many discussions during legislative sessions in many Midwestern states in 1999.

—Edward Lotterman

There is concern on the part of some in the industry that as the proportion of all hogs sold in public markets becomes a smaller fraction of total output, market prices are becoming more volatile and more susceptible to manipulation by large buyers or sellers. These concerns have been a matter of public discussion for some time, but recent low prices have added fuel to the fire.

Regardless of whether publicly quoted prices are manipulated, the increasing degree of contracting does mean that many producers are getting more for their hogs than the spot prices quoted in the media. Several bankers responding to the Minneapolis Fed's fourth quarter agricultural credit survey noted this difference, commenting that some of their customers who are in contract relationships are doing better than the purely independent producers who sell their hogs on a day-by-day basis. *(See page 7 for survey report.)*

Public policy questions of pricing and structure aside, the current price drop once again illustrates the interaction of biology and economics. In late 1996 and through most of 1997, hog producers were doing quite well in comparison to cattle ranchers and pure grain farmers. Hog prices in the high $40 to low $50 range were high enough to motivate ongoing construction of large facilities and, at the same time, increase production by "swing" producers with low input or fully depreciated facilities. It was a simple textbook example of producers responding to a favorable price signal.

In comparison to cattle, hog production can be ramped up quite quickly. Cows grow slowly and are not physiologically ready to calve until they are more than two years old. They have nine-month gestations, and virtually all births are singles. Hogs can give birth at a little over a year, and their gestation is only the "three months, three weeks, and three," learned by every Midwestern farm boy. Rather than single births, pigs come in litters with an average of nine or more pigs surviving. A hog can be sold for slaughter at 230 pounds at less than six months of age. The potential for a rapid increase in hog output is tremendous. Unfortunately, it means that hog prices can drop precipitously, especially as thousands of uncoordinated producers all respond to the same price signal at the same time.

Low prices, heal thyself

Low prices usually bring an end to low prices, just as high prices cure high prices. The extreme low prices experienced at the end of 1998 will force resources out of production in one way or another, and production will drop sooner or later. Prices will then rise. It is not clear how long this will take, or what proportion of resources will be "forced out of production" through the bankruptcy or liquidation of the resources' owners. In January 1999, futures contract prices indicated market expectations of substantial price increases by July of this year. That may well occur, although futures markets did not give six months' warning of the low prices received in late 1998.

And one of most baffling problems for producers has been that the "basis," or difference in price between a contract for lean hogs on the Chicago Mercantile Exchange and one at country hog buying sites, recently seems to have broken down. Futures markets are one way producers can reduce price risk in marketing their output. But hedging production through use of futures contracts is only a useful risk-management tool as long as the basis is consistent or predictable. That simply has not been true in the chaotic market conditions that prevailed in many recent weeks.

As hog production has structurally changed, different opinions have been expressed in the relative financial resilience of large, capital-intensive units vs. more traditional family-farm sized operations. Existing farmers with paid-for or fully depreciated facilities may be more able to ride out low prices than some of the capital-intensive, highly leveraged new operations. On the other hand, now that these new facilities exist, their construction costs are sunk costs. Even if the initial owners go bankrupt, someone may be able to buy the facilities at enough of a discount to earn cash-flow. The current price trough may put the industry to a wrenching, but information-producing, test of these hypotheses.

How much should pork prices drop?

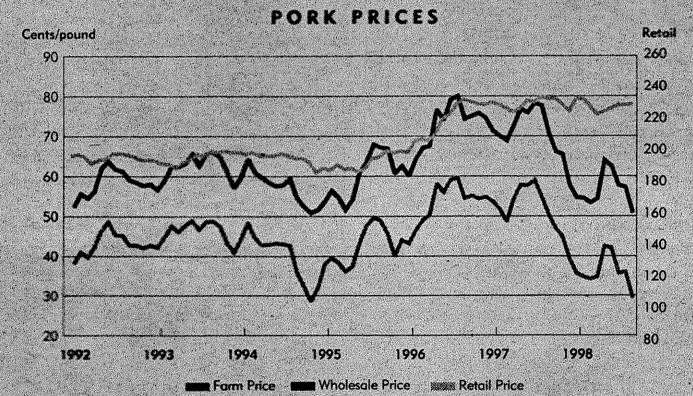
In the last year, the price farmers get for hogs has declined by over 60 percent while retail prices for pork dropped 2 percent or so. Most producers are outraged by this discrepancy. They and many consumers assume that if farm-gate prices drop a given amount then retail prices should drop identically, either in percentage terms or in cents per pound. If this does not happen, they assume that price gouging is occurring somewhere.

In reality, things are not quite as simple. A decrease in farm level prices does not affect the cost of transporting either live hogs or meat, nor that of slaughtering, cutting, processing, warehousing or retailing. So there is no reason why a farm price decline should reduce consumer prices by exactly the same percentage.

The argument that retail prices should decline by the same number of cents per pound is a stronger one. In fact, the effective cost per pound of useable meat to the packer declines by a larger absolute number of cents per pound than does the liveweight. If live hogs cost $50 per hundredweight or 50 cents per pound, and the useable dressed carcass is 66 percent of the liveweight, then each pound of carcass costs about 75 cents. At 30 cents per pound liveweight and the same dressing percentage, the carcass cost is about 45 cents. Equal percentage drops, 40 percent in this case, in both live and carcass weight prices translate into a 10 cents greater drop per pound on a carcass basis.

This of course ignores the packer's slaughtering cost and the amount received by the packer for "variety meats" and "offal"—those parts of the live hog such as organs, hide, snouts, ears, and so on, that have some commercial value but which are not included in the carcass weight. The packers' slaughtering costs are unaffected by price fluctuations at the farm or meat counter level. And the value of offal drops, just as the carcass does, when supply increases. So as farm prices drop by 30 cents or more as we have seen in the past 12 months, the argument goes, retail prices should drop by at least that amount and perhaps as much as 45 cents, even if the percentage decrease at farm and retail levels is not the same. A 30 cents or 45 cents decrease would be substantially greater than the 2 percent average retail price drop seen so far.

Not so fast, packers would respond. Slaughter costs do not necessarily change with farm or retail prices. But they do change when slaughter plants are pushed to the limits of capacity. That is clearly going on at present. Hog packing has been going through some of the same structural changes as beef packing over the past decade, with new plants built, at times in very new locations, and older plants closed as they find they cannot compete with newer, more efficient facilities. The U.S. Department of Agriculture estimates that the nation's hog slaughter capacity declined by 37,000 head per day over the last year. In October and November 1998, over 2 million hogs were being slaughtered per week in the remaining plants. That requires running operations 16 or 24 hours per day, six days per week and paying overtime, which in a labor-intensive industry such as meat packing, drives up the average cost of slaughtering.



Source: Dr. Brian Buhr, Department of Applied Economics, University of Minnesota

The decline in slaughter capacity combined with significant expansion in hog production capacity in the last decade has resulted in very illiquid markets in many areas. Once all the packing plants in a given geographic area are running at full capacity, they do not buy more hogs at any price. Prices for the remaining hogs offered by producers then drop precipitously, not in small marginal increments. It is just like the situation on stock exchanges when panic selling occurs and the number of sellers temporarily overwhelms the number of buyers. Industry analysts point out that the extremely low prices reported in the press, including some in the mid $14/hundredweight range, did not apply to all hogs slaughtered that day. These prices were paid only for the last few hogs sold that day, the "marginal" ones in economists' lingo, after the packers bought enough to meet their plants' capacity.

Moreover, while farmers usually focus on meat packers as the most visible "middlemen" with whom they deal, there are other players in moving pork from farm to table. In the last few years, there is considerable evidence that wholesale prices have followed farm level prices quite closely. It is the spread between wholesale and retail prices that has widened. *(See chart.)* If farmers are angry, packers say, they should direct it at supermarkets and other meat retailers who have not dropped their prices in line with reduction in wholesale prices.

Retailers respond that the numbers are bad, that USDA retail price series do not adequately take into account large quantities of pork that are sold at heavy discounts. Furthermore, they argue, they are just making up for narrow margins they experienced two years ago, when farm and wholesale prices were higher.

The use of posted regular prices rather than "specials" has always been a knotty one in compiling price indices, especially when structural change occurs in a retail sector. But it seems clear to many economists that while USDA price series are not perfect, unmeasured heavy discounting cannot account for all of the widening wholesale-retail spread. And they point out that retailers' margins were not terribly tight in the past as some maintain.

Like other facets of the current problems in the pork sector, the question of why players at different levels get different shares may long be a matter of contentious dispute among farmers and the meat trade. It will provide fallow ground for Ph.D. candidates to research. And don't be surprised to see news reports of farmers protesting outside supermarkets. ■

Is Agriculture in Crisis?

By EDWARD LOTTERMAN
Agriculture Editor

1998 was not a good year for farmers. Prices for grain and livestock generally declined as the year wore on. Grains rallied slightly in early October but then slid again. Hogs hit 20-year lows in September and then sagged even further in closing weeks of the year. Problems in agriculture made headlines in regional and national media. One question often asked is "Are we back in a farm financial crisis like the early 1980s?"

Most agriculture economists and many farm lenders have responded "Not yet." There are several differences. Both farmers and bankers learned bitter lessons in the 1980s and have been more conservative in their borrowing and lending practices. Farmers, on average, are not as highly leveraged as they were in the early 1980s. The current macroeconomic environment is one of near price stability and low interest rates in contrast to the inflation psychology and double-digit interest rates that prevailed 18 years ago. Land prices have not been increasing at annual double-digit rates the way they were in the 1970s. And land prices have not been falling the way they did in the early 1980s, wiping tens of thousands of dollars off the asset side of farm balance sheets.

Keep an eye on land prices

One important difference between the 1980s and the current slump is that land prices had not been falling—until now, that is. Since 1987, bankers responding to the Minneapolis Fed's Quarterly Survey of Agricultural Credit Conditions have usually reported modest, but positive, changes in land values. Occasionally some bankers have said that land prices in their area were unchanged compared to a year earlier when weather or prices were particularly adverse locally. For example, as beef prices dropped in 1994 to 1996, some Montana bankers reported that grazing land prices had not increased. But no one reported decreases.

That ended in 1998 when a few bankers in the Red River Valley of northwestern Minnesota and eastern North Dakota began to report price declines for cropland. First two, then four, then five such reports came in. Then suddenly in the fourth quarter, 19 bankers said land prices were down in their areas. Another 47 said prices were flat, zero increase or decrease. An additional 36 did see some increase. Averaging across states, the increases outweighed the decreases in all states but Minnesota, where cropland had an average decline of 2.1 percent. In North Dakota, grazing land also dropped slightly, but the number of North Dakota bankers who report in this category is quite small for any inference to be made.

The Minneapolis Fed survey results were not isolated. The Kansas City Fed received a number of reports of land price declines in its most recent agricultural credit survey and Iowa State University found an average decline of 1.9 percent in the value of all farmland in the state for 1998 compared to 1997.

Cause for concern?

Are these reports something that should cause concern? The caveats about the existence of an ag crisis expressed above are still valid. While most farmers are suffering financially from low prices and while many farmers will experience operating losses in 1998, few are as bad off as many were in 1983-1985. The average level of debt relative to assets remains lower now than then.

Still, declining prices may indicate that farmers are less optimistic about the future than they were just a few quarters ago. The price of an asset depends on market expectations of the income to be generated by that asset over many years. A drop in land prices means a drop in the collective expected value of income from land.

