

## **Independent Swine Producer Survival into the 21<sup>st</sup> Century**

Presented to the

International Conference on Animal Production Systems and the Environment Conference  
Des Moines, Iowa July 19-22, 1998

By

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# A National Farmers FAX

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Notes:

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## Independent Swine Producer Survival Into the 21<sup>st</sup> Century

John A. Bobbe, Eugene F. Paul, Dwayne H. Wind

National Farmers Organization  
2505 Elwood Drive, Ames, Iowa, 50010-2000, United States

### ABSTRACT

Independent U.S. swine producers face significant challenges to their survival in the face of rapid industrialization. The extent to which industrialization occurs directly correlates to the number of independent producers that remain in business. Independent producers will need to form groups or alliances of sufficient size and scale which conform to existing laws and allow them to gain efficiencies in buying inputs, access to consistent genetics and better opportunities for group marketing. Group marketing volumes must be of sufficient size to enable producers to compete in the market place.

In order to survive, producers will have to become involved in a systems approach that enables them to gain access to necessary production technologies. A critical link will need to be how they market their hogs. Market access must be ensured and coupled with use of risk management tools. Forward contracting will be critical for these producers to be able to extract the dollars they need to cashflow their operations and remain economically viable. Market price determination needs to be open, fair and competitive or based on producer costs.

A key question is what role institutions will play in the new economic environment that is developing. Environmental regulations, zoning, and other legal questions have the potential to impact the economic system in which swine producers operate both positively and negatively. Other stakeholders include rural communities, consumers and businesses.

Keywords: Independent, Producer, Industrialization, Environment, Alliances

### INTRODUCTION

The National Farmers Organization represents independent producers nationwide in negotiating contracts and other terms of trade for swine, cattle, grain and dairy producers. We are in the marketplace on a daily basis. The specific purpose is to help independent producers extract the dollars they need to cashflow their operations, pay their expenses and earn a living from what they produce and sell.

An independent producer is defined as one who with his or her family owns or desires to own their farm, resides there, provides the day to day management, decision making, controls the marketing and whose capital is at risk.

## FARM NUMBERS, ECONOMIES OF SCALE AND INDUSTRIALIZATION

United States Department of Agriculture (USDA) Statistical Reporting Service hog number data for selected major hog producing states and the U.S. shows that hog farms have declined 35 to 40 percent during the period, 1992-1996. Traditional economic reasoning attributes this to factors such as efficiency and economies of scale; extremely large farms through economies of scale can combine resources to raise hogs more efficiently leading to profitability.

There is a growing body of research that points to the contrary, that indeed smaller farms can be more efficient and the economies of scale are perhaps much smaller than once envisioned.

A study conducted by Michael Duffy, Iowa State University (ISU) professor of economics and others found that for many hog enterprises the economies of size are captured rather quickly. Iowa State University Swine Enterprise Records support achieving low production costs without large numbers of sows, about 165 sows (1998).

A Kansas State University (KSU) study found that half the 91 farrow-to-finish farms with fewer than 200 litters had costs below average for the whole group and over half the farms larger had costs above average. The most efficient farm only had about 150 litters. (Langemeier and Schroeder 1993).

One of the arguments for industrialization has been efficiency and low-cost production. Clearly assessing what is actually efficient and low-cost becomes clouded when externalities such as manure disposal, proper nutrient management, air pollution and other community, human and social costs are factored in. USDA's Small Farm Commission report states that many times the real costs of progress is not recognized. Today's economic framework doesn't consider loss of market competition when production is concentrated in a monopoly market, the environmental consequences of large concentrations of animals and increased fossil fuel costs. The Commission concluded that, "Contrary to popular belief, large farms do not produce agricultural products more efficiently than small farms especially when real costs are taken into account (1998)." The standard economic definition of efficiency also becomes problematic when the quality and value of family labor versus hired labor enters the equation.

## ENVIRONMENTAL CONSEQUENCES AND RESPONSES

Significant impacts by large industrial swine production units to air, water and soil quality are well documented. The USDA recently reported, "The continued intensification of animal production systems without regard to adequacy of the available land base for manure recycling presents a serious policy problem." Examples include the 1995 North Carolina animal waste spill amounting to 35 million gallons which killed 10 million fish. In 1996, 40 animal waste spills-killed 670,000 fish in Iowa, Minnesota and Missouri, up from 20 spills in 1992. (Minority Staff of the United States Senate Committee on Agriculture, Nutrition and Forestry 1997). Countless other examples exist of spills and resulting fines, which don't begin to pay for the total environmental damage. Environmental damages simply cannot be repaired with money.

North Carolina is the most noted example of the dramatic impact of moving from independent producer production to industrialization, contracts and integration. Michelle Nowlin,

a Southern Environmental Law Center attorney analyzed the state's swine industry and concluded "The growth of the swine industry in North Carolina has come at a significant cost to public health and water quality. The public's response to the government's abdication of responsibility and the industry's prevarication in the media has been bitter opposition to the industry's expansion in their communities (1997)."

The response has been enactment of tougher laws and moratoriums on expansion of large animal operations. In 1997, North Carolina and Kentucky enacted moratoriums and provisions for increased regulation. South Carolina, Nebraska, Kansas and Minnesota plus a host of other states or local governmental units in these states either enacted tougher environmental laws, or have them under consideration (Center for Rural Affairs 1998).

More recently the Environmental Protection Agency (EPA) has proposed regulations to minimize the public health and environmental impacts from animal feeding operations (1998). Iowa U.S. Senator Tom Harkin introduced the Animal Agriculture Reform Act (S. 1323) in the last session of Congress which proposes a national approach to setting environmental standards for animal waste handling by large livestock and poultry operations. More sociological research is needed about industrialization's negative impacts on people, businesses and communities.

#### MARKET STRUCTURE, PRICING AND ANTITRUST

Present trends towards concentration show no signs of stopping or slowing down unless specific actions are taken. Concentration raises serious questions about independent producer access to markets that are open, fair and competitive. There is also concern about price determination and market signals and how they impact production decisions.

In a report, Gary Benjamin, Chicago Federal Reserve Bank economic advisor and vice president raised the question of market structure, the close ties between industrialized producers and packers and the whole relational impact on price reporting. His report stated, "Is the important marketing function of price discovery compromised by the growing ties between production and packers? How valid are reported market prices when a growing share of the production also receives premium payments for quantity and /or quality preferences (Anthan 1997)?"

USDA's Concentration in the Red Meat Packing Industry Report on vertical coordination in hog production cited potentially negative consequences for independent swine producers. Among them are decreased spot-market volume, potentially more limited market access for hog producers, and increased short-term price volatility for smaller producers and/or producers heavily reliant on spot markets (1996).

A Kansas State University study evaluating independent producer hog production versus contracting concluded, "Expected returns from contract production are lower than the historical average returns obtained by independent producers. However, downside risk is also of less concern to contract producers. Thus a grower considering contract production must decide whether the stability of contract returns is worth the sacrifice in the level of expected returns." (Langemeier 1993)

USDA's Agricultural Concentration Advisory Committee recommended stepped up

antitrust enforcement under the Packers and Stockyards Act (P&SA). Specifically, the P&SA provides authority to deal with unfair trade practices, under Section 202, which makes it unlawful for any packer to "make or give any undue or unreasonable preference or advantage to any particular person or locality in any respect whatsoever, or subject any particular person or locality to any undue or unreasonable prejudice or disadvantage in any respect whatsoever." The Committee concluded that Section 202 should be enforced to the letter of the law. This not currently being done (1996).

Chris Hurt, Purdue University extension economist suggested that in order to remain competitive, the hog industry will need to form "pork systems" to tap into available technologies, genetics, feedstuffs, and for marketing purposes (1997).

A Kansas State University study suggested that producers aligning themselves into groups for marketing agreed that advantages included, higher prices for hogs, less time spent marketing, lower marketing costs and reduced sort-loss discounts (Tynon, et. al. 1994).

USDA's Agricultural Concentration Advisory Committee further recommended that enabling producers to bargain with first handlers and processors as a group and without fear of recrimination is a minimal public policy position. The right of producers to organize under the Capper-Volstead Act must be preserved (1996).

Independent producers will need to align themselves in marketing groups and other arrangements of sufficient size and scale to extract the dollars they need to survive and cashflow their operations. They will also need to use risk management tools to protect against market volatility.

#### INDEPENDENT PRODUCERS, INDUSTRIALIZATION AND COMMUNITIES

An Iowa State University report on swine industry economic development noted, "The impact in the local community from diversified family farms is greater per hog produced than it is in large-scale units because they add greater value to the inputs they purchase (crop inputs and equipment). They also tend to spend more of the return locally from resources they provide, e.g., capital, labor and management (Duffy, et al. 1995)." An analysis of a Virginia Tech study shows similar impacts on local employment, purchased services and added per capita income. (Thornsbury, et al. 1995)

An analysis of Iowa State University data by Center for Rural Affairs consultant, Nancy Thompson shows that smaller hog operations create 34% more jobs and 23% more employee income. Her analysis assumes an equal amount of hog production from farms of 150 sows (the size at which economists say most efficiencies of scale are achieved) versus one of 3400 sows. Secondly, she notes that smaller hog farms have a greater positive fiscal impact on communities. They create 23% more total local revenue, 20% more net state revenue and pay 7% more property taxes than does one large operation of equal output (1998).

The USDA's Small Farm Commission points out that as small farms are consolidated into larger farms, the economic basis of America's rural communities decline, and rural towns are lost (1998). Economic research seems to suggest that the number of producers and not simply the number of animals produced is critical to the economic well-being of rural communities.

## ROLE OF INSTITUTIONS

Institutions and government have a significant role to play. Whether it is industrialization or independent producers survival depends on which role they choose.

