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INTRODUCTION

My name is Tom Thieding. I am the Executive Director of Communications with the Wisconsin Farm Bureau Federation. The Farm Bureau is testifying to present additional information on the farm hog price to retail pork price concerns, and to speak on behalf of hog farmers and consumers about the current situation facing the pork industry.

The information the Wisconsin Farm Bureau is providing comes from the Farm Bureau's Market Basket survey. The Market Basket survey was started six years ago as a consumer education program to make consumers more aware of changes in food prices and the connection of food prices to prices farmers receive for their commodities.

A volunteer in each of the 19 communities in our statewide survey collects the price of 40 food items each month and reports that for computation. There are four cuts of pork products in the Market Basket survey—bacon, ham, center cut pork chop, and pork roast—which we are using to illustrate how retail pork prices in 1998 have not responded to the drop in farm hog prices.

We believe the statistics we provide are a reasonable reflection of how consumers and farmers are being shorted in the current hog crisis. Our statistics show that Wisconsin retail pork prices have been more responsive than the national averages. Retails prices for ham and bacon have dropped considerably, but prices for choice cuts of pork have not.

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

By comparing average U.S. retail and wholesale prices, as reported by the U.S. Department of Agriculture, a clear picture of the increased spread between farm and retail prices is made. From October of last year to October of this year, the average U.S. farm hog price dropped 47.8%, while the wholesale price dropped 20.8%, and the retail price dropped only 2%. This does not even take into account the additional drop in farm hog prices in November.

During this time the farmers' share of the consumer dollar has also diminished, down 41% since October of last year.

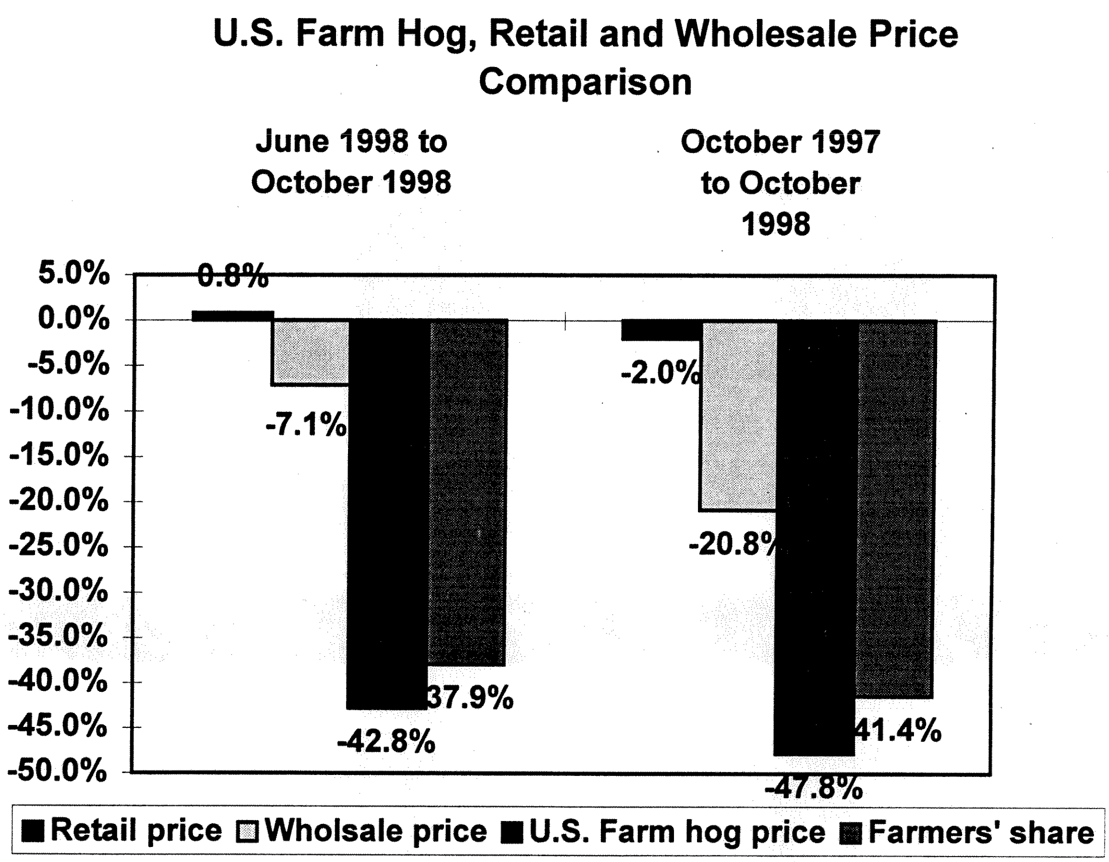
What is even more troubling is that since June when hog prices started their slide, the wholesale price of pork dropped 7% while the retail price actually increased .8%.

June 1998 to October 1998 Comparison
U.S. Comparison

	June	July	Aug	Sept	Oct	**Difference**
Retail price	2.28	2.31	2.31	2.31	2.30	**0.80%**
Wholesale price	0.98	0.95	0.96	0.93	0.91	**-7.10%**
U.S. Farm hog price	0.42	0.36	0.35	0.29	0.24	**-42.80%**
Farmers' share	0.29	0.25	0.24	0.20	0.18	**-37.9%**

October 1997 to October 1998 Comparison
U.S. Comparison

	Oct. 97	Oct. 98	Difference
Retail price	2.34	2.30	**-2%**
Wholesale price	1.15	0.91	**-20.80%**
U.S. Farm hog price	0.46	0.24	**-47.80%**
Farmers' share	31.10%	18.20%	**-41.40%**



WISCONSIN FARM AND RETAIL PRICE COMPARISON SUMMARY

In general, from June to November, when cash hog prices crashed from 41-cents a pound to 16-cents a pound, a drop of 61 percent, there has been an inappropriate price response on some cuts of pork.

A November 1997 to November 1998 comparison still shows how retail prices of ham and bacon have dropped considerably, but prices for pork chops and roast have not dropped appropriately.

Farm Hog Prices

Monthly average per pound cash barrow and guilt prices, reported by Wisconsin Agricultural Statistics Service:

Nov. 1997	.40
June 1998	.41
Nov. 1998	.16

Since June, the average monthly barrow and guilt price has dropped 61 percent from 41-cents a pound in June to 16-cents a pound in November.

Since November of last year, barrow and guilt has dropped 60 percent from 40-cents a pound in June to 16-cents a pound in November.

Retail Pork Prices

By comparing hog prices to retail prices over two different time frames, we are able to illustrate the lack of appropriate response on retail prices. We compared November of 1997 to November of 1998, and June of this year to November of this year to draw our conclusions. Actual average retail pork price changes in Wisconsin appear to be more responsive than national averages, particularly with ham. But overall, still not reflective in pork chops and roast.

Ham

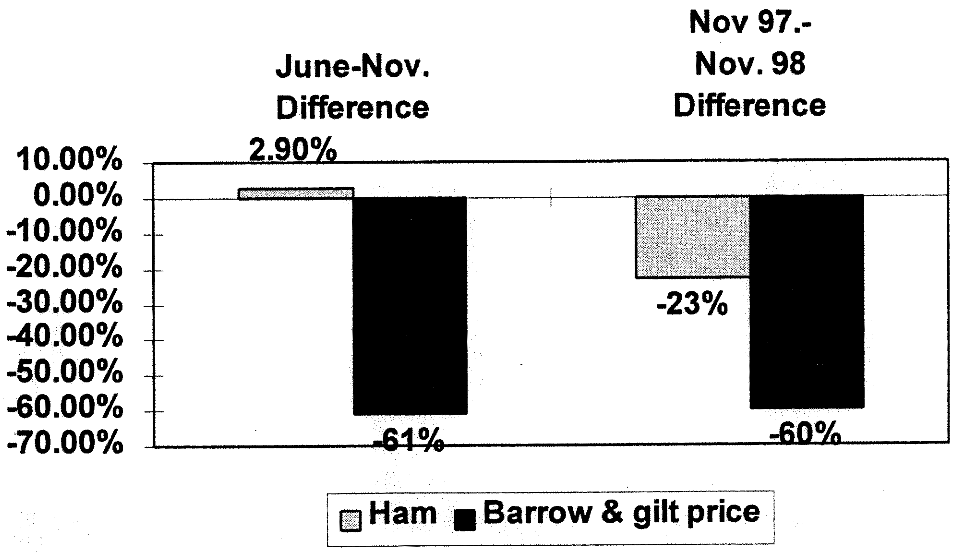
June 1998 to November 1998

	June	July	Aug.	Sep.	Oct.	Nov.	Difference
Ham	1.68	1.96	1.96	1.78	1.82	1.73	**2.90%**
Barrow & gilt price	0.41	0.35	0.33	0.28	0.28	0.16	**-61%**

November 1997 to November 1998

	Nov. 1997	Nov. 1998	Difference
Ham	2.24	1.73	**-23%**
Barrow & gilt price	0.4	0.16	**-60%**

Ham Price Comparison



According to our survey, retail ham prices have probably been the most responsive to the drop in farm prices over the long term, since November of last year. Our most recent survey indicated ham is 51-cents a pound less than it was last year, down 23% compared to last year. We would urge consumers to purchase a ham for Christmas to take advantage of this price and help out the hog producer.

Bacon

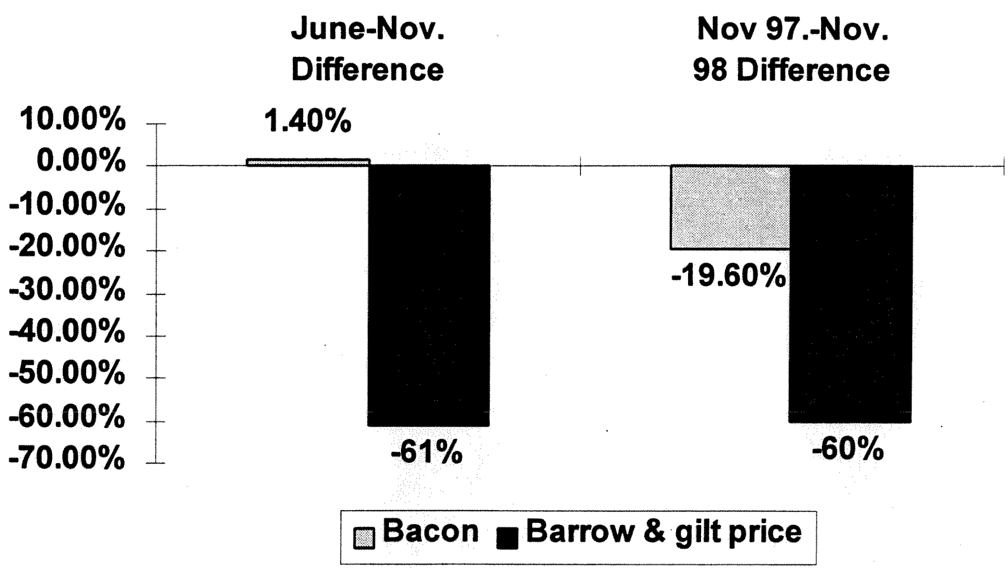
June 1998 to November 1998

	June	July	Aug.	Sep.	Oct.	Nov.	Difference
Bacon	2.01	2.03	2.03	2.17	2.06	2.04	**1.40%**
Barrow & gilt price	0.41	0.35	0.33	0.28	0.28	0.16	**-61%**

November 1997 to November 1998

	Nov. 1997	Nov. 1998	Difference
Bacon	2.54	2.04	**-19.60%**
Barrow & gilt price	0.4	0.16	**-60%**

Retail Bacon Price Comparison



Since November of last year, bacon prices have declined significantly, down 19.6%.

