

MINUTES OF THE House COMMITTEE ON Agriculture and LivestockThe meeting was called to order by the Chairman, Bill Fuller at
Chairperson9:00 a.m./~~p.m.~~ on February 9, 1984 in room 423-S of the Capitol.

All members were present except:

Committee staff present:

Raney Gilliland, Legislative Research Department
Norman Furse, Revisor of Statutes Office
Kathleen Moss, Committee Secretary

Conferees appearing before the committee:

Don Jacka, Department of Agriculture
Jack Quinlan, Seaboard Corporation and Pauls White, Ltd.
Senator Angell
Roy Paoge, President, DeKalb Swine Breeders, Inc.
Jack Miller, Vice President, Seaboard
Arnold Heaton-Merkeim
Jamie Schwartz, Secretary, Kansas Department of Economic Development

The meeting was called to order by the Chairman, who announced that the Board of Agriculture would discuss HB 2299, relating to grain moisture meters. He said HB 2299 should be removed from the table for clarification. It was moved by Rep. Bueller and seconded by Rep. Polson that the bill be taken from the table. Motion carried. Don Jacka told the committee that HB 2299 could not be implemented without some additional personnel--a person for testing and inspecting, and a clerk to register the meters. He said it would be a tedious project and would probably cost about \$36,750.00. Other contractual services, travel and subsistence would require an additional \$17,600.00. Office supplies, forms, printing, etc. would run about \$750.00. He reviewed last year's fiscal note and explained it had been revised, and that the second year would not be as expensive.

It was moved by Rep. Johnson and seconded by Rep. Buehler that HB 2299 be tabled. Motion carried.

The Chairman announced a change in the agenda to accommodate out of town individuals and people from abroad, on SB 519, relating to corporate swine breeding enterprises. Jack Quinlan appeared in support of the legislation as a representative of Seaboard Corporation and Pauls White, Ltd.

Senator Angell told the Committee that corporate farming had been good for his area because of the grain used for feed and local farmers had benefitted from DeKalb's location.

Jamie Schwartz spoke of the benefits derived from DeKalb throughout the state, in that they raise, breed and sell all over the world.

Roy Paoge, President of DeKalb Swine Breeders, Inc., testified that DeKalb AgResearch has through the years done much for the grain industry and are now providing other services as well. He said that they purchase between \$8 and \$9.5 million of grain and feed ingredients per year at the Plains facility and that they employ 120 to 135 people in their operation, with a payroll of over \$2 million per year. To continue these services, he said they need the proposed legislation. (See Attachment 1.)

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Agriculture and Livestock,
room 423-S, Statehouse, at 9:00 a.m./~~p.m.~~ on February 9, 1984

He presented a slide program showing the production facilities at Plains, and urged favorable consideration of the legislation.

Jack Miller, Vice President of Seaboard, Shawnee Mission, said they have been a part of the agriculture industry for over 70 years. He asked for favorable consideration of SB 519.

Arnold Heaton-Merkeim, England, was introduced. He distributed Attachment 2, which included pictures of the facility in Kansas. He pointed out that their land requirements are quite low but they offer a lot to the people of Kansas in the nature of purchases to run the establishment and the hiring of personnel to run the operation. He said they are not in competition with family farm operations.

The Chairman said further hearings would be held, and reminded the Committee that a meeting is scheduled tomorrow. The meeting was adjourned at 9:59 A.M. The next meeting is scheduled for Friday, February 10, 1984, 9:00 A.M., Room 423-S.

Testimony of Roy L. Poage
President, DEKALB Swine Breeders, Inc.
Before the Kansas Senate Committee
on Agriculture and Small Business
AND
Before the Kansas House Committee on
Agriculture and Livestock
February 9, 1984

INTRODUCTION

My name is Roy Poage. I am President of DEKALB Swine Breeders, Inc. My purpose for being here this morning is to provide you with information which I hope will be helpful as you consider the proposed amendment to the law, now pending before you, relating to the corporate ownership of agriculture land in Kansas. I will discuss the DEKALB Swine Breeders' operation located near Plains, Kansas, and the contributions that that operation and other confinement hog operations can make to the State of Kansas, and especially to the communities where they are located. I hope my presentation will help persuade you that it is desirable to act favorably on the proposed amendment.