John Ikerd, University of Missouri economist posed the question as to why land-grant institutions should stop promoting industrialization. He noted, "...Because there is growing evidence it is obsolete and may well be doing more harm than good." He went on to say, "The agricultural establishment, including agricultural colleges, may not intentionally promote industrialization, but it is none the less promoted by their attitudes and actions (1996)."

There is a positive role institutions can play. Examples include researching and developing new business structures to help producers form alliances to compete in today's market. Better ways of accessing new and low-cost production technologies such as hog housing, genetics and feeding for independent producers is needed. More research is needed on economies of scale for smaller independent producers, nutrient management and environmentally sound ways of farming. The sociological and economic well-being of farm families, rural communities, businesses and their critical inter-relationship needs to be studied further.

More attention will need to be focused on marketing and pricing issues through group marketing concepts to enable independent producers to manage risk and cashflow their operations.

## CONCLUSIONS

The following are recommendations for survival of independent swine producers:

1. There is a growing body of economic and sociological research that shows independent producers have greater value to local economies and communities when all costs are considered as opposed to industrialized swine operations.
2. Market prices should be determined in markets that are open, fair and competitive.
3. Access to adequate sources of capital, credit, technologies and use of risk management tools will be critical.
4. Alliances, especially in marketing between independent producers of sufficient size and scale is essential to operating in the current economic environment and critical to their survival.
5. USDA needs to enforce antitrust laws and the Packers and Stockyards Act, Section 202 to address anti-competitive behavior resulting from industrialization.
6. Environmental regulation and cost-share funds for environmental compliance such as USDA's Environmental Quality Incentive Program (EQIP) need to be targeted to benefit independent producers.
7. Land grant institutions need to target more economic and sociological research to benefit ... independent producers, local economies and rural communities rather than promoting industrialization in the swine industry. To this end more low-cost production and technology needs to be developed to benefit independent producers.
8. Further public discussion is needed about developing a favorable economic climate for independent producers that goes beyond mere survival.



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# Wisconsin Agribusiness Council, Inc.

2820 Walton Commons West, Suite 132 • Madison, WI 53718-6797 • Phone (608) 224-1450 • Fax (608) 224-1452

November 2, 1998

To: CAARD From: Russ Weisensel

You may find the enclosed hearing notices of interest.

*Sheraton  
12:30 - 4:00 pm  
1/2 Ramada - Eau Claire*

## National hearing on livestock regulations, Nov. 30, in Madison

### MADISON

The Wisconsin Farm Bureau Federation is inviting farmers to attend the National Public Listening Session on the Clean Water Act Animal Feeding Operations (AFO) Draft Strategy to be held in Madison on Nov. 30. The Natural Resources Conservation Service will announce information on location, including the agenda and national speakers.

This is one of 12 sessions held around the country to listen to concerns and ideas on the draft AFO strategy. The public comment period is open through Jan. 19, 1999, with a final strategy expected next spring.

"Livestock producers regardless of size should take note of the proposed plan because it could have far-reaching implications beyond our state's nonpoint pollution program," said Dan Poulson, president of the Wisconsin Farm Bureau Federation. "We've been working with the Wisconsin Department of Natural Resources and Department of Agriculture, Trade and Consumer Protection to determine if the plan will result in an unfunded federal mandate, or will allow us to maintain our solid program that surpasses what the feds are proposing," Poulson added.

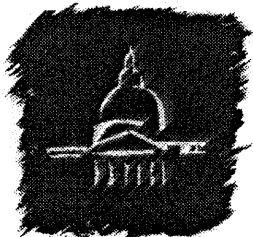
In late September, the USDA and EPA announced their comprehensive plan to

reduce nonpoint source pollution caused by livestock feeding operations. The Unified National strategy for Animal Feeding Operations was included in President Clinton's Clean Water Action Plan (CWAP). Released in early 1998, the CWAP provides a wide-ranging guideline to reduce all sources of nonpoint source pollution in the United States.

The draft version of the comprehensive plan for Animal Feeding Operations could affect the majority of the nation's livestock producers. The Strategy for Animal Feeding Operations will rely on voluntary and regulatory approaches to address nonpoint source pollution. This would result in a large increase in the number of animal feeding operations that require a Clean Water Act discharge permit.

The regulatory program will focus permitting and enforcement activities on the largest concentrated AFOs or Concentrated Animal Feeding Operations (CAFOs) with 1,000 or more animal units. It will also target AFOs that directly discharge manure into waterways, and those that cause significant harm to water quality within a watershed.

The document is available on the World Wide Web at (<http://www.nhq.nres.usda.gov>) or (<http://www.epa.gov/owm/afostrat.htm>).



**SCOTT R. JENSEN**  
ASSEMBLY SPEAKER

**\* MEDIA ADVISORY \***

**SPEAKER'S MEDIA AVAILABILITY SCHEDULED**

**FOR IMMEDIATE RELEASE**  
**NOVEMBER 9, 1998**

**CONTACT : SPEAKER JENSEN**  
**608-266-2402**

**MADISON...**Assembly Speaker Scott Jensen's will be holding his weekly media availability today at its normally scheduled time of 10:30 a.m. in the Speaker's Office. We look forward to your attendance.

**###**



# DuWayne Johnsrud

State Representative

November 19, 1998

Representative Al Ott, Chair  
Assembly Agriculture Committee  
Room 318 North  
State Capitol  
INTER-DEPARTMENTAL

Dear Representative Ott:

I am writing to request that the Assembly Agriculture Committee hold an informational hearing to address the large disparity in pork prices. Hog prices for farmers are at an all time low, yet consumers are paying more than ever for pork in the grocery stores. These stores are standing to make quite a profit; a profit that may also extend to the packing house and/or meat purveyor.

I would ask that the Department of Agriculture, Trade and Consumer Protection also participate at the hearing. The Wisconsin Grocers Association, Wisconsin Pork Producers as well as folks from Oscar Meyer and the like, should also be in attendance.

Thank you for your consideration of this request. If you should have any questions regarding this matter, please don't hesitate to contact me.

Sincerely,

DuWayne Johnsrud  
State Representative  
96th Assembly District

DJ/ssd

cc: Ben Brancel, Secretary, Department of Agriculture,  
Trade and Consumer Protection  
Keri Retallick, Executive Vice President, Wisconsin  
Pork Producers  
Ronald Kuehn, Wisconsin Pork Producers  
Brandon Scholz, Wisconsin Grocers Association

- Don Short  
UW-Exten.  
- Farm Land Indus.  
- WI Pork Producers  
- Oscar Meyer, Hillshire  
Farms  
UW-Exten.

packers } Farm Land Industries  
con-agri  
I.B.P.

## HOGS - GLENN GRIMES & RON PLAIN

Ag Econ, MU  
November 20, 1998

Cash hog prices lost a little more on average this week. TOP practical prices were steady to \$1 per cwt lower this Friday than a week earlier. These prices for select market this Friday were: Peoria \$17.50, Sioux City \$18.50, St. Joseph \$16.50, Omaha \$18.50, Sioux Falls \$18, Iowa in country \$17, Iowa at plants \$18, and interior Missouri \$16.

Slaughter this week was estimated at 2173 thousand head -- up 9.7% from a year earlier and the highest of record. The previous record was set the week ending November 7 at 2,136 thousand head. This was the 8th consecutive week with a slaughter under Federal Inspection over 2 million head.

The futures market for lean hogs slipped \$1-3 for the next 5 contracts. This may mean that the traders are concluding that slaughter will continue to run above expectations based on September Hogs and Pigs. Slaughter for the past 4 weeks has been up nearly 9.5% from a year earlier. We were expecting slaughter to be up 3 and 4% from the September report therefore the overrun is 4-5%.

If slaughter continues to overrun our expectations based on the September report by 4%, we are likely to have a slaughter level above 2 million head through all of the full weeks in December and probably at least the first 2 full weeks following New Years week.

Based on cost calculators by John Lawsect for farrow to finish predicts the industry will probably lose around 2.5 billion dollars in equity this year. Current expectations would indicate equity losses could be that large again in 1999.

With this much equity loss in the hog production segment of the industry, we believe the odds are high for at least 3 good profit years and possibly 4 before hog producers again get general expansion fever. Gilt slaughter for last week was a record high as a percent of total slaughter for the period we have been collecting the current series. We now have 10 weeks of high gilt slaughter and with about 1/3 of the observations in for this week we are working on the 11th week with a high percent of gilts in the slaughter.

We believe the breeding herd has been reduced at a rate of 0.3 to 0.4 percent each week for the last 10 weeks. Therefore, our preliminary data would support a December 1 breeding herd inventory that would be 3-5% below a year earlier. A report with the herd down this much would be positive for the latter part of 1999.

Based on USDA data retail pork prices were down in October from a year earlier but by only 2%. If this is true the demand for pork at the retail level continues very strong. Probably up 5-6% for the 1st 10 months of 1998 compared to 1997. These data are very positive for the period when we do reduce hog marketing below slaughter capacity.

Cash feeder pig prices were \$3-6 per cwt lower this week at MFA than a week earlier. The prices at MFA by weight groups this week were: 40-50# \$31, 50-60# \$30.50-33.50, 60-70# \$30.50, 70-80# \$26-26.50, and 80+# \$34. The highest price for the heaviest weights does not happen very often but can occur at current stage of a cycle.

No report next week because of Thanksgiving holiday.



Office of the President

November 24, 1998

The Honorable Richard Lugar  
Chairman, Senate Agriculture, Nutrition, and Forestry Committee  
Washington, D.C. 20510

Dear Mr. Chairman:

On behalf of the 300,000 members of the National Farmers Union (NFU), I am writing to urge you to hold a hearing to investigate the devastating plunge in hog prices over the past year.