Pork Chops

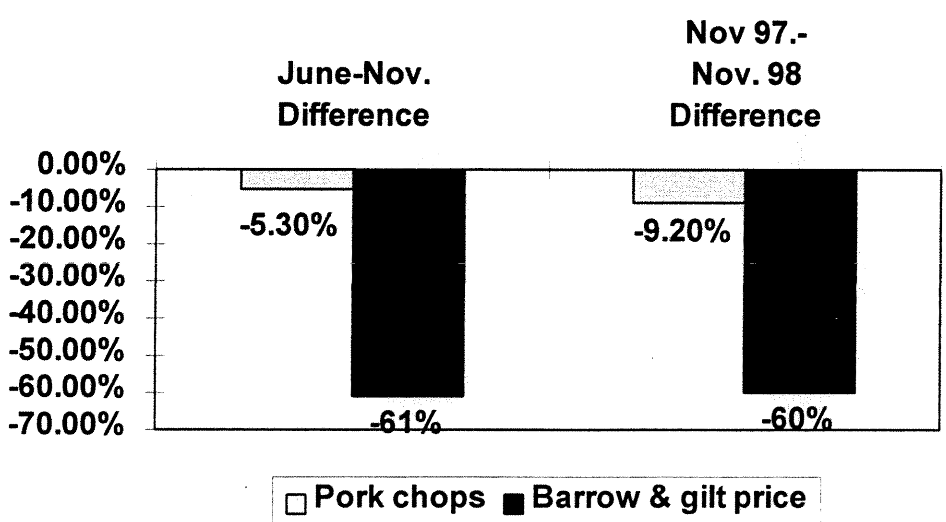
June 1998 to November 1998

	June	July	Aug.	Sep.	Oct.	Nov.	Difference
Pork chops	2.81	2.76	2.79	2.79	2.62	2.66	**-5.30%**
Barrow & gilt price	0.41	0.35	0.33	0.28	0.28	0.16	**-61.00%**

November 1997 to November 1998

	Nov. 1997	Nov. 1998	Difference
Pork chops	2.93	2.66	**-9.20%**
Barrow & gilt price	0.4	0.16	**-60%**

Pork Chop Price Comparison



Retail pork chop prices are probably the most visible and frustrating examples of the failure of lower farm hog prices be passed to consumers. Since November of last year, consumers have seen a 9.2% drop in retail prices and only a 5 percent drop since June. On the retail side, to the credit of grocery stores, our surveyors have reported that stores offered some very attractive specials on pork chops, but overall did not reflect a dramatic savings to consumers.

Pork Roast

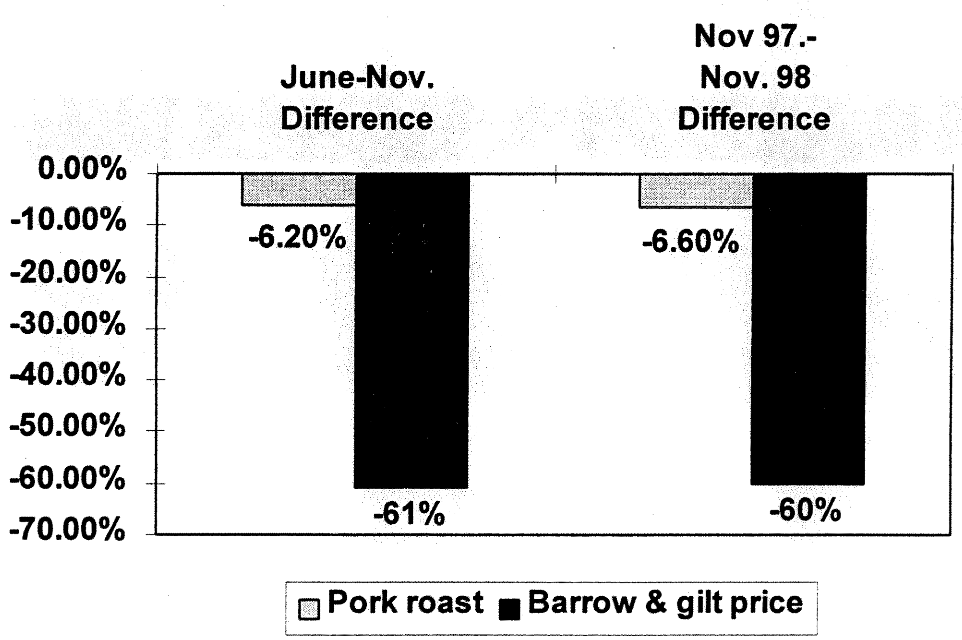
June 1998 to November 1998

	June	July	Aug.	Sep.	Oct.	Nov.	**Difference**
Pork roast	2.25	2.12	2.03	2.06	2.15	2.11	**-6.20%**
Barrow & gilt price	0.41	0.35	0.33	0.28	0.28	0.16	**-61%**

November 1997 to November 1998

	Nov. 1997	Nov. 1998	**Difference**
Pork roast	2.26	2.11	**-6.60%**
Barrow & gilt price	0.4	0.16	**-60%**

Pork Roast Price Comparison



Since November of last year, retail pork roast price has dropped only 6.6%. Retail prices for pork roast are no where near what they could and should be compared to the drop in basic farm hog price.

NFO Inc.
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Statement on the Future of the Hog Industry
submitted on behalf of the
National Farmers Organization
Ames, Iowa
by
John Bobbe, Agricultural Economist
Before the Wisconsin Assembly Agriculture Committee
December 17, 1998
Madison, Wisconsin

Introduction

The National Farmers Organization represents independent producers nationwide in negotiating contracts and other terms of trade for grain, livestock and dairy. We are in the marketplace doing so 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.

We define an independent producer as one who with his or her family resides on their farm, provides day to day management, decision making, controls the marketing of the production, whose capital is at risk, and owns or wants to own that business.

Our basic premise is that an agriculture consisting of independent producers is not only desirable, but essential for maintaining our nations food production, rural businesses and communities as well as infrastructure.

Defining the Problem

By USDA's own statistics, the nations hog producers are losing $144,000,000 weekly compared to the average returns received weekly over the past five years. The contribution of the agricultural economic multiplier to the economy is for each $1 of agricultural income it multiplies seven times. The impact goes beyond lost income to producers and impacts our nations economy by over $1 billion per week.

At a loss of just $60 per hog, Wisconsin producers' share of those income losses amounts to over $750,000 per week. Producers not generating those dollars aren't spending those dollars in their local communities pushing the total impact to over $5,000,000 per week in the state.

Put simply, modest sized family farms with 300 sows could be losing nearly $1,000 per day according to Purdue University agricultural economist, Chris Hurt.

Economies of Scale in the Hog Industry

Traditional economic reasoning attributes large size with 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.

---

*John Bobbe owns and manages a third-generation Wisconsin farm. His professional experience includes working with agricultural producers, farm organizations and others on issues related to the structure of agriculture.

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.

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.

What Price is Wisconsin Willing to Pay for A Hog Slaughtering Plant?

One possibility for revival of Wisconsin's swine industry is to get a slaughtering plant to locate in the state. There is no question this would provide a market for hogs and perhaps encourage the industry. However, you don't have to look very far to see major pitfalls when extreme caution is not exercised.

Albert Lea, Minnesota and Guymon, Oklahoma are good examples. Seaboard Corporation currently ranks 5th on the list of the nations top 50 corporate hog producers. It came to Albert Lea in 1991 and left about four years later. The city of Albert Lea, Minnesota and the federal government are still holding the bag on over $50 million in loans, tax breaks and subsidies from when Seaboard slipped out of town to Guymon. Guymon, the state of Oklahoma and the federal government have $64 million invested in trying to keep Seaboard in town. Real estate tax breaks have amounted to over a 75% reduction to keep the corporation happy. (Calculated from "The Empire of the Pigs," Time Magazine, November 30, 1998.) Seaboard is now playing its hand in Great Bend, Kansas with a similar scenario beginning to play out.

Imports and Pork Supply

One problem often cited by farmers is that there is an estimated 50,000 to 80,000 head of hogs per week coming across the border from Canada to the United States for slaughter. It would be very easy to jump to the wrong conclusion; namely that Canadian hog producers are causing this to happen.

The following statement should sound familiar. "Prices now are already under most producers' breakeven point and will drop more in the next few months. That means most hog farmers won't be making money for a long time, and investors in the large-scale hog barns won't see profits any time soon (The Western Producer, Saskatoon, Saskatchewan, August 13, 1998)." And last week a representative of the Canadian meat packing industry told members of Parliament that while hog prices are extremely low, it has been a good year for the processing industry.

Last Thursday, Smithfield Foods, Inc. announced it had acquired controlling interest in Schneider Corporation, a major Canadian hog slaughterer. Smithfield Foods ranks as the 4th largest U.S. hog producer and is the largest vertically integrated producer and marketer of fresh pork and processed meat in the United States. Cargill, which ranks No. 8 on the list of largest U.S. corporate hog producers with 120,000 sows, recently bought Continental's grain division. Cargill has major operations in Canada as well.

The bottom line is, Canadian hog producers don't ship hogs to the U.S. Corporations with operations in both countries do, all under the banner of free trade. Benefits do not directly accrue to producers on either side of the border.

The Necessity of Open, Fair and Competitive Markets

USDA's Small Farm Commission Report submitted in January, 1998 stated Policy Goal 3 as "Promote, Develop, and Enforce Fair, Competitive and Open Markets for Small Farms. The report further states, "Testimony presented to the Commission asserts that the single most critical component to the survival of small farmers is the price received for the product produced." Prices need to be determined in markets that are open, fair and competitive.

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.

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). (See Appendix A for a full copy of Packers and Stockyards Act, 1921 As Amended, Section 202.)

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 Pork Systems Approach

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)

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.

State Enforcement of Corporate Farming Laws

Two examples both contrast and make the case for state action. North Carolina has very lax laws regarding corporate involvement in farming. It has risen from 8th in hog production in 1988 to No. 2 in 1997. Nineteen of the top fifty producers, most of whom are corporate entities, have significant operations in North Carolina. By contrast, Nebraska has ranked 5th in hog production in 1988 and in 1997 ranked 6th.

Only 6 of the top fifty hog producers, none in the top ten in size, have operations in Nebraska.

The number of farm operations with hogs plummeted in North Carolina by 62% from 1988 to 1997. It only has 38% of the hog farms it once had. By contrast Nebraska has not only kept its ranking, but has over 50% of the hog producers it had in 1988. Nebraska lost farms, but not nearly as rapidly.

One difference is that Nebraska has strictly enforced Initiative 300 which is part of the Nebraska Constitution—Article XII, Section 8. Nebraska currently has four hog slaughtering facilities. (See Appendix A for a full explanation of Initiative 300.)

Steps for Hog Industry Recovery

1. Hog producers should take steps to reduce the market weight of hogs from 260 pounds on average to 245 pounds.
2. USDA should take steps to purchase hogs directly from producers and donate the pork to relief agencies to benefit the needy as proposed first by the National Farmers Organization to Secretary Glickman last week.
3. A disaster relief program needs to be put in place that immediately and directly infuses capital into independent hog producer operations is needed. Simply loaning hog farmers more money with already mounting debts is not the answer.
4. Market prices need to be determined in markets that are open, fair and competitive.
5. USDA needs to enforce antitrust laws and the Packers and Stockyards Act, Section 202 to address anti-competitive behavior resulting from industrialization.
6. Access to adequate sources of capital, credit, technologies and use of risk management tools will be critical for long term survival.
7. 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.
8. National Farmers Organization has called for and been joined by others including Iowa's senators in calling for an investigation of the farm-to-retail price spread for pork which is at an all time high.
9. States can take steps to insure that independent producers compete with corporate entities on a level playing field.
10. 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.

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Packers and Stockyards Act, 1921, As Amended

Title II -- Packers

Sec. 201 [(2)] When used in this Act, the term "packer" means any person engaged in the business (a) of buying livestock in commerce for purposes of slaughter, or (b) of manufacturing or preparing meats or meat food products for sale or shipment in commerce, or © of marketing meats, meat food products, or livestock products in an unmanufactured form acting as a wholesale broker, dealer, or distributor in commerce. (7 U.S.C. 191)

Sec. 202 [(3)] It shall be unlawful for any packer with respect to livestock, meats, meat food products, or livestock products in unmanufactured form, or for any live poultry dealer with respect to live poultry, to:

(a) Engage in or use any unfair, unjustly discriminatory, or deceptive practice or device; or

(b) 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; or

(c) Sell or otherwise transfer to or for any other packer or any live poultry dealer, or buy or otherwise receive from or for any other packer or any live poultry dealer, any article for the purpose or with the effect of apportioning the supply between any such persons, if such apportionment has the tendency or effect of restraining commerce or of creating a monopoly; or

(d) Sell or otherwise transfer to or for any other person, or buy or otherwise receive from or for any other person, any article for the purpose or with the effect of manipulating or controlling prices, or of creating a monopoly in the acquisition of, buying, selling, or dealing in, any article, or of restraining commerce; or

(e) Engage in any course of business or do any act for the purpose or with the effect of manipulating or controlling prices, or of creating a monopoly in the acquisition of, buying, selling, or dealing in, any article, or of restraining commerce; or

(f) Conspire, combine, agree, or arrange, with any other person (1) to apportion territory for carrying on business, or (2) to apportion purchases or sales of any article, or (3) to manipulate or control prices; or

(g) Conspire, combine, agree or arrange with any other person to do, or aid or abet the doing of, any act made unlawful by subdivision (a), (b), (c), (d), or (e). (7 U.S.C. 192)

WHAT INITIATIVE 300 DOES

"Initiative 300" is part of the Nebraska Constitution -- it's Article XII, Section 8.