Declining land prices also mean that there is some erosion on the asset side of farm balance sheets, decreasing their net worth and increasing their leverage even if other factors remain constant. So far the declines are relatively modest overall, and will not greatly affect the financial position of most farmers. But reported declines are still concentrated in regions that have had the most adverse combinations of price, weather and wheat scab. [See the November 1998 *fedgazette* for more on the impact of scab at minneapolisfed.org on the Web.] Farmers in those regions who were already highly leveraged may find that the more accentuated declines in those regions will make a significant hit on their financials. Additional voluntary or forced farm liquidations may put more land into sale or rental markets, further augmenting price declines if nothing else improves.

Once again, are we in a farm crisis? Many rural bankers respond something like the following. "We are not in a crisis yet, but we are about a year away from one." In other words, if currently depressed farm commodity prices do not improve during 1999, many more farmers will see their equity erode to a point where their ability to continue farming will be in serious jeopardy. That's a pretty level-headed assessment of the situation, one that is substantiated by the small—but increasingly widespread reports—of farmland price declines. ■

Wisconsin Hog Farmers Seek $1.5 Million From USDA

Wisconsin hog producers, recovering from the lowest hog prices in five decades, have applied for nearly $1.5 million in aid payments from the U.S. Department of Agriculture, a USDA official recently told the Wisconsin Pork Producers Association at their annual meeting last week in Madison.

Doug Caruso, state director of USDA's Farm Service Agency (FSA), said 1,523 Wisconsin hog operations applied for the payments during a special sign-up conducted by FSA February 1-12. "They reported marketing 272,552 slaughtering hogs and 57,292 feeder pigs during the last half of 1998, qualifying them for up to $1.466 million in payments."

The payments are available to small hog operations that marketed fewer than 1,000 head during the marketing period.

"These farmers will receive $5 for each slaughtered hog and $1.80 for each feeder pig, up to a maximum of $2,500 per operation," Caruso explained. "However, if the total national sign-up exceeds the $50 million available, individual payments will be pro rated to stay within the national limit."

Caruso said he expected the payments to be made in early March.

'AGRI VIEW' 2/25/99

Pork Crisis on Producers' Minds As WPPA Conducts Annual Business

By Jane Fyksen
Crops/Livestock Editor

Their operations still bleeding red ink, members of the Wisconsin Pork Producers Association looked to their national organization for solutions. WPPA held it's annual meeting last week in Madison, demanding in one resolution that the National Pork Producers Council (NPPC) put "the producer's well-being first."

The above resolution was prefaced by a couple "whereases" including "producers fell that their interests have not been accurately reflected at the national level" and "pork producers should not economically suffer for the benefit of the promotion of the pork chain." WPPA resolved that NPPC restructure current programming and implement new programming to put the producers' well-being first and foremost.

That was a substitute resolution for a stronger one submitted by the Columbia County Pork Producers that called for the immediate elimination of NPPC and the pork industry's mandatory checkoff. That original resolution (which wasn't taken up by the membership) called for a voluntary checkoff - "so as to maintain true accountability" - at a rate of one-fiftieth of the present checkoff.

The Sauk County Pork Producers submitted a resolution demanding all management staff at the NPPC and National Pork Board take a 50 percent cut in wages, effective immediately. That idea, however, never reached the full membership for vote, having failed for lack of a second motion.

WPPA members also voted to waive the $20 membership dues for 1999 for any producer in financial need - "financial need" being self-reported by producers.

However, members voted down a third resolution asking USDA for additional direct cash payments to pork producers. That failed resolution, submitted by the WPPA board, called for maximum emergency producer payments

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Pork Producers

Continued from Page 12

of $50,000 (utilizing receipts for the six months from Oct. 1, 1998 to March 31, 1999, at the rate of $10 per weaner/feeder pig and $20 per market hog).

Members went on record, however, asking that NPPC "refocus its priority to producers' needs in marketing and for market information." WPPA asks that NPPC fund and develop a marketing task force that examines the "spot market problems" that drove profitability out of raising pork in 1998 and then come up with ideas to "insure competitive marketing for pork producers." That resolution originated from the Sauk County Pork Producers, from the convention floor.

WPPA also went on record:

• Supporting state and local referendums only being held during general elections (due to light voter turnout during special referendums that possibly doesn't reflect the true feelings of the majority of potential voters).

• Opposing business relationships that are detrimental to pork producers (this one concerned expressly with vertical integration within the industry and "the potential for unfair relationships among the players").

• In favor of mandatory price reporting on a lot-by-lot basis including contract and spot market sales).

• Asking NPPC to publish a monthly comparison report on prices received by producers and average retail prices of selected pork cuts in major markets.

• Thanking Governor Tommy Thompson, State Ag Secretary Ben Brancel and key legislators for addressing the financial crisis within the pork industry.

• Opposing imposition of sales tax on any farm production inputs including machinery and equipment.

NPPC CEO Al Tank offered an explanation of the price plummet that's had producers financially reeling. Nationwide, he noted, pork producers lost $2.6 billion in equity last year.

What happened? Tank said several factors came together to precipitate the well-publicized price plunge.

First, fourth-quarter hog slaughter set an all-time record at 26 million head. Last year also saw an all-time one-week high of pigs killed at 2.5 million.

With all those hogs headed to market, lack of capacity in the slaughter/processing segment couldn't have come at a worse time, Tank noted. He said that from 1997 to 1998, the pork industry lost the ability to kill about 37,000 head a day - an 8 percent drop. Competition in the hog-slaughter industry bought out competitors and then closed down those plants. Further, Tank said that plant closures came in key areas of the country experiencing growth in pig numbers - further exacerbating the situation.

Third, Tank pointed out, the pork industry ran up against inelasticity in demand. He showed a chart that compared percent change in production to percent change in hog prices: from 1978 to 1979, production rose 15.6 percent, while hog prices dropped 12.4 percent; production rose 9.2 percent between 1987 and '88, while prices dropped 15.9 percent; but last year, with a 10.1 percent increase in production, prices fell ... percent.

"Inelasticity of demand is why the market went down as hard and fast and deep" as it did. However, he thinks that the inelasticity holds potential for it to "go the other way" just as dramatically.

Why inelasticity? "On the meat side," Tank said consumers are willing to pay to buy pork." On the "pig side," he noted, "There are a lot more pigs being tied up with packing plants." The industry is moving away from spot markets.

Further, there are fewer plants competing for pigs these days, creating more volatility in prices among those left competing. In this last respect, Tank fears that pork producers may be the "canary in the coal mine." The more specialized agriculture becomes and the more consolidated agribusiness, other segments are apt to see the volatility the pork producers suffered.

Because so many pigs are tied to contracts, it's difficult to determine actual prices from what's being reported. Five years ago the average price was a dollar under the Iowa/southern Minnesota reported price. It's running $2 over now.

Historically, producers' share of the consumer's retail pork dollar has stood at 37 percent (with retailers gleaning 47 percent and packers getting 16 percent). In October last year, producers' share was 18 percent, packers' 22 percent and retailers' 60 percent. "If the (producer) share would have been normal, the price in October should have been $48.93 (for hogs)," noted Tank. The industry ended 1998 with a producer share for the year of 22 percent.

How can producers regain market share? The NPPC executive said that need to "enter into relationships with the end-user and let packers be the cost center in the marketing chain." Tyson, he noted, is the single supplier of chicken to McDonald's with a cost-plus contract.

What's the incentive for retailers to link up with producer groups? Tank said it's because they've been "whipsawed on the other side" by packers. They also want a reliable source of product. Food-safety scares and concerns have them looking to pork for a safe meat.

"Antibiotic free pigs have value," he said of a marketing pitch to retailers. So do "family farm pigs."

Incoming Canadian hogs have also been "hugely important" in the price drop, Tank explains. There were 37% more pigs from Canada being killed last year in the U.S., compared to the year before. The U.S. took in 20 percent of the hogs produced in Canada last year. To blame? An exchange rate of 63 percent - the lowest value of the Canadian dollar to the U.S. dollar in the past 100 years. Sending hogs here added $4 per head for the Canadians.

Tank is concerned that despite the drastic downturn in prices, sow slaughter hasn't markedly picked up - just in the last two weeks it has. Prior to that, there's been reductions in gilts. He offers the reasons as a young herd going into the crisis and reluctance of producers to slaughter sows that virtually had no value.

He warned that "for every downturn in the he industry we've seen an increase in hogs - except for the '80s." He thinks more hogs may be on the way, due to continued productivity increases in the industry - more litters, more pigs per litter and more pounds per pig. He said the U.S. sow herd has basically stabilized in the U.S. since the mid-1980s between 6.7 million and 7 million sows.

"The productive engine in pork production is in place and productivity is rising," he warned.

Tank maintained that the pork crisis wasn't demand driven. Consumption of meat in total set a new record in 1998. He predicted beef continuing to slide and both pork and chicken jumping over the No. 1 meat (per capita) in the new millennium. Pork enjoyed a 7.7 percent increase in retail demand last year - at a time when no other meat was positive. On a boneless weight basis, the U.S. consumed last year 179 pounds of pork per capita - 5 pounds more than the year before. Pork, he noted, registered a 10.3 percent gain - the highest annual gain ever on pork back to 1970. It sets a record for all meats. (Chicken's best annual gain was 9.2 percent).

The fast-food industry "got interested in pork in a meaningful way," said Tank of McDonald's McGrilled Pork, McBLT, McBacon, McRib and Johnsonville bratwurst.

Exports are also cooking - up 20 percent last year, over 1997 which was also a record year. Seven percent of U.S. production was exported last year. Tank expects to see that percentage double or triple in the next decade.

He said that the industry needs to continue to work with retailed to feature pork - even though many producers question why checkoff dollars should be spent for that when the retailer's share of the consumer dollar has skyrocketed and producers' share has gone the other way. Tank warned that "retailers don't care what they feature as long as they make money."

Recognizing that the pork crisis has been "extremely frustrating" for producers, Tank said NPPC is after mandatory price reporting. The organization also wants producer groups to have first right of refusal when a slaughter facility is apt to be sold - so they can buy it instead of it being shut down by competition. NPPC also wants a one-time cash infusion based on hogs sold from October through December last year - aid he compared to government money forthcoming after other "disasters" like hurricanes.

He preached niche marketing to recapture a greater share of the consumer dollar. It's "not for everybody" but the opportunities are out there. "Somebody is going to supply McDonald's," he added.

In other business, WPPA elected a new president, Jim Furlong, Watertown, who replaces Mark Beisbier, Reedsburg. President elect is John Lader, Beloit. Vice-president is Eric Drachenberg, Arena. The treasurer is Janice Steinback, Platteville.

Newly elected to the board is Gail Goehring, Lowell, who was also selected to represent WPPA on the board of the Wisconsin Live Stock Breeders Association. Doug Wolf, Lancaster, was also newly elected, as was Mike Lindow, Chili. Mike Salter, Black Creek, was reelected. Remaining directors are: Beisbier; Louis Krueger, Campbellsport; Jerry Meyers, Pittsville; Leroy Peterson, Eastman; Steve Pinnow, Delavan; and Dale Wills, Belmont.

Chosen as National Pork Board delegates (for the year 2000) are: Don Lader, Beloit; Jim Furlong, Watertown; and Mike Salter, Black Creek.