I was born and raised on a livestock farm near Lubbock, Texas. In 1959 my father-in-law and I started one of the first total confinement swine operations in the United States to produce breeding stock. Having grown up in the Panhandle of Texas, I was familiar with the problem of surplus grain that we always had in that area. However, cattle feedlots came into the area in the 1950's and hog confinement units in the 1960's and within a few years there was no longer a grain surplus in the Panhandle of

Texas. As a result the price of grain increased compared to many other areas in the country.

In 1972, my father-in-law and I merged our company with a newly formed company, DEKALB Swine Breeders, Inc. and I moved from Lubbock, Texas to Sycamore, Illinois to manage this company. DEKALB Swine Breeders' intention was to expand its operations and we needed an appropriate location to build new facilities.

Because I was familiar with the advantages Kansas offered for confinement hog units, we searched for a place to locate in Kansas. The advantages that we believe Kansas has are as follows:

1. There is always a good supply of milo, corn, wheat and in some cases, barley in Kansas. In fact, a great deal of grain is shipped out of Kansas to be used in other states or foreign countries. It is more economically beneficial to use the grain in Kansas.
2. Kansas has more sunshine and a better livestock climate than some of the midwestern states where most hogs are raised.
3. Kansas produces a lot of natural gas that can be used, if necessary, in swine operations.
4. Kansas is an agricultural state and we believed we could make a contribution by using its agricultural products; and therefore we would be looked upon favorably by

Kansans. We didn't want to locate somewhere where we might not be wanted.

BACKGROUND AND PURPOSE OF DEKALB SWINE BREEDERS, INC.

DEKALB Swine Breeders, Inc. is a wholly-owned subsidiary of DEKALB AgResearch, Inc. In 1917 a group of farmers in DeKalb County, Illinois started an association called the DeKalb County Soil Improvement Association which later became DEKALB AgResearch, Inc. The purpose of this Association was to help farmers improve their soil and to help them buy good seed so they could improve their profitability. Over the years, DEKALB AgResearch, Inc. evolved into a company that through research, developed and produced its own products for sale to the farmer. In the 1930's it was among the first to develop, produce and sell hybrid seed corn. In the 1940's it was one of the first to develop, produce and sell hybrid chickens as layers. In the 1950's it was the first to develop, produce and sell hybrid sorghum seed.

The primary objective of DEKALB Swine Breeders, Inc. is through research to develop and produce hybrid swine breeding stock of superior genetic quality to sell to commercial hog producers. We developed, produced and sold the first hybrid swine breeding stock in 1976. We believe that farmers using our improved breeding stock have an opportunity to increase the profits they might otherwise realize.

UNITED STATES HOG PRODUCTION AND CONFINEMENT UNITS

Commercial hog production has been changing dramatically since 1954. In 1954 there were about 2.4 million hog producers in the United States. Today there are about 450,000. Many economists are estimating that by the year 2000 there will be about 300,000 hog producers. Because of this continuing trend toward fewer hog producers producing approximately the same number of hogs as in the past, production units are becoming larger. That is the reason there has been a movement toward the rearing of hogs in confinement facilities, rather than in open lots. Large production units in open lots require a great deal more land than comparably sized units in confinement. Confinement rearing of hogs started in the 1950's and has been increasing since the early 1960's. Currently, approximately 20-25% of all hogs produced in the United States are raised in total confinement. We anticipate that about 40% will be raised that way by the year 2000.

Hog confinement units are very similar to cattle feedlots. That is:

- (1) they are highly intensified type of agriculture;
- (2) they require a high capital investment;
- (3) they use large quantities of feed grains; and
- (4) they employ many people to run the operations.

While hog confinement operations occupy relatively small acreage, some additional acreage is required for waste dispersion and other environmental considerations.