It is a detailed definition of the limits of corporate activity in Nebraska agriculture. Ironically, its opponents criticize it for being both too detailed and too vague. In reality, it is neither, and that is what bothers them.

Basically, Initiative 300 says this:

-- In general, corporations and limited partnerships (which are very like corporations) cannot own farmland or livestock and cannot operate farms or livestock facilities.

-- However, if a majority of the stock in a corporation (or all the shares in a limited partnership) are owned by members of a family and one of those family members actually lives on the farm or works there on a day-to-day basis, the corporation is exempt from Initiative 300 because it is a family farm or ranch corporation.

-- Land owned or fares operated by corporations at the time Initiative 300 was passed are exempt under a "grandfather" clause.

-- There are also some specific exemptions for research farms, non-farm uses of farmland, poultry operations (which are already corporate dominated), and others.

-- If a corporation or limited partnership is found in violation of Initiative 300, it must sell the land within two years, or lose title to the State of Nebraska.

-- If the Attorney General fails to take action in court against a violator, any citizen of Nebraska has the right to do so.

. . . AND WHAT IT DOESN'T DO

One of the things that corporate farm supporters like to say is that Initiative 300 is "protectionist" because it protects family farmers from competing with corporate investors.

It does nothing of the sort. It only places that competition on the level playing field.

Consider the case of some large scale hog farms set up as general partnerships by corporate farm supporter Chuck Sand.

Initiative 300 does not prevent Sand from doing this, nor was it intended to. Why? Because these are general partnerships. The investors get none of the substantial tax advantages they would get if they incorporated or set up a limited partnership.

Just as important, the investors are personally liable for all the debts of the farm. They get none of the protection from creditors that incorporating or forming limited partnership would provide them.

In other words, they have to expose themselves to the risk of real competition. There is no doubt that they would like to operate under the protective cover of a corporation or limited partnership. But Initiative 300 says "No. They are welcome to compete, but only on fair terms."

The only thing Initiative 300 protects is fair competition.

This special report includes reprints of articles that have appeared in the Center for Rural Affairs **Newsletter** over the past year. We've added "updates" when necessary and we've added some entirely new articles. If you want to receive the free Center for Rural Affairs monthly **Newsletter**, just write us at Box 406, Walthill, NE 68067.

This report is 50 cents per copy - bulk discounts on 10 or more - call or write the Center.

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Address Correction Requested

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NATIONAL FARMERS UNION

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

Leland Swenson
President, National Farmers Union

cc: Senate Agriculture Committee members

WISCONSIN LEGISLATIVE HEARING
CONDITION OF WISCONSIN PORK INDUSTRY
DECEMBER 17, 1998

DAN SHORT, UW-EXTENSION
TOM KRIEGL, UW-EXTENSION

Mr. Chairman, and other distinguished members of the Assembly Ag Committee, I thank you for this opportunity, and wish to offer my perspective upon the current hog industry crisis.

As a county based faculty member for University of Wisconsin-Extension, I have had direct contact with Wisconsin Livestock producers for quite a few years.

As we approach the new millennium, many long term challenges lie in the path of Wisconsin's animal agricultural industries search for economic competitiveness. Your insight and assistance may well be required to also address these issues.

- Land use polices
- Environmental harmony
- supporting infrastructure erosion
- citizenry disconnect or indifference to food supply
- economic barriers to entry
- access to competitively priced capital
**** market accessibility***
- and others

But here today the immediate and most pressing issue is to examine corrective measures that could remedy the disastrous impact of the current hog markets.

Testimony this morning will focus upon market and structural conditions as influencers of price, however I suspect this afternoons will bring the discussion closer to the human impact of the current circumstances as faces will be linked to data.

Dr. Leibbrandt briefly detailed the current Wisconsin Pork Industry structure and exampled the magnitude of accumulated financial losses Wisconsin Pork Producers may experience. To put the prices received for hogs in a context that non farm people can relate, it would be like your employer telling you on Friday that your $12.00/hr. job will be paying $3.00 on Monday and the prospects for a return to increased hourly pay looks very uncertain. Non farm households can identify with the predicament that it would place them in trying to meet their financial obligations.

If the Dow Jones Industrial Average (DJIA) on Wall Street acted like pork prices, the DJIA would have dropped from 9,300 to 1550 or less. As pork prices were plunging, the DJIA did fall from 9,300 to about 8,000 causing numerous reactions from the global financial leaders. Since then, the DJIA has returned to near its peak while pork prices remain in the dumps. Another difference between Wall Street and the rural route is this. A stockholder who experienced a paper loss when the DJIA went from 9,300 to 8,000 could easily sit back and wait for the paper loss to be replaced by a paper gain as the DJIA returned to 9,300. Stockholders who did nothing as the Dow went from 9,300 to 8,000 and back to 9,300 lost nothing.

Even if the pork price had rebounded as quickly and as completely as the DJIA, all producers of pork suffered some level of loss no matter what they did. And the more they produced the more they lost. This is because there is a daily cost to growing hog. Secondly, if a pig is not marketed at a certain size, either price is further discounted, the cost of production accelerates, or both.

Most livestock producers have witnessed and weathered the market ups and downs of previous cycles. Many have developed management strategies to cope until prices return to profitable levels. What causes the immense anxiety of the current situation is what I refer to as magnitude and duration.

Magnitude or depth to where prices have dropped change the coping strategies that producers have often employed during other price adjustment periods. This may be accomplished by using working capital. When prices received are above variable costs of production, even if less than total cost, producers are able to continue production in the short run. However, when prices received are less (and in this case much less) than variable costs it usually signals production discontinuance.

Duration or the length of time market prices are profitable or negative can have accumulative affects. The longer the market prices is negative relative to total costs of production, resources to cope are strained and liabilitieis on a hog farm can multiply rapidly..

Given present circumstances of accumulating debt those that can be resourceful enough to weather this storm will require a longer period of profitability found in most hog cycles or periods of very large positive margins.

This is the dilemma of today's Wisconsin Pork producers. There are presently no profit-maximizing tactics available. Even the loss-limiting tactics are few and far between.

What is needed now by individual pork producers to deciding upon a course of action?

1. The producers and their families really need to understand their goals. They need to understand how important it is to them to produce pork compared to some other occupation. It helps to know how high an economic price they are willing to pay to continue their preferred occupation. A producer close to retirement, or one who is interested in doing other things, might be better off leaving pork production now as opposed to later.

2. Producers need to be able to calculate their cost of production at various stages of production, and they need to differentiate between costs that are already "sunk" (fixed) and costs that they can still influence (variable costs) depending on the decisions they still can make.

3. They need to know how much equity they have now and how much equity they risk with each decision. High-equity producers will be better able to stop production temporarily and resume later than is the case with low-equity producers.

4. Producers need to know the impact of income taxes on the decisions about stopping production. Maybe funding could be used to hire Phil Harris to summarize this information.

5. Producers need to decide if they prefer a temporary stop in production versus a permanent one.

6. Producers need access to information about employment opportunities and switching occupations.

7. They may need some training to prepare for other careers.

8. Low-interest loans may help a few but often only prolong the agony. A loan is seldom as good as a profit.

9. For people who chose to remain in business competitive market access will be critical.

STATE OF WISCONSIN
DEPARTMENT OF AGRICULTURE, TRADE AND CONSUMER PROTECTION

2811 Agriculture Drive
P.O. Box 8911
Madison, WI 53708-8911

December 17, 1998
Testimony before the Assembly Committee on Agriculture

by
Richard H. Tanger
Officer in Charge
Livestock and Grain Market News

Good morning, Mr. Chairman, and ladies and gentlemen of the committee. Thank you for the opportunity to present testimony on pork pricing.

I am a Research Analyst in the Marketing Division of DATCP in the Market News Program. Market News supplies current market information to producers, industry, academia, media, and other government agencies with prices, supply, demand, trends, and general information on the current status of the market place.

Currently, pork prices are at a 35 year low. We are here today hopefully to shed some light on how the swine industry came to this crossroads and which way it goes from here. There are many different ways to sell hogs in the marketplace. The current role of Market News is to report on the cash market which is a dwindling segment of hog marketing. The cash market is only about 15-20 percent of hogs marketed. It is by no means the only method of selling hogs. It is, however the primary method used by small and medium hog farmers to market their hogs. The cash market is also important because other pricing methods use live pricing in formulas to determine prices paid and there are some pricing formulas which use different factors in determining prices paid for hogs.

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 approximently 35,000 head with the closing of three pork plants: IBP, Council Bluffs, IA; Dakota 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 excess of 385,000 hogs daily and the current hog slaughter system is backed up several days.

4. Current Wisconsin hog prices are 8.50-11.00 per cwt. Compared to last year's price of 37.50-38.50 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 October's slaughter of 8.345 million head.

7. Total U.S. hog slaughter to date is 94,121,000 head compared to 1997 slaughter of 85,625,000 in the same time period for an increase of 9.9 percent over last year.

8. According to USDA, 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 for some time.

My job is not to propose solutions, but rather supply information so individuals can use it to come up with their own solutions. We want to empower producers so they can choose their own destiny. It is not the job of Market News to pass judgment on the soundness of how someone markets, but to rather report accurately the pertinent information supplied to us.

Market News is a voluntary program, individuals must want to share information with us. We want to have conversations about the market place not merely exchange data. If some of the problem is lack of information, I would ask the pork producers to turn to Market News and assist us in generating the information needed. This is an educational process for Market News just as it is for producers.

Current market prices can be obtained through the Internet at the USDA Federal-State Market News site at **http://www.ams.usda.gov/marketnews.htm.**

Agriculture Committee Hearing
December 18, 1998

Re: Market Crisis Situation:

As a small family pork producer, my concern today is the ability to market my hogs in the future at a fair price. What's a fair price today? I can tell you today that $12.00 per cwt. isn't a fair price.

Today I'm losing over $50.00 per hog that I market. I'm not sure how long I can do this but I feel that with so much time, labor and equity that my family and I have invested that I can not quit just yet.

How will I market my animals at a fair price? I'm not sure. What I do know today is that someone is making a fortune at my and other family pork producer's expense. Who is making all the profits? The slaughter plants, the packers, the retailer, large corporate farms or producers like me. I can tell you it certainly isn't the small pork producers.

I am aware that large and profitable contracts are given to corporate "powerhouses". The profits seem to me to be going to the few "chosen". I believe slaughter plants need to make up their margin of profit from producers like me. This is forcing small producers out of business. Is this the overall agenda of the slaughter plants and corporate farms, to take control? At today's prices, it seems to be true.

I feel large corporate farms are environmental "time bombs" waiting to go off. They are producing as much manure as small cities who have less regulations then the cities own waste water treatment plants. If given enough resistance these corporate farms will continue to build their factories in third world counties like Carroll 's Foods of North Carolina. They plan to build a 5,000-sow, farrow-to-finish facility in Brazil near the Bolivian border next year where labor is cheap and there are little environmental regulations. If situations like this continues, the United States will soon become an importer rather than an exporter of pork.

Not only does this current crisis affect pork producers, it could also affect Wisconsin grain farmers. Corn is the main diet in pork production. If Wisconsin's pork producers can't survive due to this crisis, How will this affect those grain farmers? In addition to this, I have to now compete with large grain corporation who have pork "power houses", such as Cargill. Locally I have to compete with Land-O-Lakes, my own feed supplier.