County group awards were also presented. Small group co-awards went to Dodge County Pork Producers and the Southeast Wisconsin Pork Producers. The Grant County Pork Promoters won the large group award.

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Volume 29 | December 1998 | No. 11

The Crisis In Wisconsin's Hog Industry To Be Reviewed In Assembly Hearing

The Assembly Agriculture Committee ill hold a public hearing to discuss the urrent crisis in the Wisconsin hog ıdustry, according to the Chairman of the ;ommittee State Representative Al Ott R-Forest Junction).

Hog prices are currently the lowest they ave been since 1971, at less than $20 er hundred weight, while costs at the etail level remain high.

"I have received contacts from a umber of people about the plummeting rices for hogs and their concerns about ıe future of the industry in the state," said)tt. "I decided to schedule a hearing on ıe subject so we could try to get some nswers as to why this is happening."

The Committee will hear testimony from ıvited speakers knowledgeable about the various aspects of the hog industry, including the state of the hog industry in Wisconsin, national and international views, and producer, processor, marketing and retail perspectives. After the overview from the invited speakers, public testimony will be taken.

"There are many layers of the hog industry," said Ott. "With this hearing I want to get a complete picture of the industry and hopefully find a way to deal with this crisis."

The hearing is scheduled to take place in Madison on Thursday, December 17, in Room 417 North of the State Capitol. Invited speakers will address the Committee from 9:00 am to 12:00 pm. Public testimony will begin at 1:00 pm. Interested persons are invited to attend.

1999 Lafayette County Pork Queen, Gina Wills is crowned by Jamie Stephenson, the 1998 queen (right)

Seasons Greetings From Wisconsin Pork Producers

McDonald's /Johnsonville Brat Debut Prior To Packer Game

McDonald's, the world's largest foodservice retailer, is adding a branded pork product to its menu for a limited times.

Johnsonville Bratwurst, a premium pork product, will be available in 286 McDonald's restaurants located in Wisconsin, the Upper Peninsula of Michigan and in Rockford, IL., during the month of December. The bratwurst will be served on a home-style bakery bun and topped with ketchup and mustard. It will be available as an Extra Value Meal, which includes large fries and a medium drink. Producers checkoff funding is being provided to help support point-of-sale materials for the promotion.

A special preview of the sandwich was held on Sunday, Nov. 29 at the Green Bay Expo Center prior to the Green Bay Packers/Philadelphia Eagles football game. The Wisconsin Producers Association assisted with the bratwurst preview. Our thanks to the following individuals who took time out of their schedules to support the promotion: Gail and Brianna G... Kristin Ke... Retallick Fam...

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Volume 30 | January/February 1999 | No. 1

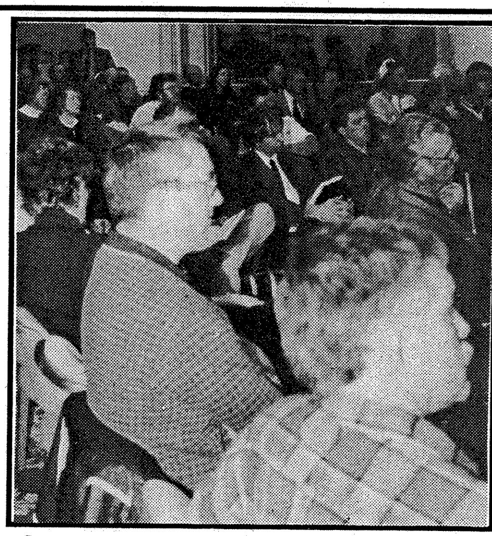
Governor Declares Hog Market Crisis an Emergency

WPPA applauds Governor Thompson's executive order to declare the hog market crisis an emergency. In December, Governor Thompson directed the Wisconsin Housing and Economic Development Authority (WHEDA) to examine ways in which their financing programs could be used to help Wisconsin pork producers.

WHEDA's review resulted in a proposed emergency loan guarantee program that would not require additional state money or statutory change. The plan provides up to $5 million in guarantee loans to pork producers.

Under the proposal, all pork producers would be eligible for the loan. The loan would carry a 90% guarantee. Producers seeking loan assistance will work through their local lending institution. The maximum loan limit is $50,000 including other CROP loans. CROP loans max out at $20,000. The borrower must apply for the guarantee prior to July 31, 1999.

The Joint Committee on Finance must approve the criteria before the program can be released. If approved, loans may be available by February 1 on a first-come, first-serve basis. Watch the WPPA web page at www.wppa.org for updates.



Several Wisconsin Pork Producers Packed the Assembly Agriculture Hearing on Dec. 17.

Producers Voice Concerns at Assembly Ag Hearing

Wisconsin's Assembly Agriculture Committee held an informational hearing on December 17 in Madison. The hearing focused on the current market crisis situation.

Over 250 people, mostly pork producers, attended the hearing.

Chairman Al Ott and committee members listened intently to information from invited speakers during the morning session and testimony from producers in the afternoon. The hearing brought forward information about the plight of Wisconsin's pork industry and pleas for assistance.

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Inside this issue...

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Winter Ag Expo
February 18-20

18 Youth Expo
Taste of Elegance
19 Annual Meeting
Trade Show
20 Seminars &
Trade Show

the hearing and asked the Committee to do what ever it could to help ease the burden placed on pork producers. When asked by Chairman Ott what his future plans were, Gutknecht replied, "I want the opportunity to farm."

Columbia County pork producer Heather Tessman asked that her family be given the opportunity to work together on the farm. "All we are asking for is a fair pla... field. I'm not
...just want to
...money to
...sman. "We
...es," stated

FSA chief outlines hog aid package for state grower group

Larger scale farmers unhappy with program

JAN SHEPEL

IIDDLETON

Some of Wisconsin's hog growers 'ere a bit hard on state Farm Service .gency Director Doug Caruso when he addressed the Wisconsin Pork Producers Association at their annual meeting Saturday (Feb. 20).

The thing that larger-scale hog producers were and are upset about is the USDA's disaster program which does not offer any payments to producers who marketed more than 1,000 head during the marketing period covered by the program.

They argued that farmers large enough to be full-time hog growers trying to make their entire living with it were not helped out by the program. Caruso conceded that point.

"But the program was meaningful to those that qualified," he said. USDA Secretary Dan Glickman was only able to "scrape up" $50 million for the aid program, Caruso said. "If Congress had appropriated more money, we could have

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Large-scale hog farmers unhappy with aid program

HOG, cont. from page 1

helped out more farmers," he said.

Caruso also pointed out that traditionally, pork producer groups have not wanted government programs or interventions.

Those Wisconsin hog producers who did sell fewer than 1,000 pigs in the last half of 1998 have applied for almost $1.5 million in aid payments from his agency, Caruso said.

In a signup period of only 10 working days – Feb. 1-12 – there were 1,523 Wisconsin hog operations that applied for the payments. He said those payments will be going out in early March.

"They reported marketing 272,552 slaughter hogs and 57,292 feeder pigs during the last half of 1998, qualifying them for up to $1.466 million in payments," Caruso said.

Those farmers can expect to receive $5 for each slaughter hog and $1.80 for each feeder pig with a maximum payment of $2,500 per operation. Caruso said that if the national sign-up exceeds the $50 million that was earmarked for the aid, individual payments will be reduced on a prorated basis to stay within that budget limit.

Because of the poor market prices for hogs in the last half of 1998, FSA has done several things to help the industry, Caruso said. "USDA purchased $107 million in pork products for federal food assistance programs in 1998, and is in the process of purchasing another $60 million worth in the first quarter of 1999, plus another 50,000 tons of pork for the Russian food-aid package," he said.

The agency has also approved pork as an eligible commodity for export credit guarantees, and will include pork in an export guarantee for South Korea.

The USDA has also added $80 million, Caruso said, to its voluntary pseudorabies eradication program which could remove up to 1.7 million hogs from the market. That move, he said, could not only help balance the market forces by reducing supplies of hogs, but could also help the country achieve pseudorabies-free status for the United States much sooner than planned and could open up new foreign market opportunities.

"The administration continues to make progress in negotiations to lower tariffs and expand market access for U.S. pork going into Venezuela, Singapore, Taiwan, the Philippines, Jamaica and Argentina," he said.

The USDA also conducted lengthy negotiations to get Canadian authorities to allow the entrance of slaughter hogs from 33 pseudorabies-free states into Canada without the 30-day quarantine period that had been required.

His own agency, FSA, is authorized to defer loan payments on farm ownership and operating loans that normally were due on January 1, reschedule loan payments or write down portions of a loan depending on individual circumstances, Caruso said.

The FSA has imposed a moratorium on loans for new hog operations.

Caruso noted that USDA Secretary Glickman has created a Pork Crisis Task Force within the USDA to recommend additional actions to help hog producers through the economic crisis.

Pork producers request millions more in aid

WASHINGTON (AP)

Despite a $50 million aid package last month, hundreds of pork producers are in danger of going out of business, industry leaders say.

They're hoping the government will ante up close to $500 million in additional cash.

"There are thousands of professional, efficient, conscientious pork producers who are teetering on the edge of bankruptcy through no fault of their own," Craig Jarolimek, vice-president of the National Pork Producers Council, told the House Agriculture Committee on Wednesday (Feb. 10). "Their lives remain in jeopardy."

The government announced last month's multimillion dollar package in hopes of giving a boost to pork farmers, who have watched their prices drop to record lows in recent months. Hog farmers got as low as $8-$10 per hundredweight in December, compared to around $45 a year ago. That means a hog that used to bring in about $120 was worth just over $20.

The $50 million aid package was aimed at smaller producers, paying them $5 per hog on up to 500 animals taken to market.

Wednesday's proposal would give pork farmers direct payments of $50,000 and is aimed at helping larger producers left out of the first deal.

"The more hogs you marketed, the more hogs you lost," said Steven Cohen, an NPPC spokesman.

No exact formula for the payment proposal has been developed, officials said.

Agriculture Secretary Dan Glickman, speaking later before a House Appropriations subcommittee, said if Congress passed additional assistance for pork farmers, "I'm sure we would support that." He said that while he recognized some farmers were left out of the package, USDA had only a limited amount of money to work with.

Earlier, an animal rights group protested giving any aid to pork producers.

Actor James Cromwell, star of "Babe," urged Congress not to give money to pork producers.

"This cruelty is in effect subsidized through government support payments and government bailouts," Cromwell

Rock-bottom hog prices, high retail pork prices to be subject of special Assembly ag hearing

JAN SHEPEL

MADISON

The rock-bottom price for hogs at the farm gate and the current supermarket prices for pork which remain relatively high will be some of the topics to be covered at an Assembly Agriculture Committee hearing next week.

At a press conference to announce the special session on the hog industry, Assembly ag chairman Al Ott (R-Forest Junction) said he is concerned for the "very ailing" hog industry in Wisconsin and is concerned for the fate of many Wisconsin pork producers.

Ott said he isn't sure what, if anything, state lawmakers can do to help hog farmers, but holding such a hearing to focus attention on the industry may help in some way.

One of the legislators who urged Ott to hold the hearing is DuWayne Johnsrud (R-Eastman), chair of the Assembly's Natural Resources Committee and the only hog farmer in the state legislator.