These more intensified hog operations require large amounts of capital that usually can only be raised by pooling the assets of several individuals or by an existing business that has access to sufficient capital, as well as agricultural technology and know-how. Because of the number of investors and the amount of capital involved, most of these businesses believe it is necessary to operate as a corporation. These operations can cause economic growth in local communities. They are long term investments with long lasting results that do not involve people who are looking for a "fast buck".

DEKALB'S KANSAS OPERATIONS

A major part of DEKALB's swine operations are located near Plains, Kansas. We currently produce about 150,000 hogs per year at those facilities.

Let me discuss the amount of capital involved in the construction and operation of a large swine confinement operation. An operation such as we have in southwestern Kansas, for example, would cost about \$25 million at today's prices to build the facilities and purchase the required equipment, and about \$4 million in working capital. Concrete, building supplies and equipment are available to be purchased from Kansas businesses.

Over 50% of the operating costs for producing hogs is used for the purchase of grain and feed ingredients. DEKALB purchases a

total of between \$8 and \$9.5 million annually of grain and feed ingredients to produce feed at its mill in Plains, Kansas. While most of this feed is used in our Kansas operation, we ship some of the feed to our operation located in Lubbock, Texas. In 1983 we purchased in Kansas about \$8.9 million in Kansas for grain and other feed ingredients as follows:

<u>Ingredients</u>	<u>Annual Cost</u>
Milo, Corn, Wheat and Barley	\$ 5,800,000
Soybean Meal	2,500,000
Other ingredients	600,000
TOTAL	<u>\$ 8,900,000</u>

Since we began our operation in Kansas in 1973 we have purchased about \$30 million worth of grain from Kansas farmers. During the next ten years we expect to purchase approximately 20 million bushels of grain. At today's prices that will cost us about \$60 million.

We employ between 120 and 135 people in our Kansas operations at all times. Our current annual Kansas payroll is over \$2 million per year. We hire local residents whenever possible. If we hire people from other parts of the United States and move them to southwestern Kansas, it is our policy to hire the best educated and most qualified people we can find. Usually they are college graduated in their early to middle 20's.

Annually, we purchase about \$550 thousand worth of natural gas

from a local gas distribution company. In addition, we purchase about \$400 thousand worth of electricity each year from the local utility. This past year we paid over \$600 thousand to local truckers to haul our breeding stock and market hogs.

We spend about \$1 million annually for the purchase of supplies, maintenance, repairs of equipment and construction of buildings.

In summary, our approximate current annual expenditures for our Kansas operation include:

Feed	\$ 8,900,000
Labor	2,100,000
Natural gas & propane	600,000
Electricity	400,000
Trucking	630,000
Supplies and building materials	<u>960,000</u>
TOTAL	\$13,590,000

SALES OF BREEDING STOCK AND MARKET HOGS

Domestic Breeding Stock Sales

We sell breeding stock throughout the United States. Very little is sold in Kansas. In reality, we produce a product with renewable natural resources produced in Kansas (feed and grains) and export it to all parts of the United States as well as foreign countries.

Export Breeding Stock Sales

The agricultural products we produce in the U.S. are in great demand throughout the world. United States agricultural exports have increased from about \$5 billion in the early 1960's to over \$40 billion in 1982. Because of the strong dollar, some of the grain markets have fallen off recently. However, we are finding that the hybrid swine breeding stock business is increasing in foreign countries.

In our fiscal year ended August 31, 1983, we sold a little over \$1 million worth of swine breeding stock from our Kansas operations to customers in Japan, Mexico, Venezuela and Ecuador. We anticipate that during our fiscal 1984, our sales will be close to \$2 million from sales in Japan, Mexico, Venezuela, Canada and Thailand. In fact, within the next 10 days, a stretch DC-8 loaded with about 500 breeding animals will go from our operation in Kansas to Thailand.

The breeding stock we sell into these foreign countries is sometimes fed American grain and soybean meal processed from American soybeans. This occurs because many of the foreign countries that we do business in do not raise corn or soybeans. thus, we are not only exporting breeding stock fed with Kansas grain, but we are also helping establish hog herds in other countries that will required imported grain. This increased need for imported grain

will be partially met by grain produced by Kansas farmers.