What is the NPPC's role in this? Are they the corporate farm's puppet? They have spent millions of check-off funds in odor control. Odor control for whom? Of course, the large corporate farms. To my knowledge, Wisconsin has no corporate "powerhouses". Wisconsin has one of the best managed DNR programs in the nation. Wisconsin has no odor control issues. Perhaps the NPPC can help us by building an independent slaughter plant in Wisconsin for our pork producers. Wisconsin has several meat packers who depend on out of state suppliers. Three large companies come to mind, Oscar Mayer, Patrick Cudahy and Jones Dairy. Perhaps the NPPC could divert Wisconsin 's check-off dollar to help fund this independent slaughter facility. The NPPC could also develop a price reporting system that would be mandatory not optional. This would allow producers to gain access to current packer prices and agreements under contract.

Today, I am requesting that this Committee do everything in their power to provide relief to this situation. My family farm depends on it.

Thank you for listening.

Donna Jordan
Dodge County, WI

ASSEMBLY AGRICULTTURE COMMITTEE

Hearing Thursday, December 17, 1998

Testimony of William Hoover
W1052 Hwy NP
Rubicon, WI 53078

Text is color coded to match accompanying the source of the facts.

My name is William Hoover. I am a feeder pig operator located in the Town of Rubicon in Dodge County. I am not here to ask for a hand out. I don't want low cost loans or subsidies, but I do want a level playing field.

I belong to a co-op where I buy feed, fuel, and fertilizer. Supposedly the co-op buys in large quantities so it can supply the farm members these commodities for less. At the end of the year the co-op pays patronage dividends back to its members, but only 30% is paid back in cash (about enough to pay taxes on the amount) and the rest is in equities. In other words, the farmer's patronage dividend is used for capital expenses for the co-op. (See yellow references) I read in the co-op's house magazine, "Partners", the July-August 1998 issue, the parent co-op "Land of Lakes" is raising 4 million feeder pigs. I felt pretty sick. My patronage dividend and every other farmer's dividends are being used to finance a huge feeder pig operation that competes with all of us. How can I compete if the playing field is so unfair?

Another area where the playing field isn't fair is imports from Canada. Imports will likely exceed 4 million this year. Our packing plants are over-loaded with surplus to begin with, while many Canadian packers are not killing to capacity. The Canadian government does not allow market hogs from PRV Level 4 and 5 states of the National Pseudorables Eradication Program to freely enter their country for slaughter. If we can't export to them, but they can to us, is it a level playing field.

The pork producer puts the major amount of time and effort into raising his pigs. When his hogs went to market in September of 1998 the producer received only 21% of the retail price of pork. The packer received only 19%, while the retailer, whose biggest effort was to set the meat on the counter, took 60%. We farmers seem powerless to correct this situation. I have never favored government controls, but perhaps the time has come for legislation to prevent retailers from gouging the public. If the laws of supply and demand were allowed to operate, prices would fluctuate. But this is not the case, The consumers does not even realize how severally he is being taken advantage of.

The list of super pork producers is interesting. Many of them are companies that have made there money to begin with by selling products or services to the farmer. Continental Grain, a huge company that buys grain and resells it, Cargill and DeKalb were seed corn companies, Purina, a farm feed company, Land of Lakes, a farm co-op, and the packing companies who control the sow business from "Womb to Tomb" are all super producers. Many of these "Pork Power Houses" have made their money in other enterprises and are able to buy into the swine business because they have enough assets to get large loans to build these huge hog farms. They offer contracts to farmers, such as myself, to raise pigs for them. I have investigated their contracts and find them extremely one-sided. I would need to buy their sows, their feed, and if any of my pigs didn't weigh a certain weight on time, they wouldn't accept them. I would not be a farmer. I would be an employee, without benefits and I hold all the risks. If you think Bill Gates was trying to stamp out his competition, that was child's play compared to what the "Pork Power Houses" are doing to the small farmer. What happens when our food supply is left in the hand of a few? Cheap food, which this country has known for years, will be gone. We are already seeing unfair price setting by retailers. It seems to me it is time to dust off some of our monopoly and anti-trust laws, bring them up to date, and give everyone a chance to compete.

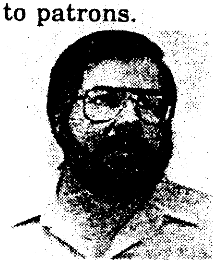
In closing, I'd like to make a few suggestions to the committee.

1. Question the way co-ops are using farmers patronage dividends to develop their own big swine companies. Are they breaking any rules in their by-laws?
2. Put pressure on the Federal Government to slow imports from Canada unless they open their markets to us.
3. Investigate retailer's high mark-up on pork. If no law exists, introduce legislation that prevents this price gouging and encourage the federal government to set a standard nation-wide.

My wife and I put all of our resources into our farm. We raise good feeder pigs, we work hard, we aren't afraid of challenges, and we are proud to be farmers. We do not want to be someone's serf. It is difficult for us to ask for help, we thank this committee for holding these hearings and giving us a chance to be heard.

by David Cramer
President and CEO

Your cooperative has for years celebrated October Cooperative Month by paying out stock revolvement money to patrons.



David

I'm pleased to report this tradition continued this year with a stock revolvement payment totaling nearly **one half million dollars**, a record for our cooperative.

When Governor Tommy Thompson signed a proclamation in early October declaring the month as Cooperative Month in Wisconsin, he noted Wisconsin has 2.9 million citizens that depend on more than 800 cooperatives to market or supply agricultural products as well as to provide credit, electricity, telephone service, health care, housing, insurance and many other products and services.

Cooperatives employ approximately 20,000 Wisconsin residents and pay millions of dollars in taxes each year. Cooperatives are major contributors to the U.S. economy, generating more than $100 billion of economic activity each year. Throughout the United States, approximately 47,000 cooperatives serve 120 million citizens.

United Cooperative has over 15,000 member/owners and 270 full time and part time employees with a total annual payroll over $4,000,000. Your cooperative pays over $250,000 in local property taxes. United Cooperative has facilities in 12 communities and serves members in many more. Payroll and property tax dollars paid in those areas benefit local needs.

You can benefit yourself and your community by supporting your cooperative. And the more business you do, the more you can benefit. For example, last spring your cooperative paid back 9.55% of your purchases. The payback was in the form of 30% cash and 70% stock equities. That equated to $590,000 in cash; $1,380,000 in equities.

This month, United Cooperative paid out $352,351 in cash for stock revolvement. This is broken down as follows among the three cooperatives that merged on January 1 to make United Cooperative:

The former Dodge County members are receiving 50% of their 1986 stock balance for a total of $218,986.

The former River Valley members are receiving 16.7% of their stock balance through 1988 for a total of $70,312.

The former Deerfield Farmers members are receiving 16.7% of their stock balance through 1987 for a total of $63,053.

In addition, the cooperative retired 100% of the stock balance upon request of a stockholder that is 77 years or older.

United Cooperative pays 100% of all stocks to estates. These payments for age and estates in 1998 will be about $100,000.

In addition, your cooperative pays dividends on preferred stock and in 1998 that will be more than $25,000, subject to final board of directors approval.

These revolvements, retirements and dividends total $477,351. With last spring's cash payout, your cooperative has paid back to customer/members a total of **$1,067,351** in cash this year.

It is only through your strong business support that your cooperative can return over a million dollars in cash back to members. Thank you very much!

* * * * *

As a brief construction update, both grain bins are up at Horicon and working well. We have room for your very good harvest.

We have very good grain facilities and an excellent grain staff that can serve all of your grain marketing or storage needs.

At Deerfield, construction is well underway for a new 6,500 sq. ft. warehouse plus a 2,200 sq. ft. office and Country Store. This is scheduled to be completed in December.

We are now serving our petroleum customers with a new petroleum tank truck in the Deerfield area.

We continue to reidentify and paint vehicles and equipment as needed. As we start planning the budget for 1999, there will be additional capital expenditures to continue providing you with excellent equipment and services.

Cooperatives Seize the Advantage

Progress In Swine

By Jack Gherty
President and CEO
Land O'Lakes

"We must provide leadership in developing a cooperative alternative in swine."

1

The last ten years have seen dramatic structural change in the swine industry, threatening the survival of independent producers and the supportive role of local cooperatives.

From Land O'Lakes' perspective, our assignment is clear. We must provide leadership in developing a cooperative alternative in swine that permits us to compete effectively into the 21st Century.

The system we are building is dedicated to doing more than meeting the traditional need for quality feeds and effective consulting programs. Your Land O'Lakes Aligned Pork Production System complements our continuing and important programs for traditional producers, with options for those producers who want to focus their management skills on finishing hogs, and are looking for a cooperative alternative to provide the best genetics, buildings and financing.

Today, we have commitments from local cooperatives for the production from 25 2,400-sow farrowing units, and that number continues to grow. Ten farrowing units already are in full production, and another 15 are in various stages of development. Each of these units will help a local cooperative provide enough 45-pound feeder pigs to populate 18 finishing units on producer farms.

In addition, when you total the four million feeder pigs we are in line to produce with the eight million hogs we feed, our cooperative system has the potential to touch more than 12 million pigs annually.

These numbers give us leverage to implement the next step in our strategy — alignments with organizations that can add greater value to member production on the marketing side.

We've made significant progress toward our goal of being one of the nation's top three swine-production systems — delivering four million feeder pigs to independent producers through local cooperatives annually. In fact, in 1997, Successful Farming magazine recognized us as the nation's fastest growing swine production company.

While we recognize the need to be large enough to compete, size is not the only critical issue in this effort. We also are deeply committed to least-cost operations, maximum pigs-per-sow efficiency, excellence in genetics, industry-leading feed efficiency and quality service. We measure our performance against the top 10% of the industry in these areas.

We also are committed to being an environmental leader, working with government agencies and industry groups to develop workable and effective regulations. And our operations consistently exceed existing standards.

Long-term, we see growth in pork sales, and a strong future for swine producers. We intend to ensure that independent producers and our cooperative system have a share in that future. Together, I believe we have the resources and passion to succeed.

Return-Path: owner-AG-SOUTHERN-LIST@uwex.edu
Date: Mon, 9 Nov 1998 12:36:13 -0500
Reply-To: jones@AAE.WISC.EDU
Sender: owner-AG-SOUTHERN-LIST@uwex.edu
From: "BRUCE L. JONES" <jones@AAE.WISC.EDU>
To: AG-COUNTY-LIST@bluto.uwex.edu
X-Sender: owner-AG-COUNTY-LIST@uwex.edu
X-Listprocessor-Version: 8.0 -- ListProcessor(tm) by CREN
Comments: Authenticated sender is <jones@aae.wisc.edu>
Subject: (Fwd) November 9, 1998
Priority: normal
X-Listprocessor-Version: 8.0 -- ListProcessor(tm) by CREN

------- Forwarded Message Follows -------
Date: Mon, 09 Nov 1998 12:19:33 -0600
To: weekly-outlook@aces.uiuc.edu
From: Linda Kennedy <ljkenned@uiuc.edu>
Subject: November 9, 1998

November 9, 1998

HAVE WIDE PORK MARGINS TAKEN $4 BILLION FROM PRODUCERS AND CONSUMERS IN 1998?

Hog prices dropped below $20 per hundredweight recently, their lowest level since 1971. These levels are similar to those experienced in the pre-inflation era prior to 1973. Costs on the other hand, remain at 1990's levels. Pork producers are suggesting that financial conditions are the poorest since the great depression of the 1930's. With hog prices at $16 per hundredweight and costs near $36, losses per hog are mounting at the rate of $50 per head, likely a record level over the past 50 years. Modest sized family farms of 300 sows could be losing nearly $1,000 a day. Many of these have already had a difficult year with low crop prices and, in some cases, poor yields.

Anxiety is high and everyone is asking What is the cause of the current depressed conditions? What can be done? and, When will prices improve?

As always, it will take time to sort out the reasons. First, is the large supply of pork being produced this year. Production will be up about 9 percent over 1997. Second, is the concern regarding the Asian economic downturn. Weak demand from Asia this year has kept many commodity prices depressed. However, pork exports have actually been up nearly 20 percent in 1998. Poor export demand is not the cause of low prices. A third concern has been the record large imports of live hogs from Canada. Imports will likely exceed 4 million head during 1998, about 4 percent of total U.S. slaughter. Another problem is wide marketing margins. This has been especially true at the retail level.