He is especially troubled by the retail price in comparison to the farm price of pork. "I saw one rolled roast in the grocery store that was selling for more than the farmer got for his entire hog," Johnsrud said at the press conference. "It is exasperating to go into a grocery store and see that kind of thing.

"Somebody is making one heck of a profit off of the back of the independent family farmer," he said.

Johnsrud noted that hog prices are the lowest they have been since 1971, at less than $20 per hundredweight. "We need to get some answers as to why this is happening. Hopefully this hearing will give us that opportunity," he said.

Rep. Gene Hahn, (R-Cambria) is the third legislator working on the hog hearing. He said it behooves government to recognize that agriculture is still the number-one industry and to look into possible solutions to the current crisis.

In the 1960's, he noted, each farmer produced enough to feed 26 people and himself, today the farmer produces enough to feed 126 people and himself. "I don't know how much more efficient they can get," Hahn said.

Hog industry hearing Dec. 17

MADISON

The Assembly Agriculture Committee's special hearing on the hog industry will be Dec. 17, beginning at 9 a.m., in room 417 North of the State Capitol Building. Invited speakers will address the committee from 9 a.m. to noon and public testimony will be taken starting at 1 p.m.

While the three legislators admitted they might not be able to do a lot about it, they want to "shine a bright light" on the possible problems and look for answers for hog producers.

"As ag chairman, I know the hog industry is very complex and has changed over the years," Ott said. "We need to find ways we can be of help."

Ott said he plans to have statistical experts give an overview of the industry, University Extension people talk about

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Assembly hearing set on low hog prices

HOG, cont. from page 1

what is at risk, a representative from the National Pork Producers Council give the national perspective as well as people from the state pork producer group. One of the problems he is already aware of is the fact that there is no hog kill floor in Wisconsin anymore.

Johnsrud is certainly hoping there will be people from the retail meat industry at the hearing. "I certainly expect Oscar Mayer to be at this hearing," he said. "They were certainly there when they wanted a tax break for their 'Lunchables'," he said.

Both Ott and Johnsrud were tough on some environmental groups which have pushed for tighter restrictions on animal waste and permits to regulate farms waste handling. One group – the Madison chapter of the Sierra Club – recently called for a moratorium on large animal facilities in the state.

Ott said that the environmental community "moves this agenda forward with no concern to the economic impacts.

"Environmentalists have been remiss in not recognizing realities that impact the situation," Ott said.

Johnsrud said that if tighter restrictions are put on farmers, only the larger ones will be left. "If the environmentalists keep on this same track and if we make life so tough to get permits, only the big ones will have the consultants to deal with it all. All we'll have left is the Murphys of the world," he said.

Lower Output to Revive Hog Prices in 1999

In 1998, hog prices tumbled to the lowest annual average since 1972, $31.66 per cwt and the monthly average for December was $14 per cwt, the lowest December monthly average since 1963. Although feed costs were sharply below a year earlier, the extremely low prices slashed producers' returns.

The steep decline began in late 1997. Earlier in the year, producers had been anticipating sharply increased export demand from Asia following the outbreak of foot-and-mouth disease in Taiwan in March 1997. At that point, hog supplies were relatively tight, well below estimated slaughter capacity, and feed costs were declining. In response, producers took steps to expand production, increasing their breeding herds and setting in motion a process that would reach fruition beginning in late 1997 to early 1998, at the end of the approximately 10-month biological cycle (from breeding until the pigs produced reach slaughter weight). By July, prices had reached a monthly high of $59 per cwt.

In late 1997, however, the effects of the deepening Asian financial crisis had begun to affect export demand. Although exports continued to increase in 1998 rising an estimated 20 percent for the year they were concentrated in

lower value cuts. Meanwhile, the expanded production began to increase the supply of hogs substantially. By September 1998 there were 63.5 million hogs on U.S. farms, the highest number since 1980. Productivity increases in pigs per litter and litters per sow, as well as in weight of slaughtered animals, added to the magnitude of expansion, as did recent increases in the number of hog operations with 2,000 or more head, which have seen the greatest productivity gains.

The unusually large increase in hog supplies strained the capacities of hog slaughter plants. The weekly slaughter in the fourth quarter of 1998 frequently reached 2.2 million head, compared with a weekly level of only about 1.65 million head in mid-1997. As slaughter plants exceeded their capacity, packers turned to overtime labor to handle the huge supply, pushing up costs. Increased slaughter costs for packers, who were tied to contracts or purchasing arrangements for a large share of their supply, were quickly reflected in lower bid prices for hogs offered on the spot, or cash, market.

Adding further stress to an already strained system, increased shipments of Canadian hogs began to flow to U.S. packers just as the U.S. hog supply had outstripped plant capacity. The strong U.S. dollar, increased production, low prices in Canada, and labor problems at some Canadian packing plants led to an increase of nearly 1 million head in hog imports in 1998 compared with 1997.

Responding to the run of low returns in 1998, U.S. producers reduced their breeding herds late in the year. USDA's December Hogs and Pigs report indicated a December 1 breeding inventory 4 percent below a year earlier, the first reduction in the quarterly year-over-year breeding inventory since March 1997. The reduction points to a smaller first-half 1999 pig crop and lower pork production in the second half of 1999.

Based on market hog inventory, pig crops, and farrowing intentions reported in the December Hogs and Pigs report, pork production in 1999 is expected to total about 18.9 billion pounds, down less than 1 percent from last year overall. Although production is expected to increase about 5 percent in first-half 1999, it will decline in the remainder of the year fourth-quarter 1999 production is expected to be about 10 percent below a year earlier.

With receding slaughter levels, lower production, and continued increases in net exports, hog prices are expected to rebound from the extreme lows of $19.48 per cwt of late 1998, rising throughout 1999 from the mid-$20's to near $40 per cwt, and averaging in the mid-$30's per cwt for the year. Although poultry production is expected to rise 5-6 percent, beef production is expected to drop 2-3 percent in second-half 1999, reducing competition for pork. With a continuing decline in feed costs expected, producers' returns may rise above breakeven late in the year. The severe financial distress hog producers experienced in 1998, however, may slow their response to favorable returns it may take longer than the typical three to six months of positive returns before producers resume herd expansion.

In contrast to the historical drop of 38 percent for hog prices on the market in 1998, retail pork prices declined less than 5 percent. Farmers' share of retail prices fell to 22 percent for

See Hog Prices, ~~on Page 11~~
over

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Equity Lomira **Feb. 23**	Utility 34-37; canners & cutters 28-33; shelly canners 27 & down	Choice steers 50-54; select 45-50; stand. to select 38-44; util.-comm. dairy hfrs. 42-46, canners & cutters 35-40	Choice steers & heifers 54-57; select to choice 48-53; stand. to select 42-46	Commercials 42-45; cutters & utility 36-41	Hol. bulls 80-115, Hol. heifers 150-250; beef 90-160		45 & down	Butchers 24-24.50; sows 16-22; boars 12 & down
Bloomington Livestock **Feb. 23**	Cutter & boning utility 36-41.50; shelly 31 & down	Choice/prime 56-59; mixed select 54-56	Steers 62-63.50; heifers 61.50-63.50; lower yielding steers & hfrs 59-62	43-50	Good quality calves 60-95; light calves 50 & down			
Equity Reedsville **Feb. 25**	Utility 38-41; high yielding cutters 35-37; canners & low cutter 31-34; thin & poor 30 & dwn	Choice & prime Holstein steers 54-57; standard & select steers and heifers 45-52	Choice steers & heifers 54-58	Commercials 43-47; cutters & utility 37-42	Hol. bulls 80-112; Hol. heifers 150-200	Beef calves 60-85	Slaughter calves 20-40; weak & poor 10-20	
Fennimore Livestock **Feb. 10**	Utility 35-38; canners & cutters 30-35; big cows & hfrs 900-1100; small bred cows/ heifers 600-900	Steers 50-54; open heifers 65-86			Hol. bulls 80-107.50; Hol. heifers N/A	Beef calves 80-105	Good to choice 30-40; standard to good 20-30, light and culls 20 & dwn	Butchers 26; sows 15-19; boars 8

Sheep & Lambs

Equity Stratford, Mar. 1

Choice to prime lambs 58-63; feeder lambs 65 & down; old ewes & bucks 12-24

Milwaukee Stockyard, Feb. 22

Choice to prime lambs 55-60; good to choice 50-55; culls & lightweights 40-50; ewes/bucks 15-30

Fennimore Livestock, Feb. 9

Choice fdr lambs 80-84; ewes 25 & dwn; bucks 20 & dwn; Goats 70 & dwn

Equity Johnson Creek, Mar. 1

Top lambs 63; feeder lambs 60-80; ewes 15-30; bucks 10-20

South St. Paul Market, Feb. 26

Wooled choice 60-62; feeder lambs 70-75; good/utility ewes 20-25; culls 18-20

Zumbrota Lvstck, Mar. 1

Feeder lambs 65.50; mrkt lambs 59.50; ewes n/a

Hog Prices

Continued from Page 12

the year, and was only 10 percent in December as the farm-to-retail spread widened to more than $2 a pound. A low farm share of retail value with a lengthy adjustment period is typical when livestock prices drop sharply, although the drop to 10 percent that occurred in December was unusually steep. Retail prices in 1999 are expected to continue a downward adjustment to the lower hog prices, declining another 2 to 4 percent, with the sharper drops expected early in the year. As hog prices rise in 1999, retail declines will taper off with a 1-percent decline in fourth-quarter 1999.

Retailers contend the retail prices used in the farm-to-retail price spreads, which include data from the Consumer Price Index, do not accurately reflect large volumes of pork moving at sale prices. In their view, if these lower priced sales were included in the calculation, the spread would not appear as wide. At the same time, retail pricing responds to consumer demand for pork, not to the supply of hogs. Consumer incomes are strong, and demand for pork has held steady without the need for significant price reductions. As preferences for pork increase in response to higher quality, improved consistency, and larger cut size, pork supplies have not outstripped rising retail demand at current prices.

Continuing moderate domestic pork prices will help support U.S. exports in 1999. U.S. pork exports are expected to increase 10 percent in 1999, compared with a likely 20-percent rise in 1998. The 1998 increase was the result of lower U.S. pork prices and a volume increase of lower valued products; in 1999, as supplies stabilize, increased exports will bid up prices. A double-digit increase, however, will be contingent on successful delivery of food aid to Russia. Japan, Russia, Mexico, and Canada have accounted for three-fourths of all U.S. pork exports in 1998, and Japan, Mexico, and Canada will likely account for most of U.S. pork exports in 1999.

Japan's imports in 1999 are expected to increase moderately in line with a stronger yen. While double-digit economic growth rates seen earlier in the decade are not likely in 1999, the U.S. share of Japanese pork imports is expected to remain near 30 percent. Denmark is the major U.S. competitor for frozen pork imports to Japan, supplying more than 33 percent of the frozen market.

The moderation of economic growth in Mexico, together with continued recovery of its pork production industry, could slow Mexican demand for U.S. pork products in 1999. While export growth to Mexico may not meet the recent two-year average growth rate of 60 percent, U.S. shipments to Mexico in 1999 are likely to continue increasing at a double-digit rate.

Exports to Canada in 1999 are likely to continue at the high levels reached following the dramatic increases of 1996-97. Strong Canadian demand for U.S. products reflects, in part, Canadian consumer demand for cuts that Canadian processors have been exporting in order to develop markets in Asia. On the import side, shipments of Canadian hogs could moderate in 1999, as slaughter capacity increases in Manitoba and as Ontario hogs increasingly move to plants in Quebec under buying contracts.