Market Hog Sales

To produce a hybrid hog requires the development of specialized male and female lines. As a result, all of the animals we produce cannot be selected for breeding purposes. Most of the male animals of the female lines are castrated and most of the females of the male lines also cannot be utilized for breeding stock. Additionally, about one-half of the males in the male line and about one-half of the females in the female line do not meet our selection criteria. Consequently, these animals are sold as market hogs. We sell our market hogs to Kansas packers, as well as to packers in Texas, Mississippi, Colorado, California, Iowa and Missouri.

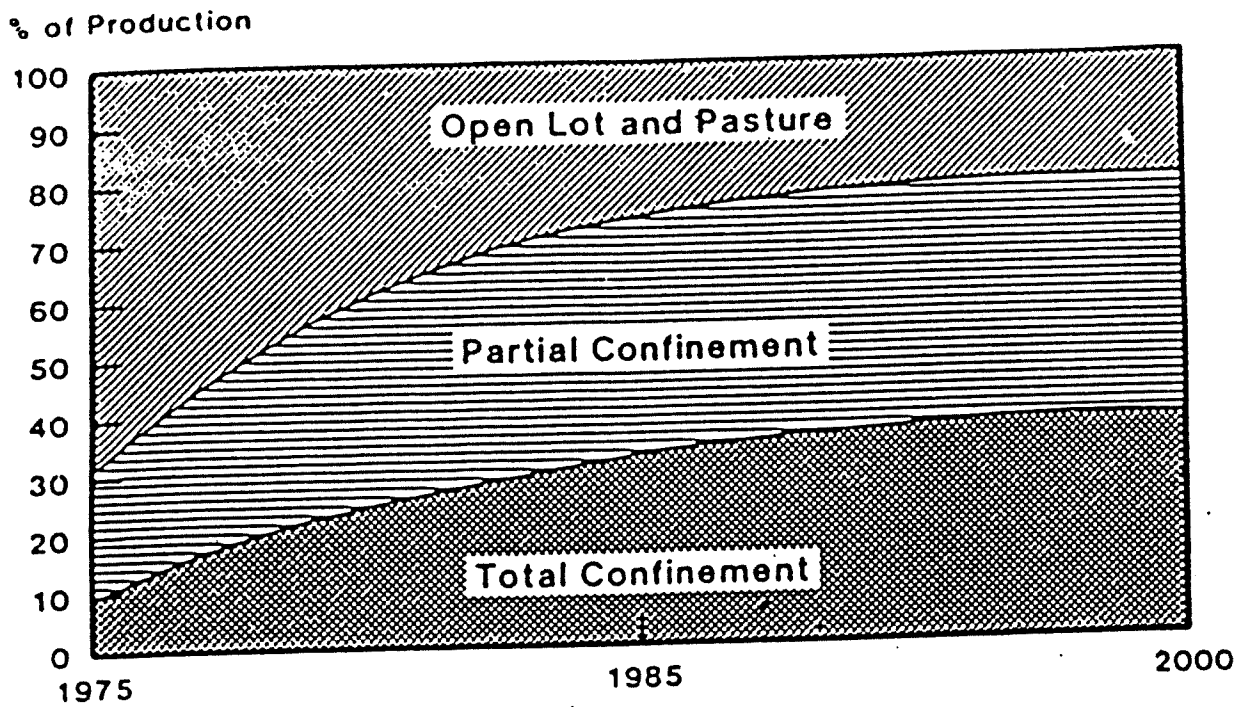
FINAL COMMENT

We believe we have made a significant contribution to the State of Kansas, especially southwestern Kansas. We also believe we will provide a long lasting economic benefit, including providing a long-term market for grain produced in Kansas.

To the extent other corporations operate swine confinement operations in Kansas, the benefits to Kansas increase. Since I strongly believe that swine production in confinement facilities is the way of the future, and that Kansas is an excellent location for such operations because of its surplus grain and good climate, I urge you to act favorably on the proposed amendment.