Official data lags somewhat, but indications are clear that pork marketing margins are very large. The extreme levels are a concern not only to producers, but to every consumer of pork in the country. These wide margins may be driving producer prices lower and keeping consumer prices high. The data for September show that retailer pork margins reached $1.38 per retail pound. This was $.23 higher than the average of September margins from the previous two years. Even allowing for 3 percent inflation in retail margins over the past two years, retailers may have extracted an additional $275 million from producers and consumers in the month of September.

Packer margins for the first 9 months of 1998 averaged only 1.5 cents per pound higher than the previous year, after allowing for an inflationary increase in costs. It is likely that margins have widened in October and November, but official data are not yet available. Wider margins by packers may be needed to increase slaughter capacity on Saturdays and even Sundays in order to handle the current large flow of slaughter hogs.

Estimates for the entire year of 1998 show that the large margins may have negatively impacted producers and consumers by up to $4 billion. Researchers need to probe the complex issue of margins to better evaluate whether undue market power is putting pork producers and consumers at a disadvantage.

What can be done? There are possibilities on both the demand and supply side. For demand, an evaluation of margins, particularly at the retail level, could provide some help. Why have retailers not lowered pork prices more this year to send consumers the clear signal that an abundant supply of pork awaited them? The federal government also has some modest ability to buy pork for school lunch programs, as well as for export aid programs. The current Russian food assistance package is an example. Hopefully, they will be aggressive in including pork at every opportunity.

Adjustment in supply has historically come as a result of large financial losses encouraging a sufficient number of producers to reduce production. It is likely this will be the supply solution this time also. Some would argue that large producers are now of sufficient size to influence the national market price. However, even if a few very large producers representing 10 percent of the industry would cut their production by 10 percent, the net result would only be a 1 percent reduction in supply. Attempts to organize producers to cut-back would fail since those who cut-back bear the costs, and those who do not cut-back receive benefits (higher prices on full production).

On a positive note, hog prices generally make their seasonal lows in early November and begin to improve in late November and December. Packers are gearing up to add more slaughter capacity on the weekends and sow slaughter numbers since mid-August indicate more liquidation. It is now likely that farrowings for this fall and winter will not be as large as noted in the USDA's September report. In fact, a 2 percent to 3 percent reduction in farrowings this winter is likely. Beef supplies will continue to drop this winter, providing a greater incentive for retailers to lower pork prices and move the large supply to consumers.

Hog prices should be higher in December, but profitable levels cannot be anticipated until late next spring. If farrowings are cut this winter and harsh winter weather cuts into the weaning rate, hog prices can move back into the low-to-mid $40 next summer.

Issued by Chris Hurt
Extension Economist
Purdue University
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Fax: (217)244-7503
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When a man assumes a public trust, he should consider himself as public property.

--Thomas Jefferson, 1807

Bruce L. Jones, Director
Center For Dairy Profitability
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1675 Observatory Drive
University of Wisconsin
Madison, WI 53706-1284

Phone (608)265-8508

Producer Update

Producers Face Market Crisis

Declaring the "current market for live hogs is an economic crisis for pork producers," the National Pork Producers Council today urged America's packers to alleviate the current slaughter bottleneck by increasing capacity. Any increase in slaughter capacity would benefit producers.

Pork producers are facing the lowest commodity prices since 1971 and are losing an average of $50 to $75 per market hog. The USDA has estimated that pork producers are receiving approximately $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," wrote NPPC President Donna Reifschneider in a Nov. 21 letter to pork packers. "Clearly, if this disastrous situation is not reversed quickly, the impact on producers and the rest of the pork chain will have a long legacy."

The letter acknowledged the efforts of certain packers for increasing slaughter capacity, but warned that without additional action, a "massive liquidation of pigs and exodus of producers" would begin to take place. The letter to packers called for three actions: 1) an increase of slaughter capacity, 2) a request to slaughter U.S. hogs first, and 3) an offer to assist with any regulatory issue that might be restricting slaughter capacity.

Packers are being asked to take these immediate steps:

1. Slaughter U. S. hogs as a priority - Canadian packers are operating at less than capacity, yet 60,000 hogs per week from Canada are being slaughtered in the U. S. For that reason, packers in the United States should purchase and slaughter U.S.-produced hogs as a priority until June 1, 1999, and until the Canadian Government allows U.S. market hogs market hogs from PRV Level 4 and 5 states of the National Pseudorabies Eradication Program to freely enter Canada for slaughter.

2. Increase weekend slaughter runs - Saturday and, if at all feasible, Sunday slaughter capacity should be increased to approximately 375,000 head. NPPC will "aggressively communicate" the need for producers to deliver hogs for Saturday, Sunday or overtime kills. Packers were asked to further consider offering higher bids for weekend-delivered hogs.

NPPC said it would be willing to assist packers in overcoming any regulatory barriers that might postpone or prevent increasing slaughtering capacity.

On November 21, NPPC requested president Clinton to take immediate action to prevent the financial destruction of pork producers and their families.

CREP Listening Sessions Listed

Producers are invited to attend any of the following listening sessions regarding Conservation Reserve Enhancement Program (CREP). For additional information, contact your local NRCS office.

Grant-Platte-Sugar-Pecatonica
December 7 - 1:00 - 3:30 pm
Iowa County UWEX Conference Room, Lower Level, Courthouse, Dodgeville, WI.

Rock River and Glacial HRA
December 8 - 1:00 - 3:30 pm
Fair View Inn, Hwy 18, Jefferson, WI

Fox/Wolf and Glacial HRA
December 11 - 1:00 - 3:30 pm
J.P. Coughlin Center, 625 East Cty Rd Y, Oshkosh,

Central Wisconsin Prairie Chicken
December 15 - 1:00 - 3:00 pm
Marshfield Agricultural Research Station, 8396 Yellowstone Drive, Marshfield.

Lake Shore
December 16 - 9:00 - 12:00 noon
Sheboygan Agricultural Services Building, Rooms 103 & 104, 650 Forest Ave., Sheboygan Falls

Lower Chippewa
December 17 - 1:00-3:30 pm
Dunn County Fish and Game Clubhouse, Menomonie.

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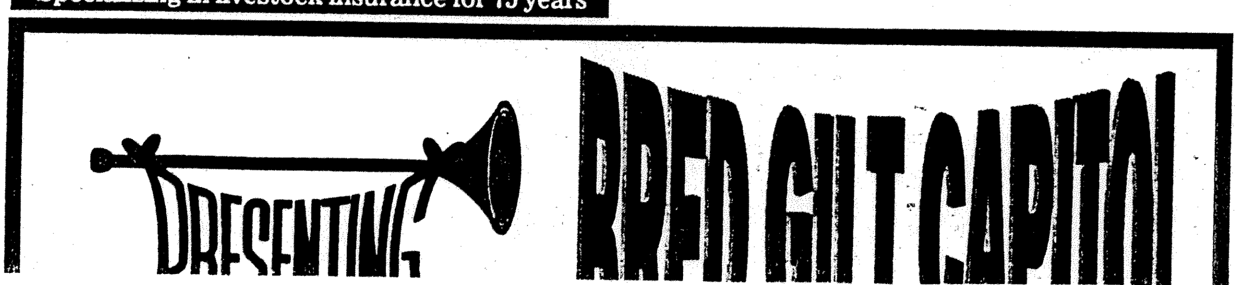

National Pork Producers Council
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(515) 223-2600
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An Open Letter to Pork Producers from the
Board of Directors of the
National Pork Producers Council (NPPC)

Dear Pork Producer:

The current market for live hogs is a disaster. We recognize the crisis resulting from the current market, and are trying to do everything in our power to remedy the situation.

In this letter, we will attempt to answer the three key questions that every pork producer is asking: 1) Why are live hog prices so low when retail prices for pork remain high?; 2) What is NPPC doing about this economic crisis?; and 3) What can you as an individual pork producer do?

1) Why are prices so low when retail prices for pork remain high?

The present critical situation is primarily supply driven. It is not that we are producing too much pork – domestic consumer demand and exports are actually up significantly compared to 1997. However, we are producing too many hogs for the *existing* slaughter capacity in the industry. Simply stated, live hog production has gotten so close to slaughter plant capacity and producers have lost bargaining power. Federally inspected slaughter has exceeded more than 2.0 million hogs per week for seven of the last eight weeks. In fact, last week (November 8) was the largest federally inspected hog slaughter in history. Current industry slaughter capacity is estimated at 385,000 head per day. The present slaughter crisis has been further complicated by the loss of approximately 35,000 head of daily slaughter capacity in the last 18 months as a result of the closure of three packing plants (IBP – Council Bluffs, IA; Dakota Pork – Huron, SD; and Thorn Apple Valley - Detroit, Michigan) along with the permanent loss of one shift at Smithfield – Bladen County, NC.

While the present price emergency is primarily supply driven, current margins in the pork chain are troubling. The average retail price in September was \$2.31/lb. retail weight. According to USDA's Economic Research Service, producers received a record low 21% of the retail (consumer) price of pork in September. The following table reflects the September, 1998 shares for producers, packers, and retailers, and the average split for 1986 – 1998.

Sector	September '98 Share %	"Normal" Share 86-98
Producer	21	37
Packer	19	16
Retailers	60	47

It is important to note that while some retailers are not featuring pork, more than 23,000 grocery stores (20 major chains) <u>are</u> aggressively featuring pork and dramatically narrowing margins as part of the Pork. The Other White Sale campaign to enhance the movement of pork. Although it is not reflected in today's farm level prices, retail demand for pork is <u>up</u> 7.1 percent versus last year. By comparison no other meat protein (Beef – 0.7%, chicken – 1.5%, turkey – 0.6%) has a positive retail change increase this year.