Formula Price Contract: Used for Market Hogs

The low record-setting cash hog market of 998 sparked producer interest in the use and ypes of marketing contracts. The University of Aissouri conducted a checkoff-funded study on ehalf of the National Pork Producers Council n hog marketing contracts used in January 999.

Of all hogs slaughtered in January, 64.2 per-:ent were sold on some type of prearranged mar-:eting arrangement, not on cash price. The study espondents accounted for 81 percent of all mar-:et hogs slaughtered at federally inspected lants. Industry sources were used to estimate narketing methods used for an additional 10 per-:ent of hogs slaughtered in January.

The largest share of all contracted hogs, 44.2 ercent, were sold using a formula price con-ract, according to Glenn Grimes, ag economist it the University of Missouri. A formula price :ontract sets a sale price according to some eported price and a formula established by a revious agreement between a producer and acker. An example would be $1 per hundred-veight above a reported price.

Formula contracts are the least advanta-geous of all contracts during low cash prices. However, Grimes said, "the formula contract nay have helped to get shackle space last fall when the available supply of hogs was above laughter capacity."

When producers experienced extremely low :ash hog prices last fall, the marketing contract hat was probably the most advantageous was he fixed price tied to feed price or price history plus a margin for overhead without a ledger naintained. Such a contract was used on 2.9 per-:ent of the hogs marketed in January. Grimes said a ledger records a debit to the producer when the cash market price is below the contract price or credits a producer when the cash market price is above the agreed upon contract price. During periods when cash prices are above breakeven levels, cash price contracts tied to futures market margins offer additional profitability to the sale, he said.

Spot (cash) market sales accounted for 35.8 percent of the hogs marketed in the study. Spot prices are determined by supply and demand the day hogs are sold.

Producer use of marketing contracts for hogs has grown during the 1990s, according to Grimes. Based on a pork industry structure study conducted by the University of Missouri in 1995, marketing contracts accounted for about 42 percent of all hogs sold in 1994.

Hog market contract study results January 1999:

- 44.2 percent-Formula price. A price set by a previous agreement, usually based on a quoted cash price.
- 3.4 percent-Cash contract. A fixed price set by a previous agreement tied to the futures market.
- 2.9 percent-Fixed, no ledger. This is a fixed price set by a previous agreement that is tied to a feed price or history with no ledger maintained.
- 6.9 percent-Fixed, ledger maintained. This is a fixed price set by a previous agreement tied to feed prices or history with a ledger maintained.
- 3.6 percent-Window, no ledger. This is a window contract which is a risk sharing deal where the packer absorbs some loss below a designated market price and the packer shares some gain with a price above a certain level. No ledger is maintained.
- 1.0 percent-Window, ledger maintained. This is a window contract with is a risk sharing deal where the packer absorbs some loss below a designated market price and the packer shares some gain with a price above a certain level. A ledger is maintained.
- 2.3 percent-Other. This includes packer-owned hogs.
- 35.8 percent-Spot (cash) market.

2/24

The Country Today

Country Ex

Speakers discuss future of state's livestock industry

By Bob Kliebenstein

Regional Editor

MADISON — Economic realities for Wisconsin livestock producers predict a volatile future, said two speakers who discussed the economics of livestock production at the Wisconsin Winter Ag Expo.

The speakers were Dick Vatthauer, a University of Wisconsin-Madison livestock specialist and member of the Consortium for Animal Agriculture Resource Development, and Dwaine Sievers, an agricultural financial consultant.

Dick Vatthauer

The consortium, known as CAARD, was created in 1995. It is an alliance of 23 farm organizations and four state agencies. The group was formed to help solve issues faced by state livestock producers, Mr. Vatthauer said. One issue is the steady decline in livestock production due to low livestock markets.

Wisconsin's livestock industry has been spiraling downward, Mr. Vatthauer said. Peak production for sheep and lambs was in the 1930s, hog production peaked in the early 1940s and beef production saw its crest in the mid-1970s, he said. Production for all livestock continues to decline.

"That is what caused a group of people to convene and discuss the drop of this livestock industry," Mr. Vatthauer said. "The question is how do we grow Wisconsin's livestock industry over the next 10 years?"

While CAARD represents a number of organizations, more must be included to address other challenges, such as land use and animal waste, he said.

With 72 counties — and 72 sets of zoning laws — finding consensus is unlikely, Mr. Vatthauer said. CAARD distributed a survey to more than 1,800 county board supervisors seeking input on what the organization should target in its work, but Mr. Vatthauer noted there have been no responses yet.

CAARD members are not discouraged by the lack of response and will work to "adapt, adopt, compete and profit" for livestock producers, Mr. Vatthauer said.

The organization promotes a producer self-certification nutrient management program, which gives farmers the lead in developing on-farm manure management. CAARD is working with the Department of Agriculture, Trade and Consumer Protection and Wisconsin's three agricultural universities — UW-Madison, UW-Platteville and UW-River Falls — to broaden that program, Mr. Vatthauer said.

Dwaine Sievers

Producers must remain open to other avenues to gain profit from livestock production, which could mean investigating other types of meat sources.

"If you are spending your time only milking cows or raising beef cattle, you could be missing out on ways to make money," he said.

CAARD continues to lobby for easier access to meat processing through interstate shipment of meat and improved price discovery to inform producers what large packers pay, Mr. Vatthauer said.

Uniform meat inspection would enhance market access for producers in such areas as Chicago and the Twin Cites, he said.

Mr. Sievers told farmers to be prepared for changes regarding investment to remain in agriculture.

"Principles are the same for financial planning, whether you are in dairy, livestock, grain or aquaculture," Mr. Sievers said. "As the changes in agriculture are phenomenal, so is that investment."

Producers must focus on hitting market averages over a 5-year period, not market peaks, he said.

"If farmers always try to hit the top of the market ... that is hard to do. It has been hard to stay positive with market peaks and valleys," Mr. Sievers said. "But it's important to remain positive."

He said increased environmental scrutiny is here to stay with stricter federal rules for manure management being drafted by the Environmental Protection Agency. He encouraged farmers to foster strong relationships with neighbors to prevent conflict.

Mr. Sievers said Wisconsin's Department of Natural Resources has only five staff members to handle state animal waste and municipality complaints, and thus rely on tips from neighbors. He urged farmers to not create any reason for a complaint to be passed on to the DNR.

While many lobby for expansion in agriculture, Mr. Sievers urged producers to examine what direction they pursue.

"Bigger is not always better," he said. "Sometimes you will see that. Rather than expand, improve your management practices."

Wisconsin hog farmers seek $1.5 million from USDA

MIDDLETON — Wisconsin hog producers, recovering from the lowest hog prices in 5 decades, have applied for nearly $1.5 million in aid payments from the U.S. Department of Agriculture, a USDA official told the Wisconsin Pork Producers Association at their annual convention Feb. 20.

Doug Caruso, state director of USDA's Farm Service Agency, said 1,523 Wisconsin hog operations applied for the payments during a special sign-up conducted by FSA Feb. 1-12.

They reported marketing 272,552 slaughter hogs and 57,292 feeder pigs during the last half of 19998, qualifying them for up to $1.466 million in payments, Mr. Caruso said.

The payments are available to small hog operations that marketed less than 1,000 head during the marketing period.

"These farmers will receive $5 for each slaughter hog and $1.80 for each feeder pig, up to a maximum of $2,500 per operation," Mr. Caruso said. "However, if the total national sign-up exceeds the $50 million available, individual payments will be prorated to stay within the national limit."

Mr. Caruso said he expected the payments to be made in early March.

"These payments are one of a number of steps USDA is taking to help hog farmers recover," he said.

FSA can defer loan payments on farm ownership and operating loans that normally were due on Jan. 1, reschedule loan payments or write down portions of a loan depending on individual circumstances and eligibility under regulations, Mr. Caruso said.

He said FSA has also imposed a moratorium on loans for new hog operations.

"USDA purchased $107 million in pork products for federal food assistance programs in 1998 and is in the process of purchasing another $60 million worth in the first quarter of 1999, plus another 50,000 tons of pork for the Russian food aid package," he said. "We have also approved pork as an eligible commodity for export credit guarantees and will include pork in an export guarantee for South Korea.

After lengthy negotiations, USDA recently won agreement allowing slaughter hogs from 33 pseudorabies-free states to enter Canada without undergoing the previous 30-day quarantine, Mr. Caruso said.

1999

Federal hog payments available for only two weeks

JAN SHEPEL

MADISON

If news of a state emergency loan program for hog farmers is good, the federal announcement of a program providing direct cash payments to hog farmers is even better. Starting Feb. 1, local Farm Service Agency (FSA) offices can begin accepting applications from hog farmers for direct cash payments to help them through the current low price situation.

Hog producers need to hurry in to their FSA offices though, since there is only a two-week window for the federal payment program.

"Due to the short application period, it is crucial that word on the signup period gets out to all hog producers in Wisconsin," said state FSA director Doug Caruso. "We don't want any small hog operations to miss their chance to apply because they didn't know about the payment program or the deadline to apply."

The sign-up period ends February 12.

The program will pay up to $5 per slaughter-weight hog and an equivalent amount for feeder pigs and other swine multiplied by the number of hogs marketed during the last six months of 1998, Caruso explained. There is a ceiling of $2,500 per operation, which will limit the payout program to 500 market hogs or the comparable number of feeder pigs or other swine.

The program came about as a result of a recent announcement by Vice President Al Gore and the USDA to distribute about $50 million in direct cash payments to small hog farmers to help them deal with the economic problems they are suffering because of low market prices.

The December prices for hogs reached levels not seen in the industry since the Great Depression. Producers can qualify for this program if their hog operations marketed less than 1,000 hogs, feeder pigs or other swine during the last six months of 1998 and if they are still in business.

To get the payments, producers will need to fill out an application, Caruso said, that will likely ask for the names of all persons involved in the farming operation, the number of finished and feeder pigs sold in the last six months of 1998, buyers of those hogs and pigs, a statement affirming that the producer is still in business at the time of the application. Also, producers must affirm that they did not market their hogs under a fixed-price or cost-plus contract and that they are aware that their application is subject to random spot checks.

No payments will be made to operations where 1998 gross income exceeded $2.5 million, Caruso said. He urged producers who think they will be eligible to get to their FSA offices during the brief sign-up period so they don't miss the window of opportunity for the cash payments.

WI STATE FARMER 1/29/99

Joint Finance approves WHEDA hog loan program

JAN SHEPEL

MADISON

The Legislature's powerful budget committee – Joint Finance – last Thursday (Jan. 21) unanimously approved a plan to allow an emergency loan program for hog farmers through the quasi-state agency called Wisconsin Housing and Economic Development Authority (WHEDA).

On Jan. 13, Gov. Tommy Thompson had signed an executive order declaring an emergency in the state's hog industry. That order allowed WHEDA to use $5 million in funds to guarantee loans to hog producers in the state, pending approval by the budget committee. In December, the governor had asked the agency to look for ways it could use financing programs to help pork producers.

In December, hog prices dropped to under $10 a hundredweight, a price level not experienced by hog producers since the Great Depression. This month, prices have improved slightly to about $30 a hundredweight.