Currently, tens of thousands of U.S. hog producers are facing financial failure due to record low hog prices and dismal market conditions. Hog prices have plummeted more than 40 percent over the past year and currently sit at a 34-year low. One year ago, farmers received approximately \$46.50 per hundredweight of pork, compared with just \$19 or less today. Many producers have been unable to withstand the sharp decline.

Despite the precipitous drop in the price of live animals, consumer prices for pork have remained constant. We believe the growing spread between farm and retail prices and price volatility can be attributed in good part to rapid consolidation in the pork industry in recent years. Currently, five companies control roughly 60 percent of the pork packing sector. Today's abysmal prices call into question the future structure of the industry and the wisdom of permitting further consolidation.

Pricing practices within the industry must be examined as well. A study released in October by the Grain Inspection, Packers and Stockyards Administration at the Department of Agriculture confirms that the lack of a transparent price discovery system in the industry has led to reported hog prices that are generally lower than prices actually being paid. As a result, producers currently do not have access to reliable or accurate market information to aid them in negotiating a fair price for their product.

With these concerns in mind, we urge you to call a hearing to examine the issue of price volatility in the hog market, including concentration and pricing practices in the industry as well. The nation's pork producers are in dire financial straits. We urge you to schedule a hearing at the earliest opportunity.

Thank you for your consideration. We look forward to working with you on this important issue.

Sincerely,

Leland Swenson  
President, National Farmers Union

cc: Senate Agriculture Committee members

**Narveson, Linda**

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**From:** Hubbard, Gregory  
**Sent:** Wednesday, November 25, 1998 1:09 PM  
**To:** All Assembly; All Senate; Patronsky, Mark; Anderson, Nicole; Adam Raschka; Brent Pickens; Carol Redell; Dan Young; Deneen Kickbusch; Geoff Gaston; Grant Huber; Heather Schubert; Jon Mielke; Keeley Moll; Linda Junck; Mark Rinehax; Mary Laabs  
**Subject:** Ag. Committee Hearing

TO: The Assembly Agriculture Committee and other Interested Legislators

FROM: State Representative Al Ott, Chairman of the Assembly Agriculture Committee.

DATE: 11-25-98

RE: Informational hearing on the state of the hog industry in Wisconsin

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I have recently been contacted by several colleagues who have asked me to hold an informational/public hearing of the Assembly Agriculture Committee on the state of hog industry in Wisconsin. As you may know, the prices farmers receive for hogs is at an all time low, while consumer prices for pork remain high.

I have tentatively scheduled a hearing for the following:

Thursday, December 17, 1998  
9:00 AM  
417 North (GAR), State Capitol

Formal notice and agenda will be sent next week. Please notify my office if you have any questions.



# SIERRA CLUB - John Muir Chapter

222 S. Hamilton Street, Suite #1  
Madison, WI 53703-3201

Tel: 608-256-0565  
Fax: 608-256-4JMC

FOR RELEASE - NOVEMBER 30, 1998

For further information, Contact:  
Caryl Terrell 608-256-0565

EPA - PORK PRODUCERS 'CUT A DEAL' - voluntary compliance.

Madison, WI-- "Today's 'listening sessions' is a sham and the so-called 'Joint Venture' is hog-wash," stated Caryl Terrell, Legislative Coordinator of the Wisconsin Sierra Club, speaking at the Sheraton Hotel before federal agency representatives. "While we enjoyed turkey dinner with our families, the Pork Producers reached a deal with the federal clean water ~~agency~~ agency."

Just before Thanksgiving, the United States Environmental Protection Agency (USEPA) and the NPPC came out with a real turkey: release of the details of an agreement made behind closed doors.

"This deal includes every dirty trick we have been fighting: voluntary assessments, self-monitoring, self-disclosure, and lower penalties - with little or no oversight by the US EPA, and apparently no involvement by the public," said Terrell.

This agreement calls for pork producers to consent to a voluntary environmental assessment by a small team of inspectors selected by the NPPC, and, if violations of the Clean Water Act are found, the producer can choose to disclose these to the US EPA. As a reward, the US EPA has established a substantially-reduced penalty schedule, ranging from \$250 for paperwork violations to \$10000 for major polluting events (with a cap of \$40,000).

It is assumed that the findings of the assessment team would not be available to the public, as the team is independent of the US EPA, and, in fact, the members of the team would be paid by the NPPC. There is also no requirement that the producer report findings to the US EPA, and no mention of public accessibility to any of the assessment reports, findings or disclosure.

"This is nothing more <sup>than</sup> the 'Environmental Audit Privilege' or 'Dirty Secrets' concept in fancy new clothes", said Ken Midkiff, Director of the Missouri Sierra Club. "The principles are the same: self-assessment, self-monitoring, and voluntary disclosure of violations of federal law in exchange for a slap on the wrist, with no real enforcement of federal laws - while keeping all of this secret from the public. Quite a deal the Pork Producers cooked up for Thanksgiving for themselves."

-ADD-

...To enjoy and preserve the wild places of the Earth...



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"While backrooms meetings were going on, the US EPA and the US Department of Agriculture (USDA) are making a big deal of holding 'listening sessions' around the country on their proposed Animal Feeding Operation Strategy - and crowing about public involvement." continued Midkiff.

"The very people who should have been most involved in these negotiations were excluded: rural residents, sustainable ag groups, and environmental organizations. These are the people and groups who have raised this issue to the national level. So who does the EPA consult and make a deal with? Yep, the ones who have caused all the problems and have resisted any laws, regulations, standards, and county ordinances. It makes no sense at all....", said Midkiff.

"The head of the NPPC says this is 'win, win' - I would say it is 'lose, lose, lose'. Family farmers lose, rural residents lose, and clean air and clean water lose," concluded Terrell.

Headline: Hog Farms-EPA  
Wire Service: APf (AP Financial)  
Date: Thu, Nov 26, 1998

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By JANELLE CARTER

AP Farm Writer

WASHINGTON (AP) -- Hog farmers can avoid costly federal fines under a deal with the Environmental Protection Agency that allows the industry to conduct voluntary independent inspections.

The deal between the EPA and the National Pork Producers Council is the first of its kind between federal environmental regulators and a major section of agriculture.

Under the agreement, pork producers who have their farms inspected under the NPPC's EPA-approved odor and water quality assessment program will be eligible for reduced penalties for any Clean Water Act violations discovered and corrected.

Before the agreement, farmers could be fined up to \$27,000 a day for violations. Under the new system, participating farmers will get a flat fine of no more than \$40,000.

"This program is an example of government and industry working together to find common-sense solutions to protect public health and the environment," said EPA Administrator Carol Browner.

NPPC President Donna Reifschneider called the deal a "win-win for the environment and producers."

"Problems that would have otherwise gone unnoticed will be corrected, while farmers will have strong incentives for participating," Reifschneider said. "The public will also have a better understanding of our commitment to protecting the environment."

The NPPC is paying for the program with checkoff fees that hog farmers contribute.

The deal comes at a time when hog farms, particularly large operations, have been under fire in some parts of the country.

In the November election, Colorado voters overwhelmingly approved the monitoring of large hog lots to ensure they meet stringent environmental standards. South Dakota voters approved a constitutional amendment allowing only family-controlled farms to operate in the state.

The EPA and the NPPC have been discussing environmental standards for hog farms since last year, along with state regulators and the U.S. Agriculture Department.

The NPPC has established a team of farm inspectors, also approved by the EPA. The team members include public employees, engineers, university faculty and private consultants.

Officials hope to see more than 12,000 farms participate in the program over the next three years.

The nation's hog farms are concentrated mostly in Iowa, followed by North Carolina, Minnesota, Illinois, Missouri, Indiana, Nebraska, Oklahoma and Ohio.



PO Box 327 • Lancaster WI 53813 • 608-723-7551 FAX: 608-723-7553 • E-mail: wispork@pcii.net

TO: Representative Al Ott 608 282 3603

RE: Media List Request for 12/4 Press Conference

FROM: Keri Retallick

DATE: December 3, 1998

-----  
Q106, Pam Jahnke, 20740 Ski Lane, Madison, WI 53713 608 273-1000 ext. 206

*sent 12/4*

**271-3822**

Wisconsin Farm Bureau, Tom Thieding, Executive Director, Communications  
Division, 1212 Deming Way, P.O. Box 5550, Madison, WI  
53705-0550 608 828 5709

*sent 12/4*

**828-5709**

WAXX Radio, Bob Bosold, P.O. Box 6000, Eau Claire, WI 54702  
Phone: 715 832 1530 Fax 715 832 5329

WGN Radio, Orion Samuelson, 435 N. Michigan Avenue, Chicago, IL 60611  
312 222 4700

Pork '98, Marlys Miller, Editor, 5717 Bartlett Lane, Madison, WI 53711  
608 278 9211 Fax 608 278 9311

Goetz Radio Network, Bob Meyer, P.O. Box 630, Marshfield, WI 54449  
800 2336 1065 Fax 715 384 5912



# DuWayne Johnsrud

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## State Representative NEWS RELEASE

FOR IMMEDIATE RELEASE  
FOR FURTHER INFORMATION CONTACT:

DECEMBER 3, 1998

Representative DuWayne Johnsrud (608) 266-3534  
Toll Free (888) 534-0096

### **JOHNSRUD GETS HEARING ON PORK PRICING**

**Assembly Ag Committee to hold fact finding hearing**

MADISON.....At the request of State Representative DuWayne Johnsrud (R-Eastman), the Assembly's Agriculture Committee will hold an informational hearing on the disparity in prices in the pork industry.

The hearing is scheduled to take place in Madison on Thursday, December 17 at 9:00 a.m. in Room 417 North of the State Capitol.