The Other White Meat

Office Location: 1776 N.W. 114th Street • Clive, Iowa 50325 USA

PORK POWERHOUSES™ 1998

1998 RANK	1997 RANK	NAME OF OPERATION	HEADQUARTERS	SOW BASE	# SOWS 1998	# SOWS 1997
1	1	**Murphy Family Farms**	Rose Hill, NC	NC, MO, OK, IL	**337,000**	297,200
2	2	**Carroll's Foods**	Warsaw, NC	NC, VA, IA, UT, Mexico	*(a)***183,600**	144,800
[illegible]	13	**Continental Grain Company**	New York, NY	MO, NC, TX	*(b)***162,000**	*(b)*162,000
4	3	**Smithfield Foods**	Smithfield, VA	NC, VA, UT	*(a)***152,000**	120,000
5	8	**Seaboard Corporation**	Shawnee Mission, KS	KS, CO, OK	**125,500**	108,750
6	4	**Prestage Farms**	Clinton, NC	NC, MS, UT	**125,000**	115,000
7	6	**Tyson Foods**	Springdale, AR	AR, NC, MO, OK, AL	**123,500**	111,500
[illegible]	4	**Cargill**	Minneapolis, MN	NC, AR, OK	**120,000**	115,000
[illegible]	9	**DeKalb Swine Breeders**	DeKalb, IL	KS, OK, IL, TX, IA, CO, NC	**97,000**	97,000
10	10	**Iowa Select Farms**	Iowa Falls, IA	IA	**90,000**	82,000
[illegible]	*	**Purina Mills (Koch)**	St. Louis, MO	NC, MN, NE, IA, SD, PA, IN+	**75,000**	*
12	11	**Goldsboro Hog Farm**	Goldsboro, NC	NC	**64,000**	60,000
12	14	**The Hanor Company**	Spring Green, WI	OK, NC, WI, IL, OH	**64,000**	40,000
[illegible]	15	**Land O'Lakes**	Minneapolis, MN	IA, IL, OK, MO, GA	**63,700**	34,000
15	12	**Heartland Pork Enterprises**	Alden, IA	IN, IL, IA	**61,000**	56,000
16	20	**Farmland Industries/Alliance***(e)*	Kansas City, MO	KS, IA, MN, OK, IL	**48,500**	42,500
17	21	**Pipestone System/Hawkeye***(c)*	Pipestone, MN	MN, SD, IA	**46,800**	*(d)*24,000
18	19	**Christensen Farms & Feedlots**	Sleepy Eye, MN	MN, NE	**44,000**	28,000
19	17	**Sand Systems**	Columbus, NE	NE	**43,000**	31,000
20	24	**Bell Farms**	Wahpeton, ND	CO, ND, SD, NE, MN	**41,000**	20,000
21	15	**National Farms**	Kansas City, MO	NE, CO	**34,000**	34,000
22	33	**Progressive Swine Technologies**	Columbus, NE	NE	**27,500**	15,000
[illegible]	22	**Clougherty Packing Company**	Los Angeles, CA	AZ, CA	**23,000**	23,000
24	23	**D & D Farms**	Pierre, SD	CO, SD	**22,000**	20,500
24	27	**Holden Farms**	Northfield, MN	MN	**22,000**	19,000
26	39	**Hostetter Management Company**	Lititz, PA	PA	*(f)***20,000**	13,000
26	33	**Lundy Packing**	Clinton, NC	NC, SC	**20,000**	15,000
[illegible]	24	**PIC International Group, USA**	Franklin, KY	KY, OK	**20,000**	20,000
26	*	**Texas Farm**	Perryton, TX	TX	**20,000**	*
26	28	**Triple Edge Pork**	Chandlerville, IL	IL, MO	**20,000**	18,000
26	44	**Vall**	Texhoma, OK	OK	**20,000**	12,000
32	26	**Hastings Pork/MPI Farms**	Hastings, NE	NE, MN, WY	[illegible]	[illegible]
33	28	**J.C. Howard Farms**	Deep Run, NC	NC	**19,000**	18,000
34	*	**DeCoster Farms of Iowa**	Clarion, IA	IA	**18,200**	[illegible]
35	31	**Coharie Farms**	Clinton, NC	NC	**17,400**	17,400
36	32	**Gold Kist**	Atlanta, GA	GA, AL	**16,500**	[illegible]
37	41	**Hog Slat**	Newton Grove, NC	NC	**16,000**	12,500
37	*	**Oakville Feed & Grain**	Oakville, IA	IA, IL	**16,000**	[illegible]
39	33	**Hitch Pork Producers**	Guymon, OK	OK	**15,000**	15,000
39	33	**J&K Farms**	Harrells, NC	NC	**15,000**	[illegible]
39	41	**Wakefield Pork**	Gaylord, MN	MN	**15,000**	12,500
42	*	**Consolidated Nutrition**	Omaha, NE	CO, MN, WY	**14,000**	[illegible]
42	37	**Garland Farm Supply**	Garland, NC	NC, SC, GA	**14,000**	14,000
42	41	**Swine Graphics Enterprises**	Webster City, IA	IA	**14,000**	[illegible]
42	37	**L.L. Murphrey**	Farmville, NC	NC	**14,000**	14,000
46	*	**Newsham Hybrids USA**	Colorado Springs, CO	CO	**13,500**	[illegible]
47	39	**Western Pork Production Corp.**	Yuma, CO	CO	**13,000**	13,000
48	44	**Neuhoff Farms**	Richlands, NC	NC	**12,000**	[illegible]
49	47	**Esbenshade Mills/Hershey Ag**	Mt. Joy, PA	PA	**11,500**	11,500
50	49	**N.G. Purvis Farms**	Robbins, NC	NC, SC	**11,000**	[illegible]
				Totals:	**2,599,600**	2,092,550

*Not on list in 1997. *(a)* Includes Circle Four. *(b)* Includes Premium Standard Farms. *(c)* Includes Hawkeye, Inc., Emmetsburg, Iowa. *(d)* 1997 number only included Pipestone System in Minnesota. *(e)* Includes Alliance Farms Cooperative Association. (f) Includes former White Oak Mills sows.

Wisconsin Farm and Retail Pricing Analysis
Farm Hogs Price and Retail Pork Prices
Assembly Agriculture Committee
December 17, 1998
Tom Thieding
Executive Director, Communications
Wisconsin Farm Bureau Federation

My name is Tom Thieding. I am the Executive Director of Communications with the Wisconsin Farm Bureau Federation. I am here to present information on the retail prices of pork products in relation to farm hog prices, and to speak on behalf of hog farmers and consumers about the current situation facing the pork industry.

The information I am providing comes from the Farm Bureau Market Basket survey. The Market Basket survey was started six years ago as a consumer education program to make consumers more aware of changes in food prices and the connection of food prices to prices farmers receive for their commodities.

A volunteer in each of the 19 communities in our statewide survey collects the price of 40 food items each month and reports that to me for computation. There are four cuts of pork products in the Market Basket survey—bacon, ham, center cut pork chop, and pork roast—which I am using to illustrate how retail pork prices in 1998 have not responded to the drop in farm hog prices. We believe the statistics we provide are a reasonable reflection of how consumers and farmers are the losers in the current hog crisis.

Summary

In general, the retail pork price information we have collected and compared with farm hog prices, shows that from June to November, when farm hog prices crashed from 41-cents a pound to 16-cents a pound, a drop of 61 percent, there has been an inappropriate response on retail pork prices.

Even doing a November 1997 to November 1998 comparison, it still shows how retail pork prices have failed to move anywhere near the drop in farm hog and wholesale prices.

Consumers should be made aware that retail pork prices are no where near to what they should be considering the 61 percent drop in farm prices. This is very frustrating to the farmer and should be disappointing to the consumer, who are both, in a nutshell, being taken advantage of. Despite strong consumer demand for pork products this year, consumers are paying much more than they should because of the low farm hog prices.

The information we provide today is intended to show how our food marketing system has taken advantage of farmers and consumer alike.

Farm Hog Prices

Since June, the average monthly barrow and guilt price as reported by the Wisconsin Agricultural Statistics Service has dropped 61 percent from 41-cents a pound in June to 16-cents a pound in November.

Since November of last year, barrow and guilt has dropped 60 percent from 40-cents a pound in June to 16-cents a pound in November.

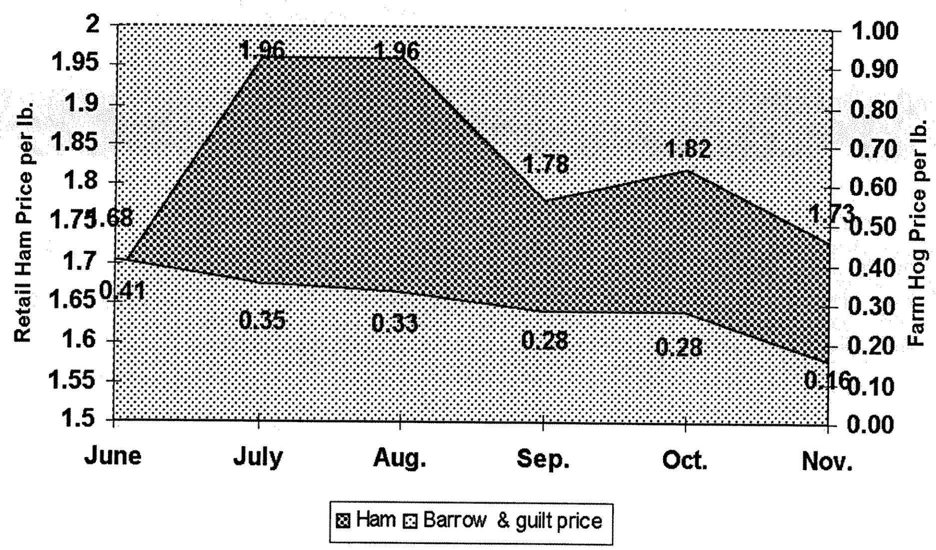
Retail Pork Prices
By comparing hog prices to retail prices over two different time frames, you get two pictures, both which dramatically illustrate the lack of response on retail prices. We compared November of 1997 to November of 1998, and June of this year to November of this year to draw our conclusions.

<u>Ham</u>

	Farm hog price change	Retail ham price change
Nov. 1997-Nov. 1998	-60%	-23%
June-Nov. 1998	-61%	+2.9%

What is troublesome about ham and the other retail pork prices, is that since June, there has been very little drop in prices to consumers when the hog farmer took hit after hit on market prices.

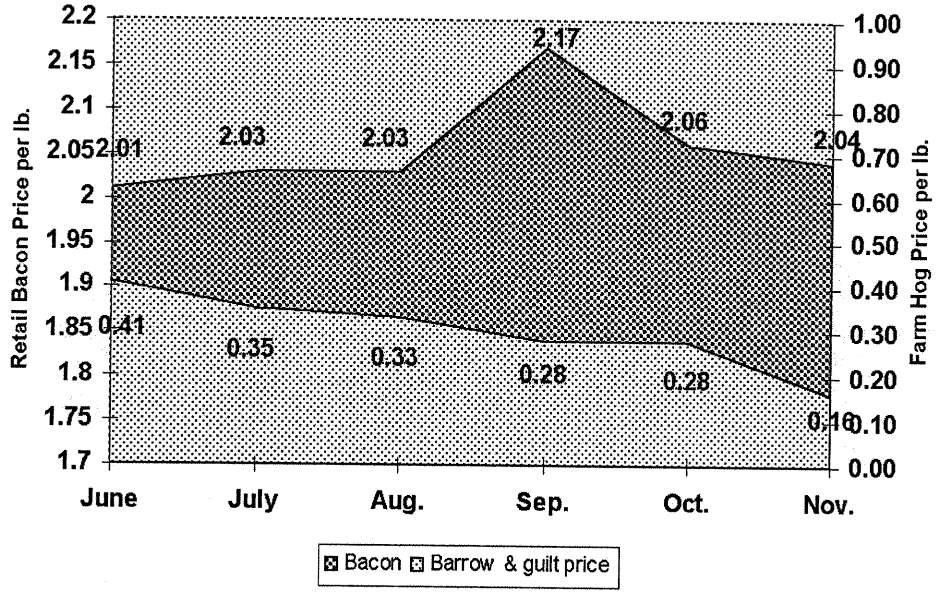
According to our survey, retail ham prices have probably been the most responsive to the drop in farm prices over the long term, since November of last year. Our most recent survey indicated ham is 51-cents a pound less than it was last year. We would urge consumers to rush out and buy a ham for Christmas to take advantage of this price and help eat up some surplus.



<u>Bacon</u>

	Farm hog price change	Retail bacon price change
Nov. 1997-Nov. 1998	-60%	-19.6%
June-Nov. 1998	-61%	+1.4%

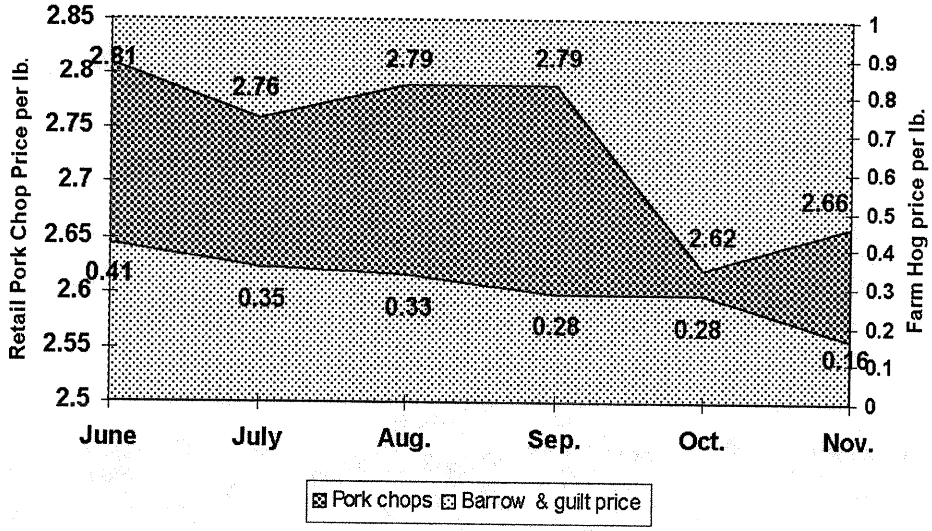
Since November of last year though, bacon prices have declined significantly, but again, we see since June, retail prices of bacon are actually about the same, instead of lower, giving further evidence that consumers and farmers are being taken advantage of.