Wisconsin hog producers at a glance

THE ASSOCIATED PRESS

Wisconsin hog producers and the number of hogs they had as of December:

Producers with 1-99 hogs	2,100
Producers with 100-499 hogs	870
Producers with 500-999 hogs	180
Producers with 1,000-1,999 hogs	95
Producers with 2,000-4,999 hogs	50
Producers with 5,000 or more hogs	5

Source: U.S. Department of Agriculture

Co-chair of the finance committee Brian Burke, D-Milwaukee, said he briefly considered adding a stipulation to the hog loan program that would prohibit large, "corporate" farms from using the program. He said he abandoned that plan when he learned that there are only five hog producers in the state with more than 5,000 hogs. *(See box.)*

Officials from WHEDA also told him that the biggest hog farms probably already have access to commercial loans that would disqualify them from participating in the emergency loan program.

In order to qualify for the hog loans, farmers must:

- Prove that they cannot qualify for traditional loans;
- Have debts that exceed 40 percent of assets;
- Prove that assets, cash flow and managerial ability make them a good credit risk, and
- Not have any outstanding child support or maintenance payments.

This emergency loan program will require no statutory changes and no additional state money. WHEDA is the agency that has been the guarantor for CROP loans up to $20,000 for state farmers since 1985.

The Joint Finance Committee wasn't scheduled to meet until March, but administration officials, agriculture officials and WHEDA all pushed to get joint finance members together before then to look at this program.

Because the proposed new emergency hog loan program is a modification of the CROP program, no laws need to be changed to put it into effect. That also means that standard criteria are in effect. The loan guarantees are for 90 percent of the loan amount, which means that the local bank which participates in the WHEDA program will suffer the other 10 percent loss in cases where a farmer defaults.

The hog emergency loan program will be for a term of three years, compared to the CROP loan program which offers loans for only one year.

There was some concern at WHEDA that the new emergency loan program not jeopardize the existing programs, including CROP, so a total of $5 million is being set aside for the hog loans. If they see a huge demand for the program and more guarantee funds would be needed, the agency would need to go to the Legislature to get that money.

While the cap on CROP loans is at $20,000, this new hog program would cap at $50,000 per farm operation. Hog farmers would be able to sign up for the new program through the end of July. The interest rate will be the prime rate plus 1 percent, which now puts it in the 8.5 to 9 percent range.

Currently the CROP program leverages $30 million in state guarantees. As with that program, the new hog emergency loan program will be on a first-come, first-served basis.

Farmers with access to the World Wide Web can access the WHEDA website for more information at **www.wheda.com**. The website includes information on all the local banks that work with the agency to provide the loans to farmers.

Farmers can also call WHEDA's toll-free phone number at (800) 334-6873 for more information.

Albers Announces Relief For Hog Producers

"Despite the dismal hog prices, eligible hog producers in need of financing should soon have access to needed funds they might not otherwise have access to," commented State Representative Sheryl K. Albers (R-Loganville). "I am relieved to be able to announce such a positive opportunity in such a difficult time for hog producers." The Joint Committee on Finance approved revisions to the existing Credit Relief Outreach Loan Program (CROP) proposed by the Wisconsin Housing and Economic Development Authority (WHEDA). Albers explained, "Governor Thompson's declaration that record low hog prices constituted a crisis triggered the opportunity for WHEDA to offer changes as an emergency program to provide loan assistance to hog producers that could not access funds under the present criteria."

Last session, Albers successfully urged the Legislature to approve the language that gave WHEDA the flexibility in a declared emergency to modify the existing program.

CROP is a loan guarantee program where loans are made by participating lenders and then backed by WHEDA. CROP loan funds can be used to purchase services or consumable goods necessary to produce an agricultural commodity.

Wisconsin has more than 3,000 pig operations that have less than 100 animals constituting 70 percent of the pig operations in the state. "A program like this is intended to help family farms stay viable and it is highly unlikely that any mega farm operator would be deemed eligible," Albers said.

The criteria for qualifying for an emergency loan is:

- Targeted to hog producers.
- Maximum loan limit is $50,000 including other CROP loans.
- The loan term would require repayment within three years.
- The borrower must apply for the guarantee before July 31, 1999.
- The emergency program would total no more than $5,000,000 and be available on a first-come, first-serve basis.

Albers noted, "Those who believe large U.S. hog operations are responsible for increased supplies and depressed prices have not been keeping abreast of global markets or trade agreements for it is those actions that place the future existence of the small family hog farms in this state in jeopardy." She added, "Though there is no quick or painless cure-all for the hog industry, modifying CROP was something the Legislature could act upon quickly and I am hopeful the changes will make a difference and allow some farmers to survive these tough times."

AGRI-VIEW 1/28/99

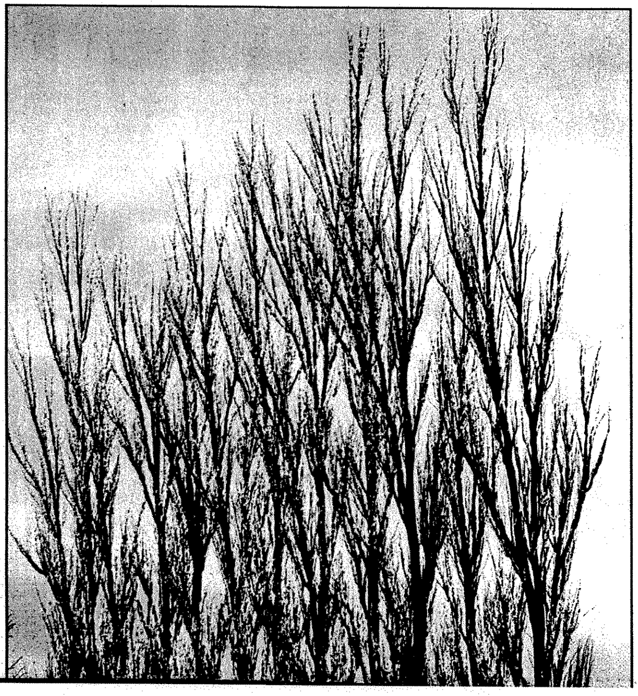
WISCONSIN STATE FARMER
JANUARY 29, 1999 SECTION C

Wisconsin hog producers speak out about industry problems

GLORIA HAFEMEISTER
MADISON

Laurie Keel, Juneau, is treasurer of the Dodge County Pork Producers, a county that ranks No. 5 in the state's hog production. She is one of many hog producers nationwide suffering from the lowest pork prices seen in nearly 60 years; America's hog producers are on the brink of financial ruin and no one seems to be sure what to do about it.

Keel's husband has a job off the farm, which makes it possible for them to survive, but she says if prices continue this way they will have to make a decision about whether to remain in the business. She is not real optimistic about the future.



She says the support of the community, businesses and consumers has been great, but it is only moral support and won't pay the bills. Some companies have run specials promoting pork on their menus, but demand for pork is not the problem, she notes. It is just too many animals coming in from the very large producers and filling the packing floors, leaving no room for the smaller producers to market their animals.

Pork producers have done a good job promoting their product and have struggled to change the makeup of their animals to create leaner hogs to satisfy consumers wanting less fat in their diets and to produce the size hogs that fill the requirements of packers who want every animal to be uniform in size. Still, their efforts are now being repaid with prices that are far below the cost of producing them.

Craig Shoemaker, Beaver Dam, intends to stay in the business, at least as long as he can, but he says without his wife's outside job, which he says is mainly to get the health insurance coverage for their family, they would not be able to survive.

He joined many others in Madison in December to meet with legislators and testify about the seriousness of the situation. He says, "I don't believe it will lead to any solutions to help save the hog producers, but it gave producers a chance to say what was on their mind and created public awareness."

The latest government effort to help rescue struggling pork producers is only a "band-aid" approach, Shoemaker feels. "Maybe for some it might help them get by right now, but for the industry it won't help in the long run. We don't need to borrow more money. The bigger picture is what will Wisconsin's hog industry be five years from now?"

He believes one reason he is hanging on yet is because he doesn't have the large debt to cover that some producers have. "We don't operate with fancy facilities. Those who have big debts will find it hard to get enough income to make their payments," he says.

Because his operation is small enough, much of the work on his farm is done manually. Those with automated systems are able to handle more animals, but the costs are considerably higher.

He feels many people don't understand the seriousness of the situation. "To put it in perspective for those in the dairying business, when hog prices hit bottom it was the equivalent to having $4 or even $3.50 (cwt) milk."

Dawn Vierck of the UW-Extension says the community support is important. "We need to keep up the demand for pork or the problem could be even worse because at least it moves it out of the packing plants and makes room for more to come in."

Studies have indicated that the low farm prices haven't been passed on to consumers, which has led some consumers to shy away from buying pork because they feel the money doesn't reach the farmers anyway. There have been calls by producer organizations and others for the USDA to investigate the wide range in prices between what the producer is paid and what the consumers are paying in the grocery store. Meanwhile, Vierck says it is important to keep purchasing pork because without the demand, the problem will only get worse. She says pork is not being kept in cold storage anywhere and anything that is sold will need to be replaced with more animals. Last month the Beaver Dam Community Hospital called the Dodge County Pork Producers and asked if they could help. They conducted a special pork promotion event, featured four pork entrees on the menu. Along with it, Vierck and several county pork producers conducted an educational program on the industry and on ways to prepare pork. To promote the event, they went on the radio and talked about the pork industry situation.

"The support was wonderful. The hospital had more than 100 extra people eat in their cafeteria that day and many of them came up to us and said they just

See HOG, page 2

Agronomist urges caution in using unconventional plant, soil additives

GLORIA HAFEMEISTER
BEAVER DAM

Promotional activity continues every year on new unproven, so-called revolutionary new products claiming to provide plant nutrition, stimulate plant growth or improve soil physical or chemical status and thereby increase yields.

Keith Kelling, a University of Wisconsin agronomist, told growers at the Regional Corn Conference in Beaver Dam

yield was introduced. Kelling reports the compound was originally used to prevent scale in boilers and is chemically related to artificial sweetener.

According to the company, it increases nutrient uptake by artificially increasing root branching and root hair development. Recommended rates with the product are 1 - 2 quarts per acre mixed with liquid fertilizer, impregnated on dry fertilizer or applied directly to the soil.

across multiple varieties and/or fertilizer levels.

Research results were mixed. Although yield increases were observed in about 27 percent of the corn and wheat experiments, the overall yield change from the addition of the product remained relatively small (+1.75 bushel per acre for corn and +1.07 bushel for wheat).

Average responses for the with or without the product in the various corn ex-

Kelling also points out that this and other types of "magic bullets" are not cheap products to use. The product tested in the mid-1990s and reviewed by the research committee is about $7 or $8 a quart. Because research to date cannot adequately define when growers are likely to see a significant yield response, there is no way to accurately calculate whether the additional expense can be justified.

Braemer farm has been in the family for 150 years

FARM, cont. from page 1

wife share for building a home that preserves a bit of Wisconsin's history and will remain around for generations to come.

The hand-hewn maple logs and the construction methods used are so typical of the German-type buildings but few remain today.

Braemer had been considering revamping the building so he could keep his tractor and and snow removal equipment in it since it was closer to the road and the house than the machine shed. It was a good solid building and he felt it could be put to better use that way.