"Hog prices for farmers have been dropping to all-time lows, while consumers are paying a pretty penny for pork in the stores," said Johnsrud. "We need to get some answers as to why this is happening and this hearing will give us that opportunity."

The committee will hear testimony from invited speakers knowledgeable about various aspects of the hog industry. Public testimony will also be allowed following comments from the invited speakers.

"I really hope these folks from the industry, from the producers on up to the processors, will attend so we can get to the bottom of this," said Johnsrud.

-30-

# **REPRESENTATIVE AL OTT**

**State Representative  
3<sup>rd</sup> Assembly District  
PO Box 8953 - Madison, WI 53708**

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## **For Immediate Release**

**For Further Information  
Contact Representative Al Ott**

**December, 3, 1998  
1-888-534-0003**

### **Rep. Ott To Hold Hearing On Pork Pricing Assembly Agriculture Committee will hold fact finding hearing**

Madison...The Assembly Agriculture Committee will be holding a public hearing to discuss the current crisis in the Wisconsin hog industry, according to the Chairman of the Committee State Representative Al Ott (R-Forest Junction).

Hog prices are currently the lowest they have been since 1971, at less than \$20 per hundred weight, while costs at the retail level remain high.

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

The Committee will hear testimony from invited 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.

###

Chairman:  
Agriculture Committee

Member:  
Consumer Affairs  
Government Operations  
Natural Resources



**Al Ott**

State Representative • 3rd Assembly District

(Revised)

**\*MEDIA ADVISORY\***

**Assembly Agriculture Leaders Announce Fact Finding  
Hearing on Pork Prices**

For Immediate Release  
Representative Al Ott  
Representative DuWayne Johnsrud  
Representative Gene Hahn

December 4, 1998  
608-266-5831  
608-266-3534  
608-266-3404

**Madison...** Representatives Ott, Johnsrud and Hahn will be holding a press conference on Tuesday, December 8, 1998 at **10:30 am** to announce an Assembly Agriculture Committee hearing on the crisis in the Wisconsin hog industry. We look forward to your attendance. Please call any of our offices if you have questions.

###



State of Wisconsin  
Tommy G. Thompson, Governor

## Department of Agriculture, Trade and Consumer Protection

2811 Agriculture Drive  
Madison, Wisconsin 53704-6777

PO Box 8911  
Madison, WI 53708-8911

TO: Representative Al Ott

FROM: Rick Tanger - WDATCP Market News / 224-5097

SUBJECT: Hog information

DATE: December 4, 1998

There are a number of events that have contributed to the current situation in the hog market.

1. Over the past 18 months daily hog slaughter capacity has been reduced by approximately 35,000 head with the closing of three pork plants: IBP, Council Bluffs, IA; Docket Pork, Huron, SD; and Thorn Apple Valley in Detroit, MI.
2. Current daily hog kill capacity is at 385,000.
3. Producers are offering in an excess of 385,000 hogs daily and the current hog slaughter system is backed up several days.
4. Current Wisconsin hog prices are 14.00-16.00 per cwt. Compared to last years price of 42.00-43.00 per cwt.
5. The average weight of hogs in the Iowa and Southern Minnesota marketing area has increased about 4 pounds over last year this same time period.
6. According to USDA estimated total hog slaughter for November is 9 million head compared to Octobers slaughter of 8.345 million head.
7. Total U.S. hog slaughter to date is 89,766,000 head compared to 1997 slaughter of 81,770,000 in the same time period for an increase of 9.8 percent over last year.
8. According to USDA imports of Canadian hog imports to the U.S. will exceed 4 million head this year up from 3.2 million last year. The favorable exchange rate will continue to be an incentive for this to continue for some time.



# WISCONSIN LEGISLATURE

P.O. BOX 8952 · MADISON, WI 53708

## For Immediate Release

**For Further Information Contact**  
**Representative Al Ott**  
**Representative Eugene Hahn**  
**Representative DuWayne Johnsrud**

**December 8, 1998**  
**608-266-5831**  
**608-266-3404**  
**608-266-3534**

### **Ag Committee to Hold Hearing On Pork Pricing** **Assembly Agriculture Committee will hold fact finding hearing**

Madison...The Assembly Agriculture Committee will be holding a public hearing to discuss the current crisis in the Wisconsin hog industry, according to the Chairman of the Committee State Representative Al Ott (R-Forest Junction).

Ott said the Committee will hear testimony from invited 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.

"Hog prices are currently the lowest they have been since 1971, at less than \$20 per hundred weight, while costs at the retail level remain high," said State Representative DuWayne Johnsrud (R-Eastman). "We need to get some answers as to why this is happening. Hopefully this hearing will give us this that opportunity."

State Representative Eugene Hahn (R-Cambria) stated that he has received contacts from a number of people about the plummeting prices for hogs and their concerns about the future of the industry in Wisconsin.

"I asked Chairman Ott to hold the hearing so we could get experts from all areas of the hog industry to come in and talk to us," said Hahn. "This will give us a complete picture of the industry and a better understanding of the problem."

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.





State of Wisconsin  
Tommy G. Thompson, Governor

## Department of Agriculture, Trade and Consumer Protection

2811 Agriculture Drive  
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2601 CROSSROADS DRIVE • SUITE 185 • MADISON, WI 53718 • 608/244-7150 • FAX 608/244-9030

December 11, 1998

DEC 14 1998

The Honorable Al Ott  
Chairman  
Assembly Agriculture Committee  
P.O. Box 8953  
Madison, Wisconsin 53708

Dear Mr. Chairman:

Thank you for taking the time to discuss the upcoming hearing on December 17<sup>th</sup> regarding pork prices and farm-to-market issues.

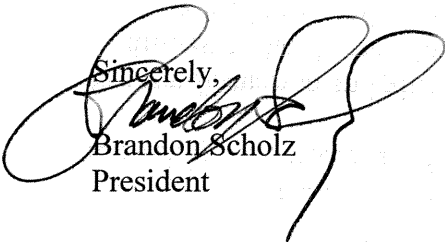
Per our discussion and via this letter, I am formally asking that you schedule the testimony of the Wisconsin Grocers Association and one of our members, Lonnie Olson from Dick's Supermarkets at an appropriate time in the beginning of the hearing.

I make this request for two reasons. One, I am sensitive to the time commitment made by our member and the amount of time it would take to be out of his place of business. As you can appreciate, when a small businessman takes a day off from work, nobody covers those costs.

The second reason is that this hearing could focus on the retail side throughout the day. It is entirely reasonable and fair to let the retail side present its case after the small producers present theirs so that when the processors and academics provide background information, your committee members will know both sides of the issue and process the background information accordingly. If we have to wait until the end of the hearing to present our case, I am afraid many members will be off to other commitments or our comments will be stacked on two to three hours of previously offered testimony.

I appreciate your consideration of this request.

Sincerely,

  
Brandon Scholz  
President

Chairman:  
Agriculture Committee

Member:  
Consumer Affairs  
Government Operations  
Natural Resources



Al Ott

State Representative • 3rd Assembly District

December 14, 1998

Dear Mr. Knutson:

Thank you for agreeing to take part in the Wisconsin Assembly Agriculture Committee's informational/public hearing on the state of Wisconsin's Pork Industry. I appreciate your willingness to participate.

Attached is the agenda for the invited speaker portion of the hearing. The Committee will hear testimony from invited speakers from 9:00 am to 12:15 pm. The Committee will then break for lunch from 12:15 pm to 1:00 pm. Public testimony will be taken beginning at 1:00 pm.

As you know, I have invited a number of speakers to provide the Committee with information about the various aspects of the hog industry. I have included a tentative speaker list and timeline for the testimony to be given on each topic. I understand that some speakers may go longer than the time allotted, however, I will do my best to stay on schedule.

The timeline will also allow speakers to better determine when they need to be present if they are not able to attend the entire hearing.

Thank you again for agreeing to participate. Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Al Ott', written in a cursive style.

Al Ott  
State Representative  
3<sup>rd</sup> Assembly District

File - File  
 Hog File

This is testimony to the purchase of pork on Dec. 14, 1998 and the cost of purchasing in the local grocery store.

On Dec. 14, 1998 We purchased 1/2 pig and had it processed at a local butcher shop. We had the pork cut and processed to our desire, wrapped according to our instruction, and frozen.

The product that went into our freezer was:

Our cost :			pounds	
1/2 pig	129 lb's	\$19.35	5	pork roast
butchering		\$7.50	14	pork chops
cutting and wrapping		\$16.80	3.5	spare ribs
brat processing		\$6.00	7.33	smoked bacon
breakfast link processing		\$6.75	18.7	smoked ham
bacon processing		\$4.03	9	breakfast links
ham smoked		\$10.29	15	brats
liversausage processing		\$2.41	2.84	liversausage
		=====	=====	
total	\$73.13 total lb's		75.37	

On Dec. 14, 1998 the prices at our local grocery store were as follows for the cuts that we had processed:

pounds		brand	Price per lb	
5	pork roast	Farmland	\$2.49	\$12.45
14	pork chops	Farmland	\$2.69	\$37.66
3.5	spare ribs	Farmland	\$1.99	\$6.97
7.33	smoked bacon	Our Family	\$1.57	\$11.51
18.7	smoked ham	Our Family	\$1.49	\$27.86
9	breakfast links	Johnsonville	\$3.98	\$35.82
15	brats	Johnsonville	\$2.91	\$43.65
2.84	liversausage	Hilbert Meat	\$2.59	\$7.36
				=====
75.37 total		total		\$183.27

Had these products been purchased we would have needed to wrap and freeze at our expense.

Jim and Bonnie Casper  
 W3470 Hickory Hills Rd.  
 Chilton, WI 53014

December 15, 1998

*Confidential*

TO: Assemblyman Al Ott:  
FROM: Tom Thieding  
Executive Director, Communications  
Wisconsin Farm Bureau Federation  
RE: Wholesale pork prices

Provided are some wholesale pork prices that I obtained from a food distributor. I wanted to provide these numbers for your information, particularly when retailers attempt to defend pricing practices.