Pork Chops

	Farm hog price change	Retail pork chop price change
Nov. 1997-Nov. 1998	-60%	-9.2%
June-Nov. 1998	-61%	-5.3%

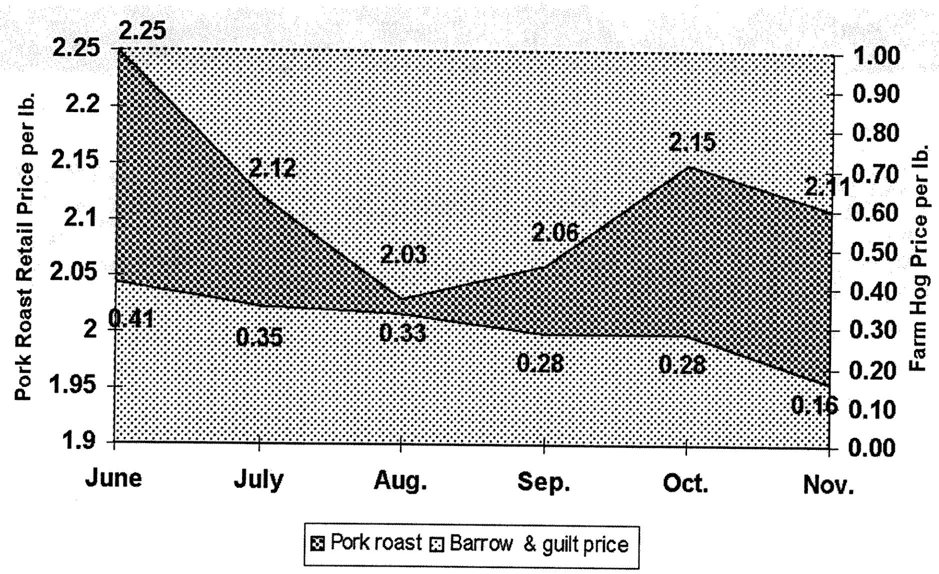
Retail pork chop prices are probably the most visible and frustrating examples of the failure to pass along lower farm hog prices. Since November consumers have seen less then a 10 percent drop in retail prices and only a 5 percent drop since June. On the retail side though, to the credit of grocery stores, our surveyors have reported that stores offered some very attractive specials on pork chops, but overall did not reflect a dramatic savings to consumers.



Pork Roast

	Farm hog price change	Retail pork roast price change
Nov. 1997-Nov. 1998	-60%	-6.6%
June-Nov. 1998	-61%	-6.2%

Again, retail prices for pork roast are no where near what they could and should be.



It seems interesting to our members, that if wholesalers and retailers practically give turkeys away at Thanksgiving, even lose money because they are offered as loss leaders, than it would seem conceivable that they should be more responsive to such a huge drop in basic wholesale price of hogs on the farm.

Because farmers have limited ability to determine the prices they get for their commodities, and because consumers are at the whim of the marketing system, we urge consumers to ask their grocers why retail prices are not lower. Farmers would welcome this kind of support if the end users, the consumer, would put some downward pressure to get the food system to respond appropriately.

I have also provided some additional comments from economists that support the retail analysis that we have conducted:

Consumption is up 7.5% in 1998, evidence of good demand for pork, even though retail prices have not dropped in relation to lower farm hog prices. *Ron Plain ,University of Missouri economist.*

Consumers don't realize they should be eating more pork because retail prices have not decline to reflect the slash in hog prices. *Larry Duewer, USDA analyst.*

Retail pork margins reached $1.38 per retail pound—23 cents higher than the average September margins from the previous year. Retailers have extracted an additional $274 million from producers and consumers in September alone. For the entire year of 1998, large margins may have negatively impacts producers and consumers by up to $4 billion. *Chris Hurt, Purdue University agricultural economist.*

December 17, 1998

To Whom It May Concern:

My name is Louis Tessmann; I am a retired farmer. Hog prices are now lower than they were during World War II and anytime since. My two sons operate our family farm, Tessmann, Inc. in Columbia County where they produce feed grains, beef cattle and hogs. I am also president of the Columbia County Farmers Union. I am very concerned with traditional independent family farmers' loss of control in production agriculture.

History has certainly proven this system to be far superior to all others as witnessed by recent worldwide events including failure of Russia's cooperative type system where decisions are made in government offices. Would large corporation decision making result in the same failures? I believe corporations and cooperative offices made decisions that led to this insane over-expansion in hog production. Independent family farms would not have been that foolish. Is this an attempt to completely integrate hog production, the same as was accomplished with poultry production within the last 30 years? Already an unexplained problem in the nation's poultry breeding flock has been reported. Is this the beginning of more serious problems as the result of corporate decision making? I wonder.

Too many hogs are being produced. Right now there is a temporary slaughter capacity shortage. Also demand does not support the over supply of pork and, as a result, does not give reasonable prices to hog producers. Other livestock prices are being affected by the over supply as well. Some level of hog herd liquidation will occur. Many family farmers will be forced out due to financial pressures (many are life-long hog producers) with the only alternative is to seek off-farm employment.

I believe there are six steps Wisconsin legislators could take to help in these disastrous times:

1. Adopt a resolution requesting USDA review rules regarding loan deficiency payments to corn and soybean producers in Wisconsin and other northern states. These rules are especially unfair to northern livestock producers. The USDA should recommend federal legislation if needed.
2. Demand U.S. Senate Agriculture Committee hold hearings on hog production including livestock concentration, packer hog purchasing agreements and other practices that discriminate against independent family farm hog producers.
3. Demand that no public employees or funds are used to encourage this type of livestock production expansion including dairy in Wisconsin.
4. Adopt laws requiring livestock producers to implement strict environmental practices. Most of these requirements are already adopted by many family farm producers even though they add production costs.
5. Consider following South Dakota's example of controlling corporation take-over in production agriculture within the state.
6. Help develop a program to make guaranteed emergency credit available to independent family farm hog producers thereby giving them the needed financial assistance so they may still be producing hogs when hog prices recover (hopefully very soon).

Enclosed is a letter requesting Emergency Hog Market Deficiency Loans. The needs for this assistance include some thoughts on how these loans could be implemented.

Respectfully Yours,

Louis A. Tessmann

Louis A. Tessmann
622 Saddle Ridge
Portage, WI 53901
608-742-3616 (home)
920-348-5308 (farm)
920-348-5986 (farm)

Based on our farm records, this shows need for emergency credit assistance to help insure our survival during these disastrous times. Note how much deficiency's increased in September and October 1998. Projections for next several months are the same or worse. This means our small hog operation (150 sows – farrow to finish) will face a loss of equity of between 50 and 100 thousand dollars. Full time independent family farms even larger losses. Also, if prices don't recover by next summer it could mean complete disaster for many independent family farm producers.

If we would decide to completely liquidate, these losses would still occur and we would be stuck with large investments in worthless hog facilities, which many of us still owe money on. Would you call this a simple problem or a major disaster. Talk about being between a rock and a hard place. Without assistance will this spell the last of the independent family farm hog producers? (Could easily be)

Example of how deficiencies are increasing based on actual record on our own farm from November 1, 1997 through October 31, 1998.

Cost of production = 40 cents per pound based on University data
Pounds sold x 40 cents equals cost of production

Month	Cost of Production	Price received per 100 lbs	Value Received	Credit	Deficient
Nov 97	18378	47.15	21664	$3286	
Dec 97	18370	43.90	19834	$1464	
Jan 98	17216	38.25	16477		$ 739
Feb 98	16430	38.15	15669		$ 761
Mar 98	18450	35.83	16525		$1925
Apr 98	28912	37.59	27168		$1744
May 98	23884	46.16	27568	$3684	
June 98	17470	44.64	19496	$2026	
July 98	19482	38.10	18840		$ 942
Aug 98	10042	37.12	9319		$ 723
Sept 98	29130	30.26	22038		$7092
Oct 98	20468	27.89	14272		$6196

When November 1998 and future records are available, projected deficiency will be much larger.

Louis O. Hessmann

December 17, 1998

Subject:
Make emergency or disaster loan guarantee program available to hog producers.

Purpose:
Assist family farm producers in this economically disastrous time, so that they do not lose all of their equity and thereby lose their ability to support their livelihood. Many family farm hog producers face the loss of their farms, which includes their homes, life savings, self-esteem, etc. Financial institutions are already bending over backwards to the best their limited ability to help through these times of over production.

Large conglomerates entering the hog production business with the apparent goal of taking over the industry caused most of this over production. We therefore request these loans be capped at a level which would assist family farms and the only collateral needed to secure these loans would be their hogs and hog operation.

Proposed example of how loan progress could work:
Emergency hog market deficiency loan.

Goal:
Make emergency credit available to family farm hog producers during this time of disaster level hog prices. Cap loans at $300,000 per year. Only cost of loans to government would be administrative. Loans would be cost of production minus market value equal deficiency, which would be amount eligible for loan. Example: based on 200 market hogs weighing 250 lbs., 5000 lbs. total live weight.

Cost of production (.40) based on university data	Market value (.18) based on price received	Deficiency
$20,000	$9,000	$11,000 – amount eligible for loan

The loan could be issued monthly, quarterly or even annually. Repayment of loans would begin anytime hog market prices exceed the goals (cost of production) which would hopefully be by next summer.

Please give this your immediate attention. Time is of the essence for many producers.

Thank you for your consideration,

James E. Sanderson, President
Columbia County Pork Partners

Louis A. Tessmann, President
Columbia County Farmers Union

Outline for hearing on low hog prices, Dec. 17, 1998, Mike Wehler

1. Prices at depression level of the 1930's

2. Roosevelt called for all hogs below 80lbs to be killed.

3. Events that have contributed to this disaster:
    a: new production technologies
    b: lots of investment interest
    c: strong dollar
    d: weak economies over seas
    e: changing pricing relationships between producer and packer
    f: reduced slaughter capacity in packing interest
    e: historically high margins
    g: others

4. Extra ordinary time means extra ordinary efforts needed
    a: retailers and food service outlets/special pricing opportunities
    b: government and institutional buying
    c: low interest loans for producers
    d: accurate price reporting
    e: pork pantry/slaughter and processing assistance
    f: media focus on opportunities for consumers
    g: reduced sales tax/property tax payment plans
    h: others

NFO Inc.
2505 Elwood Drive
Ames, Iowa 50010-2000
515-292-2000

Statement on the Future of the Hog Industry
submitted on behalf of the
National Farmers Organization
Ames, Iowa
by
John Bobbe, Agricultural Economist
Before the Wisconsin Assembly Agriculture Committee
December 17, 1998
Madison, Wisconsin

Introduction

The National Farmers Organization represents independent producers nationwide in negotiating contracts and other terms of trade for grain, livestock and dairy. We are in the marketplace doing so 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.

We define an independent producer as one who with his or her family resides on their farm, provides day to day management, decision making, controls the marketing of the production, whose capital is at risk, and owns or wants to own that business.

Our basic premise is that an agriculture consisting of independent producers is not only desirable, but essential for maintaining our nations food production, rural businesses and communities as well as infrastructure.

Defining the Problem

By USDA's own statistics, the nations hog producers are losing $144,000,000 weekly compared to the average returns received weekly over the past five years. The contribution of the agricultural economic multiplier to the economy is for each $1 of agricultural income it multiplies seven times. The impact goes beyond lost income to producers and impacts our nations economy by over $1 billion per week.

At a loss of just $60 per hog, Wisconsin producers' share of those income losses amounts to over $750,000 per week. Producers not generating those dollars aren't spending those dollars in their local communities pushing the total impact to over $5,000,000 per week in the state.

Put simply, modest sized family farms with 300 sows could be losing nearly $1,000 per day according to Purdue University agricultural economist, Chris Hurt.

Economies of Scale in the Hog Industry

Traditional economic reasoning attributes large size with 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.

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*John Bobbe owns and manages a third-generation Wisconsin farm. His professional experience includes working with agricultural producers, farm organizations and others on issues related to the structure of agriculture.

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.

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.

What Price is Wisconsin Willing to Pay for A Hog Slaughtering Plant?

One possibility for revival of Wisconsin's swine industry is to get a slaughtering plant to locate in the state. There is no question this would provide a market for hogs and perhaps encourage the industry. However, you don't have to look very far to see major pitfalls when extreme caution is not exercised.

Albert Lea, Minnesota and Guymon, Oklahoma are good examples. Seaboard Corporation currently ranks 5th on the list of the nations top 50 corporate hog producers. It came to Albert Lea in 1991 and left about four years later. The city of Albert Lea, Minnesota and the federal government are still holding the bag on over $50 million in loans, tax breaks and subsidies from when Seaboard slipped out of town to Guymon. Guymon, the state of Oklahoma and the federal government have $64 million invested in trying to keep Seaboard in town. Real estate tax breaks have amounted to over a 75% reduction to keep the corporation happy. (Calculated from "The Empire of the Pigs," Time Magazine, November 30, 1998.) Seaboard is now playing its hand in Great Bend, Kansas with a similar scenario beginning to play out.