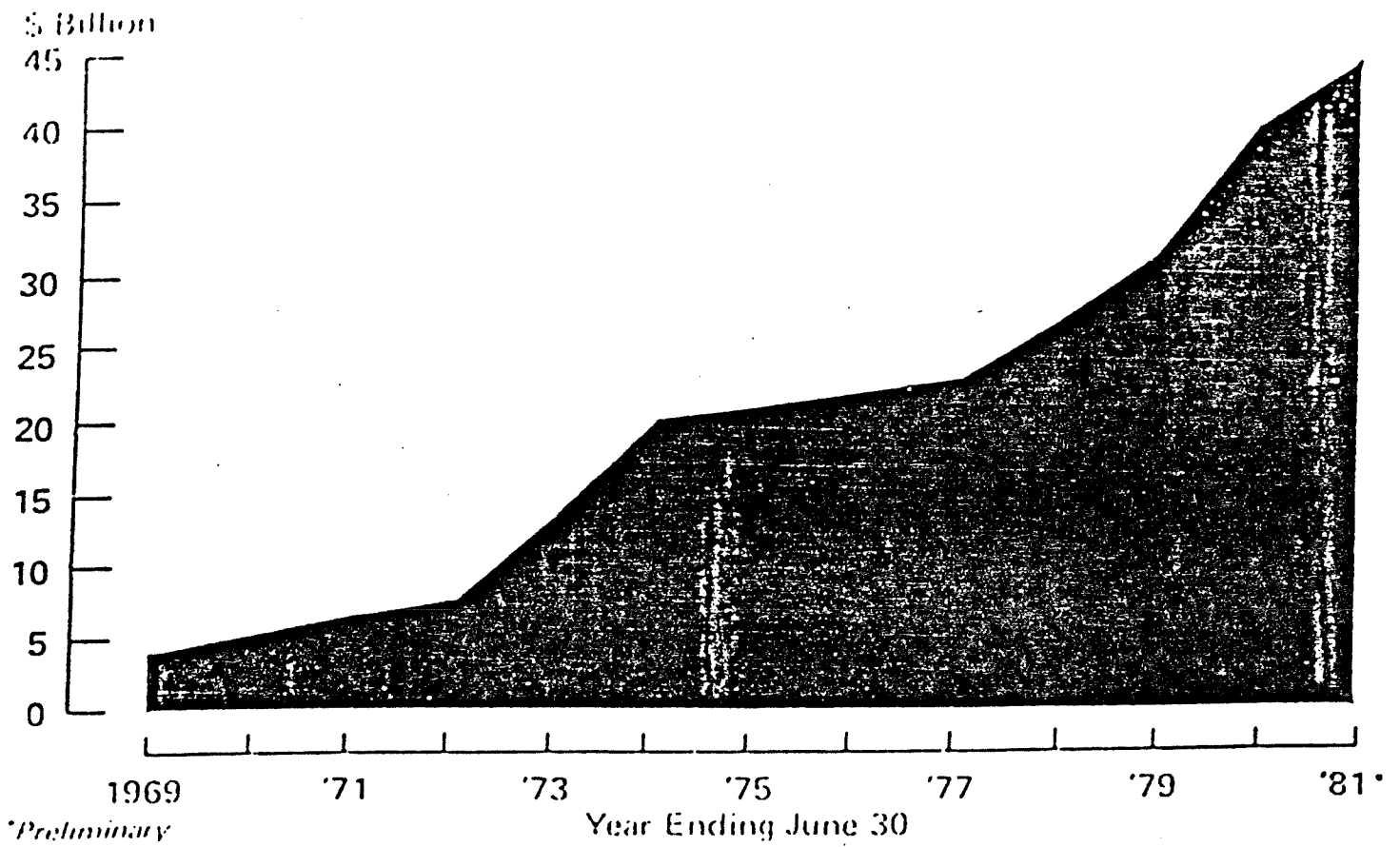
Thank you very much for your time. I'll be glad to answer any questions you might have.