While most of the pork they distribute goes to institutions, it confirms that wholesale pork prices have dropped significantly, and retail prices have not.

Also, comments from the distributor confirm that retailers are taking some good profits on pork products.

	<u>Slaughter Location</u>	<u>Current Wholesale Price</u>	<u>Average price In November</u>	<u>Difference</u>
Pork Loin	Iowa Packer	.94	1.35	-30%
Pork Loin	Nebraska Packer	1.69	1.89	-10.5%
Pork Loin Center cut	Iowa	1.29	1.49	-13%
Boston Pork Butt	Dubuque	.76	1.09	-30%
Boston Pork Butt	Dakota Pak	.62	.94	-32%
Fresh Ham	WI-Green Bay	1.50	1.65	-9%
Baby Back Ribs	Iowa	2.30	2.55	-10%



**WISCONSIN  
FARMERS  
UNION**



TO REP. AL OTT  
VIA FAX 608-282-3603

**STATEMENT OF WILLIAM (BILL) BREY,  
PRESIDENT OF THE WISCONSIN FARMERS UNION**

**TO THE WISCONSIN STATE ASSEMBLY AGRICULTURE  
COMMITTEE ON THE CRISIS IN THE  
WISCONSIN HOG INDUSTRY**

**MADISON, WISCONSIN  
DECEMBER 17, 1998**

I want to thank the committee chair, Al Ott, and the rest of the committee for holding this informational hearing on the current crisis in the Wisconsin hog industry. I also want to express my appreciation to the chair for allowing us to enter Wisconsin Farmers Union's testimony into the record at this time, given the fact that I cannot personally appear before the committee due to a commitment as a member of the National Farmers Union's board of directors meeting in Denver today. The member of our staff who would normally appear, Robert A. Denman, Assistant to the President, was unable to make it due to a health emergency.

There is no question that the hog industry in Wisconsin -- as well as throughout the country, and even overseas -- is going through a severe economic crisis which has seen hog prices decline down into the lower teens. The situation may become even graver if industry predictions of single digit hog prices comes true early next year.

As a result, we need to explore all possible ways to help family-sized hog operations weather this crisis, which has come about largely due to elements outside their control. While much of that aid is likely to come from the federal level through a variety of plans under discussion for income supplement or deficiency payments to hog producers, the state of Wisconsin should also leave itself open to considering ways to provide assistance to the best of the state's ability to provide aid. At the same time, whatever aid is provided, whether it be direct payments to producers or assistance with credit, etc., should be closely targeted and capped so that the benefits accrue to family

sized producers and does not end up becoming another gigantic subsidy to large-scale hog producers who are a major contributor to the depressed prices being experienced in the hog sector.

While there are a wide variety of factors which are contributing to the current pork price problem, the comments by market analysts in the enclosed news accounts as well as the early morning agricultural news programs, such as Al Pell's "Ag Today" program, have indicated that the increased concentration in the pork industry at the packer level, the large scale hog producer level, and the contractual relationships between the two, have played a major role in creating the current crisis. It was for that reason that the National Farmers Union, at the recommendation of the Wisconsin Farmers Union, called on U.S. Senator Richard Lugar to hold major hearings on the events taking place in the hog industry focusing especially on the concentration issue and the Wisconsin Farmers Union would urge this committee to add its voice calling for a major investigation on the concentration issue, and for full enforcement of the anti-trust and packers and stockyards laws.

There is no question that the normal hog cycle has been disrupted by the industry's growth in the large style corporate hog factories, many of which were subsidized at the federal, state and even the local level. Given the nature of their size, operations of that size fail to take note of market signals. They continue to pump large numbers of hogs through their facilities to keep production up, which causes an oversupply which depresses prices offered to other hog producers.

On "Ag Today," a number of market analysts have noted the only answer to the hog over-supply situation is for some of these giant operations to go bust. Unfortunately, it is probably highly unlikely farm lenders will allow that to happen given the exposure and the impact that will have on their loan portfolios. It is a classic example of the old adage that if I owe the banker \$10,000, the banker owns my soul, and probably that of my first-born child. If I owe the banker \$1 million, I hold his soul in my hands.

As you are well aware, we are going through a debate in the agriculture community in this state regarding the future of animal agriculture in Wisconsin. That has been demonstrated by the founding of the Consortium of Animal Agriculture Resource Development (CAARD) and its deliberations this last year, the Wisconsin Environmental Initiative's conference held yesterday in Wausau, and the wide variety of other forms with which the issue of growth and size of animal operations has been under discussion.

Here in the state of Wisconsin, we need to make sure that we maintain economically viable livestock operations given the historical importance of the industry to the state's economy. At the same time, we need to make certain we do so in an environmentally responsible manner, and that we don't necessarily just encourage greater size just to match what is being done in other parts of the country.

In particular, I would urge this committee, the Wisconsin legislature in general and the executive branch not to engage in the use of public monies in bidding wars to encourage investors outside the state of Wisconsin to bring them within our borders.

The stories in the enclosed articles and a wide variety of other publications have shown that many of these outside investment organizations don't prove to be friendly neighbors when they move into an area, in fact they create more problems with their demand for government services while they continue to fight all efforts to make them pay their share of the bill. Many such firms have shown themselves to be experts at milking public treasuries for vast sums of money to finance their operations while they drive other producers out of business. If they are all so terribly efficient, they should not have to rely on public monies in order to operate.

In closing, the WFU stands ready to work with you and the rest of the legislature and the governor on ways to ensure that the animal agriculture community in Wisconsin remains strong and viable, that it grows in a responsible way and that we continue to maintain the environment in a proper way so that other industries and people will continue to find Wisconsin an attractive and viable place in which to raise their families and conduct business.



**Comments by Craig Jarolimek, Forrest River, North Dakota  
Vice President National Pork Producers Council  
Wisconsin Assembly Agriculture Committee Informational/Public Hearing  
December 17, 1998**

My name is Craig Jarolimek, I'm a pork producer from Forrest River North Dakota. I operate a diversified crop and livestock operation with my wife Dawn. I currently serve as Vice President of the National Pork Producers Council.

My comments are entitled PORK PRODUCERS IN CRISIS.

The current market for live hogs is an economic disaster. This week the live price for market hogs fell below \$10 per hundredweight for the first time since 1955. Adjusted for inflation, prices have not been this low since the Great Depression. Based upon USDA estimates, pork producers are losing approximately \$144 million in equity per week on average than they did during the past five years. By way of comparison, the five-year market average is \$46.77 per hundredweight.

#### WHY IS THIS HAPPENING?

Producers, the traditional profit center of the industry, have lost all their leverage in the marketplace. While a cursory examination of the situation has led some to declare this a classic example of supply exceeding demand, we do not believe this is the case.

This is a case of supply exceeding slaughter capacity, which is creating a massive bottleneck at the packing plant and driving prices down.

Since June, 1997 37,000 head of daily slaughter capacity has been lost due to the closure of three packing plants (IBP - Council Bluffs, IA; Dakota Pork - Huron, SD; and Thorn Apple Valley - Detroit, MI) along with the permanent loss of one shift at the Smithfield - Bladen County, NC plant. Coupled with a large number of Canadian hogs (65,000-100,000) trucked to the U.S. for slaughter each week, the number of live hogs is larger than the 383,000 daily slaughter capacity of U.S. plants. Simply stated, production is up 11 percent, slaughter capacity is down 10 percent and Canadian live hog imports for slaughter are up 37 percent.

Demand for pork products has been very good. Retail demand for pork is 7.1 percent higher than a year ago, despite average retail prices remaining roughly the same. The average American will consume 5 pounds more of pork in 1998, the only meat protein registering any significant increase in consumption.

While the loss of markets in Asia and Russia have dealt a serious blow to the industry, exports by volume this year have increased by 28 PERCENT.

## THE INDUSTRY APPEALS TO PRESIDENT CLINTON

The National Pork Producers Council (NPPC) has called upon President Clinton, Secretary of Agriculture Dan Glickman, packers and the government of Canada do take action now to alleviate the packer bottleneck and avoid a wholesale collapse of independent pork producers.

In a Nov. 20 letter, NPPC President Donna Reifschneider of Illinois requested that President Clinton:

1. Establish a loan guarantee program. Many pork producers are in desperate need of short-term credit and would qualify for an USDA emergency or disaster guaranteed loan program.
2. Establish a credit forbearance program. Most pork producers will face an equity or cash flow crisis that warrants forbearance by their financial lenders. All federal banking and financial institutions should be contacted and urged to work individually with pork producers during this economic crisis.
3. Convene an Economic Crisis Task Force by agencies of the federal government.
4. Use all existing programs and authorities to the fullest extent possible to purchase pork and pork products. Specific suggestions include, but are not limited to, supplemental purchases of pork and pork products for the: 1) breakfast and school lunch (Section 32 entitlement) program; 2) the Emergency Food Assistance Program (TEFAP); 3) purchases under the P.L.480 (Food for Peace) and P.L.416 (Food for Progress) programs; 4) additional or emergency humanitarian assistance initiatives to countries such as Honduras, Nicaragua or Russia, and; 5) utilize the authority in the CCC charter to move significant volumes of pork to address specific food needs.
4. Increase Slaughter Capacity by allowing the 24,000 daily production cap to be raised to 32,000 at the Carolina Food Processors plant in Tar Heel, North Carolina. The removal of this state-imposed arbitrary production cap would have an immediate and positive impact.
5. Postpone the Immigration and Naturalization Service's (INS) Operation Vanguard and work in concert with packing plant management in order to selectively identify and remove workers not entitled to be in this country in order to minimize disruption of the packing industry's labor force.
6. Urge the Canadian government to utilize all existing slaughter capacity in that country before exporting live hogs for slaughter in America.