Imports and Pork Supply

One problem often cited by farmers is that there is an estimated 50,000 to 80,000 head of hogs per week coming across the border from Canada to the United States for slaughter. It would be very easy to jump to the wrong conclusion; namely that Canadian hog producers are causing this to happen.

The following statement should sound familiar. "Prices now are already under most producers' breakeven point and will drop more in the next few months. That means most hog farmers won't be making money for a long time, and investors in the large-scale hog barns won't see profits any time soon (The Western Producer, Saskatoon, Saskatchewan, August 13, 1998)." And last week a representative of the Canadian meat packing industry told members of Parliament that while hog prices are extremely low, it has been a good year for the processing industry.

Last Thursday, Smithfield Foods, Inc. announced it had acquired controlling interest in Schneider Corporation, a major Canadian hog slaughterer. Smithfield Foods ranks as the 4th largest U.S. hog producer and is the largest vertically integrated producer and marketer of fresh pork and processed meat in the United States. Cargill, which ranks No. 8 on the list of largest U.S. corporate hog producers with 120,000 sows, recently bought Continental's grain division. Cargill has major operations in Canada as well.

The bottom line is, Canadian hog producers don't ship hogs to the U.S. Corporations with operations in both countries do, all under the banner of free trade. Benefits do not directly accrue to producers on either side of the border.

The Necessity of Open, Fair and Competitive Markets

USDA's Small Farm Commission Report submitted in January, 1998 stated Policy Goal 3 as "Promote, Develop, and Enforce Fair, Competitive and Open Markets for Small Farms. The report further states, "Testimony presented to the Commission asserts that the single most critical component to the survival of small farmers is the price received for the product produced." Prices need to be determined in markets that are open, fair and competitive.

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.

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). (See Appendix A for a full copy of Packers and Stockyards Act, 1921 As Amended, Section 202.)

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 Pork Systems Approach

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)

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.

State Enforcement of Corporate Farming Laws

Two examples both contrast and make the case for state action. North Carolina has very lax laws regarding corporate involvement in farming. It has risen from 8th in hog production in 1988 to No. 2 in 1997. Nineteen of the top fifty producers, most of whom are corporate entities, have significant operations in North Carolina. By contrast, Nebraska has ranked 5th in hog production in 1988 and in 1997 ranked 6th.

Only 6 of the top fifty hog producers, none in the top ten in size, have operations in Nebraska.

The number of farm operations with hogs plummeted in North Carolina by 62% from 1988 to 1997. It only has 38% of the hog farms it once had. By contrast Nebraska has not only kept its ranking, but has over 50% of the hog producers it had in 1988. Nebraska lost farms, but not nearly as rapidly.

One difference is that Nebraska has strictly enforced Initiative 300 which is part of the Nebraska Constitution—Article XII, Section 8. Nebraska currently has four hog slaughtering facilities. (See Appendix A for a full explanation of Initiative 300.)

Steps for Hog Industry Recovery

1. Hog producers should take steps to reduce the market weight of hogs from 260 pounds on average to 245 pounds.
2. USDA should take steps to purchase hogs directly from producers and donate the pork to relief agencies to benefit the needy as proposed first by the National Farmers Organization to Secretary Glickman last week.
3. A disaster relief program needs to be put in place that immediately and directly infuses capital into independent hog producer operations is needed. Simply loaning hog farmers more money with already mounting debts is not the answer.
4. Market prices need to be determined in markets that are open, fair and competitive.
5. USDA needs to enforce antitrust laws and the Packers and Stockyards Act, Section 202 to address anti-competitive behavior resulting from industrialization.
6. Access to adequate sources of capital, credit, technologies and use of risk management tools will be critical for long term survival.
7. 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.
8. National Farmers Organization has called for and been joined by others including Iowa's senators in calling for an investigation of the farm-to-retail price spread for pork which is at an all time high.
9. States can take steps to insure that independent producers compete with corporate entities on a level playing field.
10. 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.

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Packers and Stockyards Act, 1921, As Amended

Title II -- Packers

Sec. 201 [(2)] When used in this Act, the term "packer" means any person engaged in the business (a) of buying livestock in commerce for purposes of slaughter, or (b) of manufacturing or preparing meats or meat food products for sale or shipment in commerce, or © of marketing meats, meat food products, or livestock products in an unmanufactured form acting as a wholesale broker, dealer, or distributor in commerce. (7 U.S.C. 191)

Sec. 202 [(3)] It shall be unlawful for any packer with respect to livestock, meats, meat food products, or livestock products in unmanufactured form, or for any live poultry dealer with respect to live poultry, to:

(a) Engage in or use any unfair, unjustly discriminatory, or deceptive practice or device; or

(b) 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; or

(c) Sell or otherwise transfer to or for any other packer or any live poultry dealer, or buy or otherwise receive from or for any other packer or any live poultry dealer, any article for the purpose or with the effect of apportioning the supply between any such persons, if such apportionment has the tendency or effect of restraining commerce or of creating a monopoly; or

(d) Sell or otherwise transfer to or for any other person, or buy or otherwise receive from or for any other person, any article for the purpose or with the effect of manipulating or controlling prices, or of creating a monopoly in the acquisition of, buying, selling, or dealing in, any article, or of restraining commerce; or

(e) Engage in any course of business or do any act for the purpose or with the effect of manipulating or controlling prices, or of creating a monopoly in the acquisition of, buying, selling, or dealing in, any article, or of restraining commerce; or

(f) Conspire, combine, agree, or arrange, with any other person (1) to apportion territory for carrying on business, or (2) to apportion purchases or sales of any article, or (3) to manipulate or control prices; or

(g) Conspire, combine, agree or arrange with any other person to do, or aid or abet the doing of, any act made unlawful by subdivision (a), (b), (c), (d), or (e). (7 U.S.C. 192)

WHAT INITIATIVE 300 DOES

"Initiative 300" is part of the Nebraska Constitution -- it's Article XII, Section 8.

It is a detailed definition of the limits of corporate activity in Nebraska agriculture. Ironically, its opponents criticize it for being both too detailed and too vague. In reality, it is neither, and that is what bothers them.

Basically, Initiative 300 says this:

-- In general, corporations and limited partnerships (which are very like corporations) cannot own farmland or livestock and cannot operate farms or livestock facilities.

-- However, if a majority of the stock in a corporation (or all the shares in a limited partnership) are owned by members of a family and one of those family members actually lives on the farm or works there on a day-to-day basis, the corporation is exempt from Initiative 300 because it is a family farm or ranch corporation.

-- Land owned or fares operated by corporations at the time Initiative 300 was passed are exempt under a "grandfather" clause.

-- There are also some specific exemptions for research farms, non-farm uses of farmland, poultry operations (which are already corporate dominated), and others.

-- If a corporation or limited partnership is found in violation of Initiative 300, it must sell the land within two years, or lose title to the State of Nebraska.

-- If the Attorney General fails to take action in court against a violator, any citizen of Nebraska has the right to do so.

. . . AND WHAT IT DOESN'T DO

One of the things that corporate farm supporters like to say is that Initiative 300 is "protectionist" because it protects family farmers from competing with corporate investors.

It does nothing of the sort. It only places that competition on the level playing field.

Consider the case of some large scale hog farms set up as general partnerships by corporate farm supporter Chuck Sand.

Initiative 300 does not prevent Sand from doing this, nor was it intended to. Why? Because these are general partnerships. The investors get none of the substantial tax advantages they would get if they incorporated or set up a limited partnership.

Just as important, the investors are personally liable for all the debts of the farm. They get none of the protection from creditors that incorporating or forming limited partnership would provide them.

In other words, they have to expose themselves to the risk of real competition. There is no doubt that they would like to operate under the protective cover of a corporation or limited partnership. But Initiative 300 says "No. They are welcome to compete, but only on fair terms."

The only thing Initiative 300 protects is fair competition.

This special report includes reprints of articles that have appeared in the Center for Rural Affairs **Newsletter** over the past year. We've added "updates" when necessary and we've added some entirely new articles. If you want to receive the free Center for Rural Affairs monthly **Newsletter**, just write us at Box 406, Walthill, NE 68067.

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Wisconsin Legislative Hearing
Condition of Wisconsin Pork Industry
December 17, 1998

Dan Short, UW-Extension
Tom Kriegl, UW-Extension

Mr. Chairman, and other distinguished members of the Assembly Ag Committee, I thank you for this opportunity, and wish to offer my perspective upon the current hog industry crisis.

As a county based faculty member for University of Wisconsin-Extension, I have had direct contact with Wisconsin Livestock producers for quite a few years.

As we approach the new millennium, many long term challenges lie in the path of Wisconsin's animal agricultural industries search for economic competitiveness. Your insight and assistance may well be required to also address these issues.

- Land use polices
- Environmental harmony
- supporting infrastructure erosion
- citizenry disconnect or indifference to food supply
- economic barriers to entry
- access to competitively priced capital
**** market accessibility***
- and others

But here today the immediate and most pressing issue is to examine corrective measures that could remedy the disastrous impact of the current hog markets.

Testimony this morning will focus upon market and structural conditions as influencers of price, however I suspect this afternoons will bring the discussion closer to the human impact of the current circumstances as faces will be linked to data.

Dr. Leibbrandt briefly detailed the current Wisconsin Pork Industry structure and exampled the magnitude of accumulated financial losses Wisconsin Pork Producers may experience. To put the prices received for hogs in a context that non farm people can relate, it would be like your employer telling you on Friday that your $12.00/hr. job will be paying $3.00 on Monday and the prospects for a return to increased hourly pay looks very uncertain. Non farm households can identify with the predicament that it would place them in trying to meet their financial obligations.

If the Dow Jones Industrial Average (DJIA) on Wall Street acted like pork prices, the DJIA would have dropped from 9,300 to 1550 or less. As pork prices were plunging, the DJIA did fall from 9,300 to about 8,000 causing numerous reactions from the global financial leaders. Since then, the DJIA has returned to near its peak while pork prices remain in the dumps. Another difference between Wall Street and the rural route is this. A stockholder who experienced a paper loss when the DJIA went from 9,300 to 8,000 could easily sit back and wait for the paper loss to be replaced by a paper gain as the DJIA returned to 9,300. Stockholders who did nothing as the Dow went from 9,300 to 8,000 and back to 9,300 lost nothing.

Even if the pork price had rebounded as quickly and as completely as the DJIA, all producers of pork suffered some level of loss no matter what they did. And the more they produced the more they lost. This is because there is a daily cost to growing hog. Secondly, if a pig is not marketed at a certain size, either price is further discounted, the cost of production accelerates, or both.

Most livestock producers have witnessed and weathered the market ups and downs of previous cycles. Many have developed management strategies to cope until prices return to profitable levels. What causes the immense anxiety of the current situation is what I refer to as magnitude and duration.

Magnitude or depth to where prices have dropped change the coping strategies that producers have often employed during other price adjustment periods. This may be accomplished by using working capital. When prices received are above variable costs of production, even if less than total cost, producers are able to continue production in the short run. However, when prices received are less (and in this case much less) than variable costs it usually signals production discontinuance.

Duration or the length of time market prices are profitable or negative can have accumulative affects. The longer the market prices is negative relative to total costs of production, resources to cope are strained and liabilitieis on a hog farm can multiply rapidly..

Given present circumstances of accumulating debt those that can be resourceful enough to weather this storm will require a longer period of profitability found in most hog cycles or periods of very large positive margins.

This is the dilemma of today's Wisconsin Pork producers. There are presently no profit-maximizing tactics available. Even the loss-limiting tactics are few and far between.

What is needed now by individual pork producers to deciding upon a course of action?

1. The producers and their families really need to understand their goals. They need to understand how important it is to them to produce pork compared to some other occupation. It helps to know how high an economic price they are willing to pay to continue their preferred occupation. A producer close to retirement, or one who is interested in doing other things, might be better off leaving pork production now as opposed to later.

2. Producers need to be able to calculate their cost of production at various stages of production, and they need to differentiate between costs that are already "sunk" (fixed) and costs that they can still influence (variable costs) depending on the decisions they still can make.