Types Of Production Facilities



Source: MRI Survey

U. S. AGRICULTURAL EXPORTS - COMMERCIAL



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Explanatory Notes to Proposed Swine Confinement Facility in the State of Kansas

(A planned joint venture by Seaboard Corporation, Shawnee Mission, Kansas and Pauls & Whites, Ipswich, England)

It is the intention of Seaboard Corporation (a company long established and well-known in Kansas) and Pauls & Whites (a public company with great experience in large scale hog production) to build a swine confinement unit in Western Kansas. (See photograph on Appendix 1.)

1. PROPOSED DEVELOPMENT

- Stage 1 - Two confinement units each of 1,100 sows. One Central Office, One Central Feedmill. We intend that project start-up will be October, 1984.
- Stage 2 - Expansion up to 5,500 sows by the addition of three extra Confinement Units within five years of start of project.
- Stage 3 - Further expansion up to 11,000 sows by the addition of five extra Confinement Units within ten years of start of project.

2. PROJECT CONSTRUCTION

Our intention would be to have all construction work carried out by local, suitably qualified companies on a sub-contractual basis. We would also look to purchase our equipment requirements from Kansas manufacturers and distributors. (The photographs on Appendix 2 would be typical examples of our requirements.)

Our budgeted capital expenditure at Stage 1 would be:

Pig Buildings)	
)	
Site Works (Excavation, Lagoons,)	
Roadways, Drainage, etc.))	\$3.32 million

Atch. 2

Pig Equipment (Crates, Pens, Feeders, etc.)	\$2.46 million
Offices and Housing	\$0.22 million
Feedmill	\$0.25 million
Utilities (Power, Water & Gas)	\$0.20 million
Specialist Equipment (Vehicles, Generator, etc.)	\$0.20 million
TOTAL	<u>\$6.65 million</u>

For every 1,100 sow unit that we build in the expansion phase our capital expenditure will be approximately \$3.3 million.

Therefore, by the end of Stage 3 our expenditure will have been approximately \$33.0 million.

In addition to the initial construction there will also be an on-going policy of replacement and renewal for which we would need local contractors.

3. PEOPLE

	<u>Stage 1</u> (Initial)	<u>Stage 2</u> (Additional)	<u>Stage 3</u> (Additional)
<u>Administration</u>			
General Manager	1	-	-
Operations Manager	1	-	-
Production Manager	-	1	-
Controller	-	1	-
Office Staff	4	2	2
<u>Production</u>			
Unit Manager	2	3	5
Staff-Supervisory Grade	6	9	15
-Operative Grade	10	15	20
<u>Feedmill</u>			
Manager	-	-	1
Supervisor	1	-	-
Operative	1	1	1

	<u>Stage 1</u> (Initial)	<u>Stage 2</u> (Additional)	<u>Stage 3</u> (Additional)
<u>Maintenance</u>			
Supervisor	-	1	-
Operative	-	1	1
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SUB TOTAL	26	34	45
	<hr/>	<hr/>	<hr/>
CUMULATIVE TOTAL	<u>26</u>	<u>60</u>	<u>105</u>

Synopsis of Staff Grades Required

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>TOTAL</u>
Graduates	7	15	21	43
Skilled Clerical	4	2	2	8
Skilled Agricultural	9	12	17	38
Skilled Maintenance	-	1	1	2
Unskilled	2	3	6	11

We will be looking to recruit suitably qualified graduates, (hopefully from Kansas State University), to fulfill the initial supervisory level positions and moving on to the higher managerial levels after training and experience. Current plans contemplate on-campus recruitment this fall.

Office management, secretaries and clerks will obviously be drawn from suitably qualified local candidates.

Experience has shown both in the U.K. and from our research in the U.S.A., that highly competent people (both men and women) are required in hog production management, especially in the areas of farrowing and nursery where meticulous attention to detail plays a tremendous part in keeping piglet mortality to a minimum.