## PORK PRODUCERS ASK PACKERS FOR HELP

Simultaneously, NPPC is strongly urging packers to work overtime, add second shifts and fully utilize Saturday and, if at all feasible, Sunday slaughters in an effort to increase capacity. NPPC also requested that packers slaughter American hogs first in order to eliminate a backlog that is contributing to a crippling financial situation for producers.

## NPPC PRESIDENT MEETS WITH GLICKMAN

At a December 11 meeting with Secretary of Agriculture Dan Glickman, NPPC President Donna Reifschneider asked for the implementation of a humanitarian "gilt lift" of 300,000 head of 200-250 pound gilts for Honduras, Nicaragua, Haiti, the Dominican Republic and Mexico; the purchase of the equivalent of a minimum of a day's slaughter (380,000 head) of pork for Russia or other republics of the former Soviet Union, with the caveat that the carcasses must come from a full Saturday slaughter operation; and investigations into noncompetitive pricing practices and the impact of contracts on the value of live hogs.

## INDUSTRY INITIATIVES TO EXPAND DEMAND

NPPC and individual producers are working hard to increase demand for pork products.

More than 20,000 grocery stores (20 major food chains) are aggressively featuring pork through the Pork. The Other White Sale campaign. The promotion continues through the end of the year.

McDonald's has recently introduced new pork sandwiches in more than 400 restaurants in six states. One of the most significant introductions is taking place currently in Wisconsin with McDonald's first branded promotions featuring Johnsonville Brats. In addition, the McBLT is on the menu in 500 California locations and the Big McBacon is appearing in 600 restaurants in five states. McDonald uses 138.4 million pounds of pork annually.

In addition to McDonald's, Denny's, Dairy Queen and Marriott Management Services is featuring pork on their menus. International demand efforts are being concentrated in two of the largest U.S. pork export markets, Japan and Mexico. The U.S. Pork logo, which will help Japanese consumers readily recognize and choose U.S. produced pork products, was unveiled in Japan. During the Christmas holidays, U.S. pork will be promoted throughout Mexico in more than 200 retail stores in 26 cities.

## PRODUCERS FIGHTING FOR SURVIVAL

While the number of hogs produced in 1998 is higher than in past years, it does not begin to fully explain the virtual collapse of prices. NPPC and pork producers are working around the clock with the Administration and by every means possible to positively impact this problem to ensure a future for America's pork producers and their families.

The current situation confronting pork producers is beyond an unprofitable year. Clearly, the future, the structure and the ownership of the pork industry is being determined.



**WISCONSIN  
FARMERS  
UNION**



TO REP. AL OTT  
VIA FAX 608-282-3603

**STATEMENT OF WILLIAM (BILL) BREY,  
PRESIDENT OF THE WISCONSIN FARMERS UNION**

**TO THE WISCONSIN STATE ASSEMBLY AGRICULTURE  
COMMITTEE ON THE CRISIS IN THE  
WISCONSIN HOG INDUSTRY**

**MADISON, WISCONSIN  
DECEMBER 17, 1998**

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As a result, we need to explore all possible ways to help family-sized hog operations weather this crisis, which has come about largely due to elements outside their control. While much of that aid is likely to come from the federal level through a variety of plans under discussion for income supplement or deficiency payments to hog producers, the state of Wisconsin should also leave itself open to considering ways to provide assistance to the best of the state's ability to provide aid. At the same time, whatever aid is provided, whether it be direct payments to producers or assistance with credit, etc., should be closely targeted and capped so that the benefits accrue to family

sized producers and does not end up becoming another gigantic subsidy to large-scale hog producers who are a major contributor to the depressed prices being experienced in the hog sector.

While there are a wide variety of factors which are contributing to the current pork price problem, the comments by market analysts in the enclosed news accounts as well as the early morning agricultural news programs, such as Al Pell's "Ag Today" program, have indicated that the increased concentration in the pork industry at the packer level, the large scale hog producer level, and the contractual relationships between the two, have played a major role in creating the current crisis. It was for that reason that the National Farmers Union, at the recommendation of the Wisconsin Farmers Union, called on U.S. Senator Richard Lugar to hold major hearings on the events taking place in the hog industry focusing especially on the concentration issue and the Wisconsin Farmers Union would urge this committee to add its voice calling for a major investigation on the concentration issue, and for full enforcement of the anti-trust and packers and stockyards laws.

There is no question that the normal hog cycle has been disrupted by the industry's growth in the large style corporate hog factories, many of which were subsidized at the federal, state and even the local level. Given the nature of their size, operations of that size fail to take note of market signals. They continue to pump large numbers of hogs through their facilities to keep production up, which causes an oversupply which depresses prices offered to other hog producers.

On "Ag Today," a number of market analysts have noted the only answer to the hog over-supply situation is for some of these giant operations to go bust. Unfortunately, it is probably highly unlikely farm lenders will allow that to happen given the exposure and the impact that will have on their loan portfolios. It is a classic example of the old adage that if I owe the banker \$10,000, the banker owns my soul, and probably that of my first-born child. If I owe the banker \$1 million, I hold his soul in my hands.

As you are well aware, we are going through a debate in the agriculture community in this state regarding the future of animal agriculture in Wisconsin. That has been demonstrated by the founding of the Consortium of Animal Agriculture Resource Development (CAARD) and its deliberations this last year, the Wisconsin Environmental Initiative's conference held yesterday in Wausau, and the wide variety of other forms with which the issue of growth and size of animal operations has been under discussion.

Here in the state of Wisconsin, we need to make sure that we maintain economically viable livestock operations given the historical importance of the industry to the state's economy. At the same time, we need to make certain we do so in an environmentally responsible manner, and that we don't necessarily just encourage greater size just to match what is being done in other parts of the country.

In particular, I would urge this committee, the Wisconsin legislature in general and the executive branch not to engage in the use of public monies in bidding wars to encourage investors outside the state of Wisconsin to bring them within our borders.

The stories in the enclosed articles and a wide variety of other publications have shown that many of these outside investment organizations don't prove to be friendly neighbors when they move into an area, in fact they create more problems with their demand for government services while they continue to fight all efforts to make them pay their share of the bill. Many such firms have shown themselves to be experts at milking public treasuries for vast sums of money to finance their operations while they drive other producers out of business. If they are all so terribly efficient, they should not have to rely on public monies in order to operate.

In closing, the WFU stands ready to work with you and the rest of the legislature and the governor on ways to ensure that the animal agriculture community in Wisconsin remains strong and viable, that it grows in a responsible way and that we continue to maintain the environment in a proper way so that other industries and people will continue to find Wisconsin an attractive and viable place in which to raise their families and conduct business.

# **Kitty Rhoades**

State Representative-Elect  
30<sup>th</sup> Assembly District

## **Testimony before the Assembly Committee on Agriculture relating to the Crisis on Hog Prices for Producers December 17, 1998**

I would like to thank Chairman Ott and the other members of the Assembly Committee on Agriculture for allowing me to offer my words of concern and support of action that would assist the pork producers of Wisconsin.

According to pork producers in my district, current economic conditions are making it extremely difficult for the independent farmer to be competitive in both the domestic and international markets. Throughout my district, farmers are stating that action needs to be taken quickly in order to help the few pork producers Wisconsin has remaining in the state.

According to my constituents, the problem can be summarized into three basic problems; international pressures from Canada, pressure from "corporate farms" within Wisconsin, as well as discrepancies between the price farmers receive and the price of pork at a retail outlet.

### **I. Canadian influence on the American Pork Producer.**

A major problem facing the Wisconsin pork producer is the burden that federal regulation and free trade has placed on the local farmer. With changes in trade tariffs and the opening of the Canadian/American border to trade, American markets are being flooded with Canadian pork products. This adversely affects the American supply of pork, thereby lowering the demand for Wisconsin raised pork products.

Moreover, according to farmers in the 30<sup>th</sup> District, there exists a pork processing plant in Canada where organized labor has gone on strike, closing the plants operation down. In order to deal with the large number of hogs that can not be processed in Canada, Canadians are selling their product to American processors at a rate lower than the current American market rate.

The removal of tariffs between Canada and the United States, although beneficial in some industries, is placing an enormous burden on the Wisconsin hog farmer. Even though the state can not directly intervene in international trading agreements, I believe that Federal officials need to be informed of the crisis here in Wisconsin so that appropriate changes can be made.

-OVER-

## **Rep.-Elect Rhoades Testimony**

**Page 2**

### **II. Pressure from "Corporate Farms".**

With the establishment of the corporate farm, the independent family pork farmer has been placed in a position of economic disadvantage. According to farmers in my district, corporate farms have the ability to absorb sharp reductions in the market price of pork because of their ability to sell their product on the wholesale market.

Moreover, independent hog farmers do not have the guarantees that are given to some larger factory farms. When a processor enters into an agreement with a large farm, not only is there a promise to purchase the commodity, there is usually a guarantee on the price per pound on the hog. This practice effectively closes out any independent farms from the "loop", and forces the independent family farmer to receive abnormally low prices on their goods.

### **III. Retailing of Pork Products.**

When I last went to the market to buy pork, I was amazed to find that the price I was paying for a roast was more than the price the farmer was paid for his entire hog. Unfortunately, this was not an isolated incident, and other constituents remarked that this pricing structure seemed unfair.

Retail prices for pork do not appear to be influenced by the supply and demand of pork, whereas the theories of supply and demand do control the prices that farmers receive. This contradicts all economic and capitalistic theories and practices.