When he was approached with the offer to move it away, he agreed because he felt it was a good way to see to it that a piece of the past is preserved. It had served its purpose on his farm as a good dry storage area for feed and a handy place to repair wheels, harnesses and other things. In fact, some parts of the old wheels and things repaired in there still remained in the structure when the family cleaned it out this winter.

He feels too many people nowadays don't know anything about farming and fewer yet understand anything about what it took to construct these buildings, cutting the logs themselves and dragging them with horses to the building site. Many of the old buildings are falling over as farmers quit and others are being torn down as the remaining farmers modernize and expand. Allowing this building to be preserved is one way to preserving a bit of the past.

The same kind of timbers that are used in the barn that was moved were used to build the other structures on the farm including the old farmhouse which has since been remodeled. Underneath the siding on the old portion of the house are timbers with Hustisford brick. "It's a solid building," Braemer said of the construction of the house and all the other structures.

The 200-foot dairy barn was once home to 25 milk cows. The barn was so long because one end was made big enough to store the grain bundles that were put up in the barn until winter. "We piled them in there and then the threshing machine came and set up and we threshed the grain," he recalls.

Behind the dairy barn was a square silo that had an addition to it for corn silage. Next to it is a Blue Harvestore silo that was built in the late 1950s. It was the first in the area to go up and he remembers going to southern Wisconsin to see demonstrations of how they could be used to store haylage. The feed went into an outdoor feed bunk with an auger, also the first of its kind in the area.

The woods on the Braemer farm also produced an abundance of maple syrup. Obed and his dad, Herman, spent many hours tapping trees each year. "Sap was collected with a bobsleigh equipped with a covered tank, pulled by two horses," he recalls.

The syrup cooking took place right out in the woods and a cabin was built for equipment. Because the wood lot was nearly 3/4 mile from the home dwelling it was hard to tell when to come down to collect or get syrup home. Braemer says they decided to rig up a telephone in the cabin so they could communicate with someone at home. "We ordered two telephone boxes and connected them to a barbed wire fence down to the woods. This worked out good," he says.

This was just one of the innovative things on the Braemer farm. They also built a water tower, similar to one the city of Mayville was building at the time. Braemer says everyone thought it was a silo, but it gave them water pressure to provide water in the house and barn where water previously came from cisterns.

Farms were diversified in those days and Braemer's was no different. Besides the dairy and maple syrup, they raised hogs and chickens and crops to feed the livestock. They also raised grain which was ground into flour for baking.

Braemer remembers a time when he rode with his dad in the middle of winter to take rye to the flour mill at Monterey, north of Oconomowoc, near where his farm building is being moved. "It was a 20-mile ride in the open Model T and it was cold so I had to put on an extra big coat," he recalls. "We went over a bump and my coat sleeve caught the handle of the door and I rolled out into the snow."

He was not injured since he was well protected by the heavy clothing and the car moved slow by today's standards. He says, "We just laughed and Dad told me to huddle up on the floor board so I'd be out of the wind."

He also remembers a time when they raised squab in nests in a building on the farm. "There was a lot of demand for it, probably because it was low in cholesterol (but they didn't call it that then)."

Now at the age of 88 he remembers "the good old days" but he says they were days of hard work, too. He says most people believe summers were busy and winters farmers had off.

In reality, he says winters were when they worked the hardest. There was a lot of snow but they didn't have the equipment to move it. There was frozen feed and water and livestock that needed both. Roads were closed and it was difficult to get milk to the cheese factory through the snow. Everything was more difficult in winter.

State hog producers speak out

HOG, cont. from page 1

came in to show their support. They feel helpless in doing anything for the struggling producers, but felt this was one way they could show they are concerned," she said.

During the promotion, and at the Madison hearing, Dodge County pork producer Donna Jordan spoke about the added stress it puts on the family when they struggle to make ends meet. Bob Schultz, county Pork Producers president, talked about the educational programs and youth support efforts of that group.

Vierck did a cooking demonstration to highlight the health benefits of pork and help consumers realize that there are eight cuts of pork that have an average of just 180 calories and less than 9 grams of fat per serving. She said pork is considerably lower in fat and calories than 10 years ago, but not everyone knows that.

She also stressed the importance of hogs for other products including pharmaceuticals, insulin, and a big variety of other things. "Everything from the pig is used but the oink," she says.

Canadian imports, a sagging Asian market, tight slaughter capacity and abundant supplies of poultry and beef have all been blamed for the drop in pork prices.

Gene Paul, president of the National Farmers Organization, told delegates at the NFO's national convention in St. Louis that the pork price crisis extends into Canada where the government has already thrown out the farm safety net for all farmers.

"Canada has already moved to shore

producers, or mass bankruptcies will certainly occur very soon," he says.

He adds, "We support many of the options proposed by other major farm groups, but any solution must address the needs of America's family-sized independent operations first, and not the super-sized pork corporations."

Dan Short, director of the Wisconsin Pork Industry Development project that was organized in 1997 to help the ailing hog industry in the state, says he believes there is a need to look at long-term strategies to provide measures that will redistribute the margin in the industry.

According to Short, farm families should be looking at the example of European farms where the farm families accept some responsibility in the marketing end of things. In the U.S., hog producers raise the animals and sell them and their only income comes from the profit, if any, that comes from each animal sold. "In Europe, the farmers own the packing plants so they benefit from the margin at all points of the distribution chain," he illustrates.

Short also says, "There is a need to bring the disconnected consumer to come to value the animal agriculture industry as an important part of the community, not only for the many products the livestock produce, but also for the economic benefits of livestock producers to the community."

Since in Wisconsin, dairy is a $3 billion business and hogs are a $200 million industry, the question many farmers are asking is "If this has happened to hogs, how vulnerable is dairy to the same thing happening?"

No one seems to have an answer to the question, but it will likely be a topic of discussion among many farm organiza-

Cattle feeding seminars slated

BARABOO

Cattle feeding update seminars will be held at six Equity Livestock barns around Wisconsin in late February and early March. The programs are designed for dairy farmers, custom calf raisers, steer feeders and agricultural professionals.

The dates and locations are: February 22 at Lomira; February 23 at Richland Center; February 25 at Monroe; March 1 at Reedsville; March 3 at Altoona and March 5 at Stratford. The $10 fee is payable at the site. The meal cost is extra.

Cooperating sponsors are the UW Extension, Equity Livestock, Packerland Packing, Land O'Lakes and the Wisconsin Cattlemen's Association. The speakers will be UW Extension beef specialists Mike Siemens and Dick Vatthauer, Cattlemen's Association executive director John Freitag, local Extension agents and livestock barn managers.

What's Ahead for Wisconsin Pork Producers

Capitol Update

A Look at Legislation Affecting Farmers and Rural Wisconsin

Guest Column
By Keri Retallick
Executive Vice President
Wisconsin Pork Producers

The livestock industry has always been an integral part of my life. I grew up on a diversified livestock and crop farm in rural Wisconsin. I'm married to a farmer and have worked for the Wisconsin Pork Producers Association for 13 years.

In all of my years in agriculture, I have never seen prices drop like they did for pork producers during the fourth quarter of 1998. Pork producers have dealt with volatility in the market place for years, but this financial burden may be too much for some to handle. During the fourth quarter of 1998, prices were worse than the Depression when factoring in the consumer price index. Producers lost thousands of dollars each day. One pork producer told me that he generally receives around $4,000 for 35 market hogs until recently when be received under $1,000 due to the market price. Another producers tells of the best year ever for production efficiencies only to be wiped out by the market crisis incurred. Then, there are the producers who were so fed up by the entire market situation that they donated pigs to a local food pantry.

Not many people outside of the agricultural community knew what was going on until Representative Ott spearheaded by Representatives Johnsrud, Hahn and Brandemuehl requested that the Agriculture Committee hold an informational hearing about the crisis on December 17. More than 250 people attended the hearing, mostly producers. We listened to testimony not only from producers, but from other key players in the industry including economists, statisticians, retailers, bankers and livestock specialists. The hearing heightened awareness about the situation and the Governor took notice.

This crisis is an economic disaster for Wisconsin's pork producers and the Governor knows it. That's why the Governor instructed the state to purchase pork for the state's institutions. That's why the Governor claimed a state of emergency for Wisconsin's pork industry. That's why the Joint Committee on Finance held a special s.13.10 hearing to approve a $5 million dollar loan program through Wisconsin Housing and Economic Development Authority (WHEDA). The Committee passed the proposal 15-0.

The emergency loan program is open to all Wisconsin pork producers. It is a modification of the current CROP which provides 90 percent guarantees on loans made by Wisconsin lenders.

The maximum loan limit is $50,000 and producers would be required to pay back the loan within three years. Pork producers must apply for the guarantee before July 31, 1999. The emergency program guarantees no more than $5 million dollars and are available on a first-come, first serve basis.

We thank Governor Thompson, the Assembly Ag Committee and Joint Committee on Finance for their quick action regarding a crisis situation, but there is more to do. Producers need more than a loan guarantee program in order to exist in the future. Producers need an affordable health care plan that protects them from unknown medical emergencies. Some producers have given their health care up to make ends meet. Jeanne Meier, Wisconsin Farm Center Director, says this is the lag thing producers should do. By the way, there are several resources available from the Wisconsin Farm Center. Information can be obtained by dialing 1-800-942-2474.

Producers need information about market access, but the University of Wisconsin Livestock Marketing Specialist position has been vacant for several years. It is time to find a replacement for that position held previously by Dick Vilstrup.

Reduction of property taxes by eliminating the phase-in period of use value assessment is also in order. Additional purchases of meat proteins at state institutions will also assist in movement of product. Support is needed from the Legislature regarding the importance of price reporting and investigation into packer concentration issues. If producers are to survive in the future, we need to find answers to these important issues.

On the federal level, producers can sign up for the direct cash hog payment Feb. 1-12 at their local FSA office. Pork producers are eligible if they sold less than 1,000 hogs during the last six months and are still in operation. This leaves many of our full-time pork producers without access to this program, but all producers are eligible for tile guaranteed loans offered by FSA.

The FSA loan program guarantees that the lender will recoup 90 percent of any loss incurred. The program offers lenders an incentive to extend credit to producers who, for various reasons, do not qualify or represent substantial risk under the bank's normal underwriting policy. The loan guarantee program is strictly an agreement between the lending institution and FSA. Producers that feel a guarantee will enhance their ability to maintain their existing credit relationship should encourage their lender to submit their loan application to FSA for consideration.

The FSA guaranteed loan program targets operating funds only, however, FSA has an existing guarantee program for term loans. Producers can also request information regarding term loan funds and existing interest assistance program. If you are planning to work with FSA in the near future, get acquainted with your local representative by introducing yourself in person or by phone.

There is also a PRV accelerated eradication program. This program will provide hog farmers a cash payment for depopulating their herd. Wisconsin does not have any herds that are eligible for this program. Hopefully, this program will eradicate the disease nationwide, and Wisconsin won't have to worry about the disease crossing the border.

Producers can learn a great deal more about this financial management, price risk management and the future of agriculture by attending the Winter Ag Expo at the Marriott Madison West on Feb. 18-20. The fourth annual event features an exciting line-up of seminars, tradeshow activities and educational programs available for beef and pork producers throughout Wisconsin. Registration is complimentary to all pork producers if they pre-register by Feb. 10. Contact the state office at 1-800-822-7675 to register.