Because Kansas has a high reputation for agriculture, we feel that Kansans possess the qualities that we need to operate the project. K-State rates very highly in the field of agricultural education.

4. BREEDING STOCK

It is anticipated that approximately 25% of our production will be sold as breeding stock. The remainder of our production will be sold as market hogs.

Anticipated breeding stock sales will be:

<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>
\$0.75 million	\$1.8 million	\$3.0 million

5. PURCHASING OF COMMODITIES

Our feed rations will utilize such commodities as sorghum wheat, corn, soya bean meal, and additional minor ingredients.

The bulk of these commodities are produced within Kansas. Sorghum, wheat and corn will be drawn from immediate local sources to the project, and soyameal will be drawn from the processing plants at Emporia, Wichita and Fredonia.

Our total annual requirements will be:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>
Sorghum, wheat, corn	9,500 tons	24,000 tons	48,000 tons
Soyameal	2,500 tons	6,250 tons	12,500 tons
Other Ingredients	700 tons	1,750 tons	3,800 tons

6. SERVICES TO BE PROVIDED BY THE LOCAL COMMUNITY

(i) Trucking

Sales of Pigs	- Stage 1 - 5 Truck loads per week. Stage 2 - 12 Truck loads per week. Stage 3 - 25 Truck loads per week.
Grain Purchases	- Stage 1 - 9 Truck loads per week. Stage 2 - 23 Truck loads per week. Stage 3 - 45 Truck loads per week.
Other Commodities	- Stage 1 - 1 Truck load per week. Stage 2 - 3 Truck loads per week. Stage 3 - 5 Truck loads per week.

(ii) Services

- Specialist equipment such as vehicles, generator and air conditioning, will require annual servicing and repairing. We will look to local companies to fulfill this need.
- Maintenance. In the initial stages we will look to local companies to provide site and building maintenance and repairs, i.e. plumbers, various building trades, engineers, electricians, etc.
- Miscellaneous supplies e.g. office stationery, work clothing, medical and veterinary supplies will all have to be purchased locally.

(iii) A project of this size will require the services of a good veterinary surgeon to provide curative and preventative care. We would expect this person to live locally to the project in order to provide such a service.

(iv) Employees of the company will move into the area and will require housing and all the other services such as utilities, provisioning, banking and medical.

7. UTILITIES

(a) Power and Gas

Our annual expenditures on electricity and gas utilities will be as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>
Electricity	\$114,000	\$285,000	\$570,000
Natural Gas	\$156,000	\$390,000	\$780,000

Please note that both these energy requirements will be derived from Kansas resources.

(b) Water

The water requirement at Stage 1 will be approximately 3,000 gallons per hour, much of which is recycled and used for sanitary purposes. We shall conserve animal drinking water, where possible, by the use of animal activated drinkers.

8. WHY KANSAS

Having identified the project we have spent many months seeking the right location.

Over the last two years we looked several times at N. Carolina, Kentucky and Indiana but finally elected to site the project in Kansas for the following reasons:

- (1) The K.D.E.D. in Kansas have actively pursued this project and have been an enormous help to us already, and we hope they will continue to be of help during the establishment of the project.
- (2) Kansas has a low pig population and we will not be in a major competitive situation with other producers.
- (3) We believe that the Kansas agricultural community would be highly receptive to an agricultural project of this nature. We anticipate no problem in finding skilled farm labor for our project. We are companies whose roots are in agriculture in the U.K. and U.S.A. respectively and we feel comfortable about coming to Kansas.
- (4) We plan to be major users of grain crops grown widely in Kansas and this project would present greater marketing opportunities to local farmers.

We sincerely would like to see ourselves as a part of the future here in Kansas. We are committed to advancing the interests of Kansas as a leading agricultural state and we believe that our presence here will foster and create substantial employment and business opportunities for the many citizens of this State.

Thank you very much for your time.



Aerial View of a Typical 1100 Sow
Farrow to Finish Hog Unit



View of Typical Building Construction



Internal View of Building to show Type of Equipment that could be Constructed by Local Manufacturers