According to microeconomic theory, the price that farmers receive for their product due to an overall increase in supply should force the retail price of pork down. Unfortunately, the price farmers receive is lower, and the retail prices stay the same. This does nothing to take care of any extra supply or increase the demand for pork products.

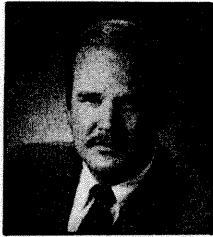
It appears that under this existing market scenario, monies are being absorbed somewhere in the sale of the hogs. I do not know where these dollars are being absorbed; however this action is destroying the independent family hog farm. In some cases, farms in my district are in danger of losing their farms in the upcoming months due to the recent drop in pork prices from \$.15/pound to \$.10/pound.

#### **Conclusion:**

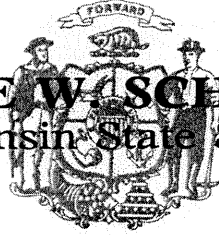
According to constituents in my district, the current situation facing pork producers in Wisconsin is much worse than a crisis. With recent drops in hog prices, farmers are on the brink of losing their farms within the upcoming months if action is not taken soon. I would encourage the committee to send a strong message to representatives at the federal level to provide change in international trade practices, investigate the relation between farmers, processors, and retailers, and work to build a safety net, similar to ones currently in use for corn and milk prices. This will ensure that the independent family farm will remain in existence for the years to come.

Thank you again for the opportunity to offer my concerns and recommendations on how to solve this crisis facing the Wisconsin Hog Industry.





**DALE W. SCHULTZ**  
Wisconsin State Senator



December 17, 1998

**TO:** Representative Al Ott, Chair, & Members of the Assembly Committee on  
Agriculture

**FROM:** Senator Dale Schultz

I support any recommendation that the Committee makes from the testimony given. The following is some testimony that I would like to submit for today's hearing.

---

**Member: Joint Committee on Finance**

State Capitol, P.O. Box 7882, Madison, WI 53707-7882  
OFFICE: 608-266-0703 • HOME: 608-647-4614  
CALL TOLL-FREE: 1-800-978-8008



# WISCONSIN STATE SENATE

P.O. Box 7882 • Madison, WI 53707-7882

NEWS RELEASE  
FOR IMMEDIATE RELEASE

December 9, 1998

## Is The Hog Market A Free Market?

Two southwestern Wisconsin legislators are calling on Wisconsin Attorney General James Doyle to investigate the low prices currently being paid to Wisconsin hog farmers.

Senator Brian Rude (R-Coon Valley) and Senator Dale Schultz (R-Richland Center) sent a letter to Doyle this week asking for his assistance in addressing this serious problem. Rude and Schultz told Doyle that the pricing issue is of tremendous concern in their Senate districts as well as throughout Wisconsin.

According to Schultz, hog prices are the lowest they have been since 1971, with Wisconsin farmers losing an estimated \$50 to \$75 per market hog. "Hog farmers cannot survive long with these types of losses and I'm concerned the survival of the pork industry in Wisconsin is at stake," Schultz said.

Rude stated that according to the United States Department of Agriculture estimates, pork producers nationwide are receiving \$144 million less per week on average than they did during the past five years. Rude noted the problem is nationwide in scope and as a result Doyle should contact his counterpart in other states to develop a

-more-

unified approach to this problem.

“The current price levels are unacceptable and unsustainable and are creating a cash flow and equity crisis among producers. “Numerous explanations have been offered, including slaughterhouse capacity and Canadian hog exports, but they do little to put more money in farmers’ pockets,” Schultz said.

Rude added that due to the severity of this problem, a legislative committee has scheduled a public hearing to receive testimony on the status of the hog industry in the state. Both he and Schultz are encouraging their constituents to attend the hearing and tell committee members the serious financial problems they are facing due to low hog prices.

The Assembly Agriculture Committee’s hearing will be held at 9:00 a.m. on Thursday, December 17 in room 417 North in the State Capitol. Those wishing by unable to attend can send their written testimony to either Schultz and Rude and they will forward it committee members.



# WISCONSIN STATE SENATE

P.O. Box 7882 • Madison, WI 53707-7882

December 8, 1998

The Honorable James E. Doyle  
Attorney General – State of Wisconsin  
114 East  
State Capitol

Dear Attorney General Doyle:

We are writing in response to complaints from numerous constituents regarding the current crisis facing the hog industry in Wisconsin. This issue is of tremendous concern in our Senate districts and throughout Wisconsin.

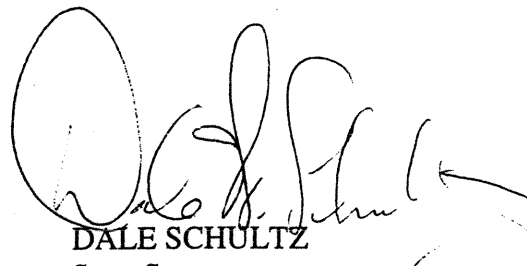
As you may know, hog prices are currently the lowest they have been since 1971. Prices are less than \$20 per hundred weight and it's estimated that Wisconsin farmers are losing \$50 to \$75 per market hog. The United States Department of Agriculture has also estimated that pork producers are receiving \$144 million less per week on average than they did during the past five years.

The current price levels are unacceptable and unsustainable and are creating a cash flow and equity crisis among producers. There are a variety of explanations being offered as to the cause of these low prices, including slaughterhouse capacity and Canadian hog exports. However, we would like your department to review this matter to determine if there is anything your office can do to address this problem.

The severity of this problem deserves your immediate attention and we will appreciate any assistance you can provide.

Best regards,

  
BRIAN RUDE  
State Senator

  
DALE SCHULTZ  
State Senator

BR:DS:KM/mil

## Presentation Points

Wisconsin Assembly Agriculture Committee Hearing

December 17, 1998

# THE STATE OF WISCONSIN'S PORK INDUSTRY

*Vernon D. Leibbrandt, Extension Swine Specialist*

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### ■ Wisconsin pork inventory x operation size x year (see visual No. 1)

#### ◆ Many Wisconsin producers operate small pork enterprises

- Animal inventory can be related to number of sows in a farrow-to-finish operation

*500 hd = 55 sows*

*1000 hd = 110 sows*

*2000 hd = 220 sows*

- A 120 sow farrow-to-finish operation is approximately full time employment for one person.
- Operations having > 500 head (370 operations or 8.4% of the operations) account for approximately two-thirds (63%) of hogs in the state.
- The 160 largest operations account for 44% of the hogs on farms.

#### ◆ Shift in inventory distribution x operation size

- The proportion of inventory on farms < 1000 hogs has been decreasing since 1992.
- Operations having 1000 head or more have increased in the amount of inventory that they hold.
- The increase in size in part may be due to the need for more animals over which to spread costs or stated another way, more animals to make a living because revenues are less. Typically net return on a dollar constant basis is cut in half every 10 years, so operations must grow over time to yield the same net income.

◆ The pork industry crisis will likely affect all producers, but in different ways

- Farms having a large portion of their livelihood from swine production are most vulnerable to severe losses. Smaller operations, while experiencing losses, derive income from other sources. The current situation threatens the producers making up the "core" of Wisconsin's pork industry.

Small pork production operations that yield a small portion to their owners total income will be less affected by the losses than their large counterparts. Farms of all sizes, especially small operations, that remain after the crisis could have difficulty marketing their animals unless they become part of a system involving many operators.

- Operations that remain after the crisis are likely to be much larger and processors may want to reduce the number of entities that they deal with thereby reducing procurement costs and increasing the consistency of animals purchased and reduce. Concerns over food safety and quality assurance of animals from the farm could further favor processors wanting to bargain with fewer but larger entities. Although operations survive the economic crisis they could fall victim to not being competitive in the market place.

■ **Profitability from pork operations 1984-1997** (see visual No. 2)

- ◆ Iowa State University operates a Swine Enterprise Record Program that reports economic and animal performance for owner-operator swine farms having 100 to 150 sows, similar in size to Wisconsin farms where pork production is a major entity.
- ◆ The Iowa record program reports returns for the average of all farms and for the top one-third most profitable farms.
- ◆ Profitability goes through cycles, largely due to cyclical nature of hog prices. This phenomenon has been going on for decades and are accepted as part of the pork production business.

On the average, farms lost money once during the period but operations in the high profit group didn't lose money during the period. Good management could blunt the effects of the cycle down times. Competitive producers endured the down time and made money during the good times. Average producers fared less well but survived.