The annual Youth Expo program will be Feb. 18, starting at 9 a.m. This program offers young people with an interest in livestock an opportunity to gain valuable hands-on experience in the beef and pork industries. Several activities, including quiz bowl, skillathon and communications contest are scheduled for youth of all ages.

The Taste of Elegance will kick-off the Expo on Thursday evening, Feb. 18, beginning at 5:30 p.m. This event features eight top chefs from around Wisconsin vying for the tide of Chef Par Excellence, which includes a $1,000 cash prize and the opportunity to represent Wisconsin at the national contest, hosted by the National Pork Producers Council. These chefs present original pork entrees to a panel of three judges, and the crowd is welcome to watch as they make their amazing presentations.

The industry trade show will be open for Ag Expo participants on Friday, Feb. 19 from 10 a.m. to 5:30 p.m., and on Saturday, Feb. 20 from 9 a.m. to 3 p.m. Several industry representatives will be on hand to answer your specific questions. Swine, cattle and agribusiness seminars will be running throughout the two-day event.

Starting at 5:30 p.m. on Friday, the awards banquet and pie auction will be held. Pork and beef industry representatives will be honored for their dedication to the industry. The pie auction is a combined effort of the Wisconsin Pork Producers Youth Association and the Wisconsin Cattle Women. Proceeds will be divided between the pork and beef industries and utilized for youth education activities.

Other activities include annual meetings for the Wisconsin Beef Improvement Association, Wisconsin Cattlemen's Association, Wisconsin Agribusiness Council, Wisconsin Pork Producers Association, Wisconsin Angus Association, Wisconsin Polled Hereford Association, and Wisconsin Red Angus Association. For more information, contact the Winter Ag Expo office at 1-800-822-7675.

Life wit

Open doors of global trade have slammed shut on some area farmers

In June, Mike Salter's hogs were worth $131 apiece.

"In December, I was getting $26 per pig. It costs $95-$100 to raise a pig, and that doesn't include anything but raising the pig," Salter says.

Workers at a huge Canadian packing plant went on strike. Canadian hog producers, hungry for a market, flooded the U.S. with live hogs.

"When Canada had a labor strike, they dumped 100,000 more pigs a week down here," Salter said.

"NAFTA" is the name Salter gives his frustration, though he knows the causes are more complicated than Canadians or a single trade pact.

NAFTA is more than an acronym for the North American Free Trade Agreement. It has become sort of an emblem for a collection of economic changes, like globalization and industrial consolidation, that make isolating its effect difficult.

"They are all interrelated. That is the reason it is so hard to disentangle," said Anthony Chan, managing director and chief economist for Banc One Corp. investment advisers. "NAFTA is essentially part of the globalization trend."

NAFTA, for the most part, has the same friends and enemies it did before it took effect in 1994.

Its proponents said NAFTA would stimulate job growth in the U.S., elevate Mexico's standard of living, protect U.S. investments in Mexico and generally breed economic strength by eliminating or reducing most tariffs and trade barriers between Canada, the U.S. and Mexico.

Detractors warned highly paid American jobs would become low paying Mexican jobs – the "giant sucking sound," Ross Perot predicted in 1992.

Sources: KRT, Census Bureau

Five years later, both sides are exchanging "I-told-you-so's" over a chasm of statistical and ideological differences.

One of the problems in evaluating NAFTA is that analysts don't agree on benchmarks.

"The confusion arises in large part because participants in the debate can't even agree on the appropriate criteria for evaluating NAFTA. Because NAFTA appears to have performed well under some criteria but less successfully under others, the choice of measuring sticks matters a great deal," concluded The Century Foundation in its 1997 study "Evaluating NAFTA – Its Impact So Far on the U.S."

Proponents call NAFTA a success because, according to the U.S. Office of Congressional Research, there are now 680,000 more U.S. jobs than there were in 1994. U.S. exports to Mexico and Canada grew to a record $191 billion by 1996. Canadian unemployment fell. The stock market soared.

But the trade surplus the United States had with its NAFTA partners in 1994 has become a deficit, and American manufacturing jobs have declined. Many of them have gone to Mexico, though the number is not well documented. U.S. manufacturing jobs have been supplanted with lower-wage service jobs, according to critics.

"The U.S. economy has created jobs at a fairly rapid

Please see NAFTA, Page 14

FOX VALLEY inc.

NAFTA: Open global trade has shut doors on some Valley area farmers

From Page 10

rate in the 1990s, but without NAFTA, hundreds of thousands of full-time, high-wage, benefit-paying manufacturing jobs would not have been lost. It is also important to note that while the U.S. economy is generating substantial numbers of new jobs in absolute terms, the quality of the jobs created is often poor.

The U.S. Department of Labor projects the professions with the greatest expected future growth in the U.S. are cashiers, waiters and waitresses, janitors and retail clerks," the watchdog organization Public Citizen wrote in a study called "NAFTA at Five: A Report Card." Public Citizen flunked NAFTA.

Some, like Salter and Wisconsin Farmers Union President Bill Brey, complain the NAFTA playing field isn't level, and that differences in agricultural standards between the United States and Canada, for example, and the ups and downs of currency markets have buffeted some American exports, including agriculture.

The labor and agricultural pains aren't all American, though, and gains overwhelm losses, suggests Stan Kline, international trade coordinator for the Oshkosh Chamber of Commerce.

"It is not totally one-sided," Kline said. "I guess it depends on whose ox is being gored ... Overall, I think it has been a very effective thing for the U.S. and Canada and Mexico."

One of Thilmany Division of International Papers' products, one-time carbonizing, is growing and has edged out European competitors, thanks to NAFTA.

"Half of the product on one of our (six) machines is going to Mexico," Ann Stilp, Thilmany's communications manager, said. "It is one of the few machines we have with a backlog at this time. Exports to Mexico are keeping this machine at full schedule."

Since NAFTA's enactment, Thilmany has been able to deliver product across the Mexican border faster and with greatly reduced tariffs. In 1992 it took 14 to 18 days to ship to Mexico. Now, it takes nine or 10.

By reducing tariffs on U.S. exports into Mexico, NAFTA has helped Oshkosh-based SNC Manufacturing Co. Inc. to price its transponders more competitively. Though SNC hopes a growing Mexican economy will allow the company to expand sales, it was the comparative cost of assembly labor that compelled SNC to establish two manufacturing plants in Mexico.

The company also has facilities in Iowa.

"I think NAFTA is good for everybody," SNC executive vice-president J.R. Vette said. "It creates jobs."

SNC employees in Oshkosh provide administrative support for the manufacturing done in Mexico, which creates jobs locally in fields like accounting and engineering.

Going forward, Vette expects to concentrate manufacturing of more complex, lower-volume parts in Oshkosh.

"It is really because of competition," Vette said. "The only way to obtain business is in low (cost) labor, Vette said. "It is either that or not getting it."

The minimum wage in the United States is $5.15 an hour, compared with $3.40 a day in Mexico.

Unskilled or low-skilled American workers just cost more than the global market will bear, many economists say.

And the choice, Vette points out, isn't whether to locate an assembly plant in Mexico or the United States. It is between Mexico and anywhere else labor is less expensive.

Robert Ripley, from Krakow, used to be a cabbage farmer. He sums up NAFTA's impact on U.S. labor this way:

"As soon as we put hand labor into it, we're not competitive. If we can harvest or build it with a machine, nobody touches us."

> "Whether we like it or not, we are in a global economy. The era of protectionism should be past ... NAFTA is far better for the economy than bad."
>
> **STAN KLINE,**
> **trade coordinator for**
> **Oshkosh Chamber of Commerce**

Ripley views NAFTA differently than he did two years ago, when he blamed the policy for ruining his wholesale cabbage business.

A Wisconsin food processor hired a new purchasing manager who had discovered it was possible to buy both carrots and cabbage from Canadian growers cheaper than he could buy cabbage from Ripley.

"He didn't care that he was putting a local farmer out of business," Ripley said.

NAFTA has allowed Canada to compete with Midwest American farmers in much the same way as California farmers do, though there remain sticky issues such as differences in government subsidies and fluctuating currency.

Ripley quit wholesale cabbage farming. Now he builds houses, and grows strawberries and sugar snap peas for retail customers.

He has accepted the change, he says.

"We're probably doing the same thing to them (Canada)," he said. "I just happened to be on the bad end of that one."

NAFTA represents much larger issues, though, than competition between cabbage growers, Wisconsin Farmers Union President Bill Brey argues, and Ripley agrees.

To them, it's synonymous with an erosion of loyalty – and of nationalism.

"What you are doing is deculturalizing regions," Brey said. "When you thought Kansas, you thought of wheat. When you thought of Wisconsin, you thought of dairy. Rice and cotton, you thought of Georgia and Louisiana."

Businesses built what Brey calls infrastructure, what are often called "synergies" in the corporate world. Manufacturers in Wisconsin, for example, built machines to process cheese. Companies made tankers to haul milk. Midwest universities specialized in agriculture.

The paper industry, in its many facets, grew in Wisconsin because this is where the trees were.

"When you import it, the whole infrastructure collapses," Brey said.

Only multinational, vertically integrated corporations that have already supplanted government's role as trade representative, Brey said, will survive globalization. The result, he says, is the loss of independent producers.

"The consumer will be the ultimate loser," Brey said.

NAFTA, globalization and corporate consolidation are about survival, not corporate greed, Chan said. Consolidation hasn't eliminated competition, it has just changed the players.

"Companies no longer compete with companies across the street. They compete with companies across the globe," Chan said. To compete effectively in a global market, corporations have to minimize costs, and consolidation is one of the ways to do that, he said.

Kline also believes there is no alternative.

"Whether we like it or not, we are in a global economy. The era of protectionism should be past ... NAFTA is far better for the economy than bad," Kline said.

Much of the disagreement over what NAFTA is and has done rises from a fundamental misunderstanding of what NAFTA was intended to do, says Kirk Rossi, Wisconsin Department of Commerce Latin trade consultant.

NAFTA's mission, Rossi said, was to "level the playing field for U.S. companies because trade practices in Canada and Mexico had such dire effects on U.S. exports."

"NAFTA has given people something to blame, which is a shame," he said. "NAFTA can only do good things for U.S. companies and people in the United States."

Wisconsin's total exports have grown from about $7 billion in 1992 to $11.2 billion in 1997. Industrial machinery, computer equipment and electronics are among the state's chief exports, and they've grown markedly since 1992. Agriculture, fabricated metal products and forestry exports, however, all fell in 1997 from their 1996 level. Again, Chan warns, the reasons for those declines are more complicated than NAFTA alone.

NAFTA's full impact won't be felt for the next 10 to 15 years, Rossi said.

"The heart of NAFTA is, Mexico has created 1.5 million jobs as a result of being able to modernize the economy. What that is doing is creating more wealth in the population," he said.

Mexico's current population stands at 100 million people.

"In 10 to 20 years, there will be a huge consumer demand from Mexico, huge buying potential in Mexico. That is what NAFTA has really done for the U.S. economy," Rossi said.

Salter plans to continue hog farming, though he also has a job away from the farm.

"You have so much invested in it, you can't just walk away. If a wheel falls off your car, you're not going to walk away, even if you hate the car," he said.

Salter agrees Mexico has huge potential for U.S. pork exports. The last year may have just been part of the growing pains, he says, and he sees evidence the pendulum is beginning to swing the other way for agriculture exports.

"I'll stay in it, ride the highs and lows," he said.