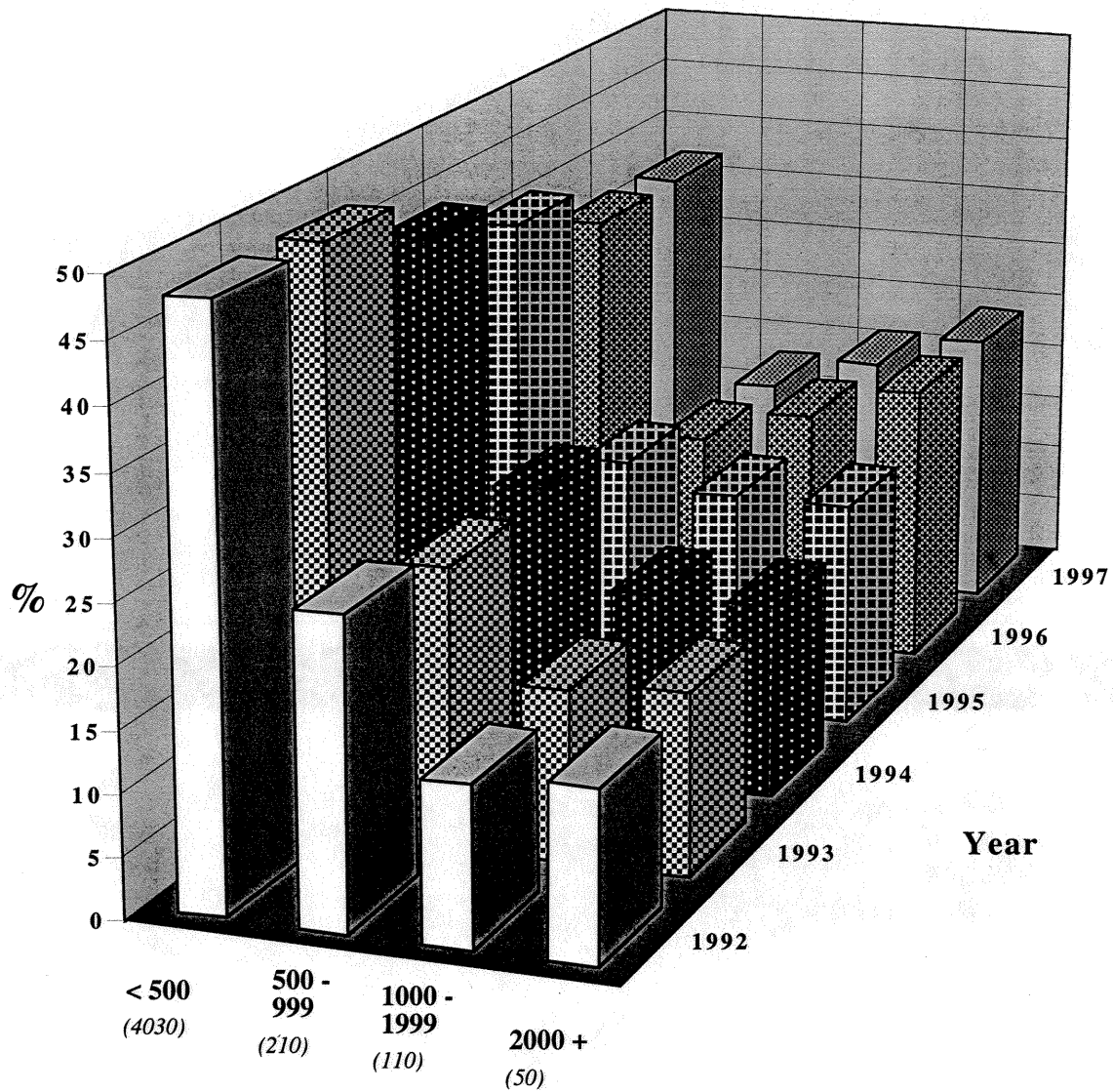
◆ Severity of current losses is unprecedented

- A 120 sow farrow-to-finish operation is considered full time employment for one person.
- A 120 sow operation selling 45 pigs per week will lose about \$60/pig marketed when prices are in the high teens per hundredweight. Expressed another way the loss is \$400/day or \$12,000/month.

◆ Three to four years will be required to financially recover

- Profits during periods of high profitability would have to be at \$60/pig for an equivalent time to erase the debt in the same time as it took to accumulate the loss. Profits per pig have never reached \$60/hd. for producers in the Iowa program. Even the period of profit at \$40/hd. for the good producers occurred for only one or two years and the average producers never experienced that level of return. The consequences of this severe economic downturn will be around for along time to come, even if producers do survive the current crisis.

## Percent of Operations by Inventory

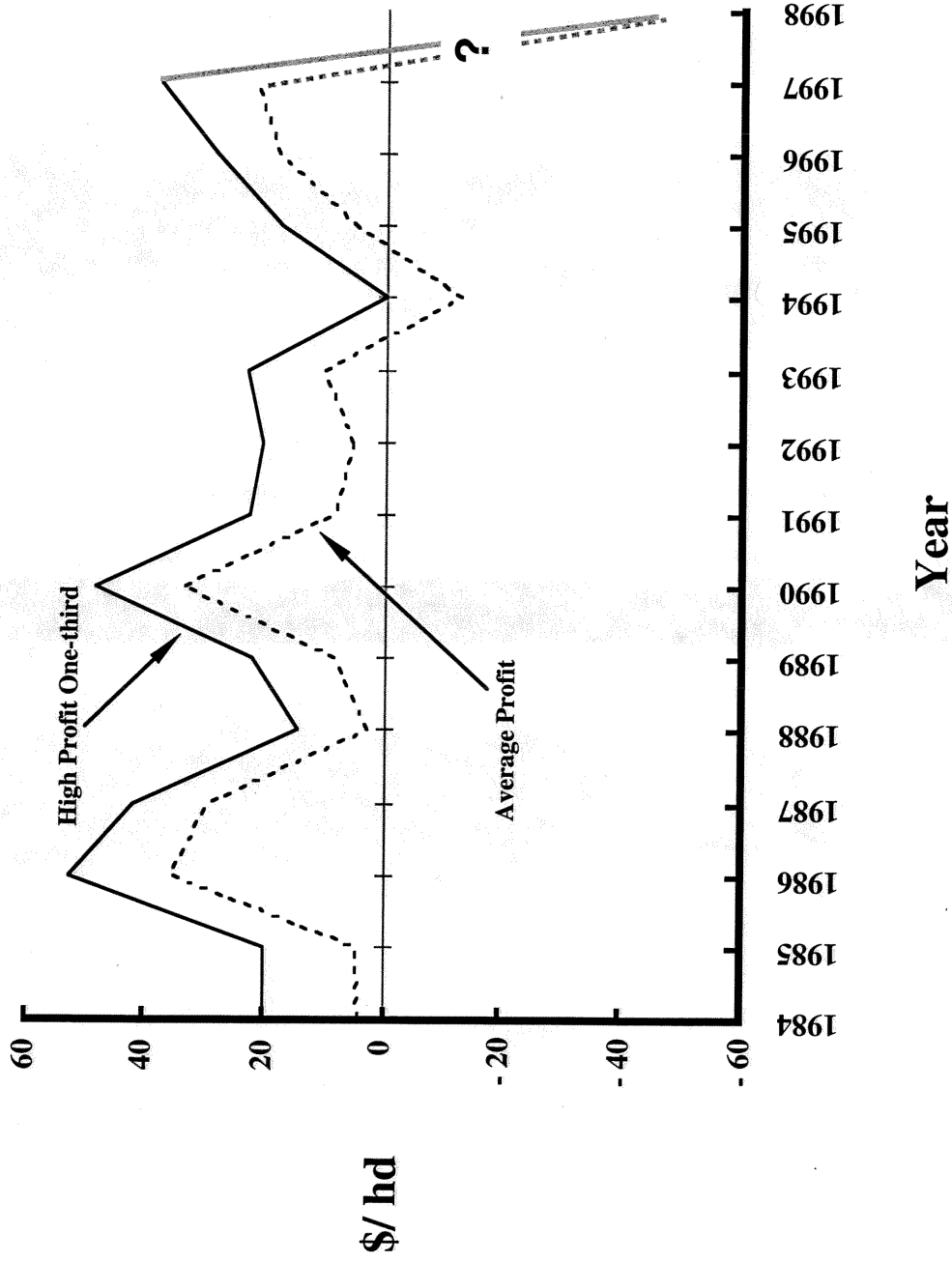


**No. Hogs on Hand**  
 (No. farms in category during 1997)

Source: Wisconsin Agricultural Statistics



# Profit From Farrow-to-Finish Pork Operations



Source: Iowa State University

Visual No. 2



## **WISCONSIN FARM BUREAU FEDERATION**

### **WISCONSIN FARM AND RETAIL PRICING ANALYSIS FARM HOG PRICE AND RETAIL PORK PRICES ASSEMBLY AGRICULTURE COMMITTEE**

*1212 Deming Way  
P.O. Box 5550  
Madison, WI 53705-0550  
(608) 836-5575*

**DECEMBER 17, 1998**

**TOM THIEDING**

**EXECUTIVE DIRECTOR, COMMUNICATIONS, WISCONSIN FARM BUREAU FEDERATION**

#### **SUMMARY STATEMENT**

- U.S. retail pork prices have not dropped sufficiently, while farm hog prices have dropped by 60%.
- Wisconsin retail prices on some cuts of pork, such as ham, have been more responsive than the national averages. But on other cuts such as pork chops and roast, the extent of decline is very questionable.
- Despite strong consumer demand for pork products this year, consumers are paying much more than they should because of the low farm hog prices.
- Consumers and hog farmers both are the losers in the current farm to market price scene.

#### **U.S. RETAIL AND WHOLESALE PORK PRICES AND FARMERS' SHARE OF CONSUMER DOLLAR**

Since October 1997 to October 1998:

- U.S. farm hog price dropped 47.8%
- U.S. wholesale price dropped 20.8%
- U.S. retail price dropped 2%.
- Farmers' share of the consumer dollar dropped 41%

#### **WISCONSIN FARM HOG PRICES**

Since November 1997 to November 1998:

- Wisconsin farm hog price dropped from 40-cents a pound to 16-cents, a drop of 60%.

Since June 1998 to November 1998:

- Wisconsin farm hog price dropped from 41-cents a pound to 16-cents, a drop of 61%.

#### **RETAIL PORK PRICES**

##### **Ham**

June to November: Increased 2.9% or 5-cents a pound

November 1997 to November 1998: Decreased 23%, or 51-cents a pound

##### **Bacon**

June to November: Increase 1.4%, or 3-cents a pound

November 1997 to November 1998: Decreased 19.6%, or 50-cents a pound

##### **Pork Chops**

June to November: Decreased 5.3%, or 15-cents a pound

November 1997 to November 1998: Decreased 9.2% or 27-cents a pound

##### **Pork Roast**

June to November: Decreased 6.2%, or 14-cents a pound

November 1997 to November 1998: Decreased 6.6%, or 15-cents a pound