

Approved February 24, 1988  
Date

MINUTES OF THE \_\_\_\_\_ COMMITTEE ON Select Committee on Corporate Farm Law.

The meeting was called to order by Senator Allen at \_\_\_\_\_  
Chairperson

4:16 ~~XXX~~/4:16 p.m. on February 16, 1988 in room 123-S of the Capitol.

All members were present except: Representative Roenbaugh (excused)

Committee staff present: Raney Gilliland, Legislative Research Department  
Jill Wolters, Revisor of Statutes Department

Conferees appearing before the committee: Roy Poage, President, DeKalb Swine Breeders, Inc.  
DeKalb, Illinois

David Riley, DeKalb employee, Plains, Kansas  
Linda Uliphant, DeKalb employee, Plains, Kansas  
Warren Fox, grain producer, Plains, Kansas  
Rusty Chase, President, Plains Manufacturer, Plains  
Kansas

Bob Deacon, small swine producer, Plains, Kansas  
Raymond New, President, Plains State Bank, Plains,  
Kansas

Richard Linton, Industrial Development, Osborne,  
Kansas

Senator Allen called the committee to order to hear about the DeKalb Corporation and other proponents of corporate involvement in Kansas. The Chairman called on Roy Poage to speak to the committee.

Mr. Poage explained why DeKalb started a swine production business in Plains, why they are going to expand, and why they would like to expand in Plains. Mr. Poage gave copies of his testimony and information to the committee (attachment 1).

During committee discussion Mr. Poage stated he believed hog production increased around Plains, after DeKalb, because if others see success others want to become involved also. He said DeKalb buys sorghum grains because a supply is near Plains and that DeKalb has learned how to feed it and they like it. Mr. Poage stated that hog numbers have to be present before there is a packing plant. He stated he felt that some hog decline was because some have found an easier way to make a living because raising hogs is hard work. Mr. Poage answered that West Texas farmers had gone to raising cotton instead of grain and that cattle feedlots have taken all the available grain and pig producers want to locate where the grain is available. Mr. Poage answered that DeKalb did not want to farm land; he stated that small producers need technical assistance. He also said that a swine business east of highway 81 in Kansas would need more acres because there is more rain than in Western Kansas. Mr. Poage said his corporation shares technical assistance with small producers for what it costs DeKalb; they go to the small producer and help him find his errors in areas such as disease control and how to build necessary buildings. He said some Chinese were coming to learn from DeKalb how to operate a confinement facility. Mr. Poage agreed that the present Kansas Corporate Farm Law keeps DeKalb from expanding at Plains right now. He said that DeKalb gives excess swine waste to neighbor farmers. Mr. Poage said they used to sell their cull pigs in Texas but now sell them in Mississippi. Mr. Poage answered that to be able to survive the ups and downs of market prices that very good management and the knowledge of all costs is essential.

CONTINUATION SHEET

MINUTES OF THE \_\_\_\_\_ COMMITTEE ON Select Committee on Corporate Farm Law  
room 123-S, Statehouse, at 4:16 ~~xxx~~ p.m. on February 16, 1988

The following from Plains made comments:

David Riley told he was a manager for DeKalb. He had lacked money to finance himself and DeKalb had given him a chance to manage, to work in the field he chose and doing what he wanted to do.

Linda Uliphant explained she was a manager of DeKalb's training farm where new employees learn about their jobs. She stated opportunities for women are scarce in agriculture but that DeKalb gives women as much opportunity as they do men. DeKalb offers advancements as well as health and insurance benefits to their employees. Ms. Uliphant stated that DeKalb offered her challenges that would never be available on a family farm.

In answer to committee questions, Ms. Uliphant answered that DeKalb did not discriminate against anyone, that many minorities work for them. She stated she felt Iowa should change their corporation law. She explained that no one is expected to lift something too heavy, that work is done by teams and thus lifting is shared.

Warren Fox explained he was a grain producer near the DeKalb swine business. He told that in the past he had shipped his grain crop to Texas but now sells 90 percent of his crop to DeKalb. He receives the swine manure from DeKalb to use as fertilizer on his fields and that is a good deal for him. Mr. Fox stated the manure smell is gone when it is plowed under and that it smells no worse than when wind blows across a lagoon.

In answer to committee questions, Mr. Fox stated he believed some hog producers in Meade and Seward County felt they could make more money with grain crops which they could sell to DeKalb so they gave up their hog businesses. He said DeKalb pays twenty cents over local market for the grain they buy.

Rusty Chase explained that DeKalb is a good neighbor for Plains and the State of Kansas. DeKalb being in Plains has helped home rentals, has been a good customer for manufactured products of the area, has provided tax dollars, has been a positive influence on all businesses in Plains and in turn DeKalb has helped the economy of Kansas.

Bob Deacon explained that he worked and learned about the swine business from DeKalb as he worked for them ten years. At that time he started a swine production business for himself. He stated that DeKalb had taught him how to manage, how to feed swine nutritionally which makes for a successful business. Mr. Deacon said he felt some producers went out of business because they were poor managers. He said swine producing corporations were not his competition but that poultry and beef were his competition. Mr. Deacon stated that the Pork Producers Council, not corporations, had done a good job of promoting pork.

In answer to committee questions, Mr. Deacon said he did not know if others had gotten started in swine business like he did and that he markets his pigs in Brush, Colorado. He said he did not know if Kansas changes its Corporate Farm Law if pork production would shift to Kansas from Iowa, but that he favored free enterprise. He said he was against foreign investment in our country.

Raymond New expressed support for Corporate Farm Law change so that DeKalb might expand to meet their demand for more breeding stock. Mr. New expressed support for DeKalb because of their contributions to the community of Plains. He encouraged legislation to allow DeKalb to expand so as to prevent their expanding in another state. He stated that DeKalb had caused no farmer near Plains to go out of business.

Richard Linton gave copies of his testimony (attachment 2) to the committee. Mr. Linton expressed support for change in the Corporate Farm Law and stated that Osborne, Kansas, would welcome a chance for new business and employment that a corporate swine business would provide.

The Chairman adjourned the committee at 5:43 p.m.

GUEST LIST

COMMITTEE: Select Committee on Corporate Farm Law

DATE: February 16, 1988

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Harry Salisbury	Topeka	KOOC
David Riley	Plains	DSB
Linda Miphant	Plains	DSB
Mark A Verhoff	PLAINS	DSB (DEKALB SWINE)
WENDELL FOX JR	PLAINS	FARMER
WARREN F FOX	PLAINS	FARMER
Gerald W. Fice	Plains	Farmer
Mrs Mrs. Harney Cornell	Plains	Cornell Bros Transport.
James Erbes	meade ks	Mayor of City of Meade
Boyd King	Meade	Banker
REUBEN L. JEANE	MEADE	CMS ELECTRIC COOP
Raymond C. New	Plains, Ks	Banker
John Lee	Plains Ks	DSB
STEVE SUTTON	PLAINS KS	DSB
Rusty Chase	Plains Ks	PLAINSMEN MKT., INC PLAINS BUSINESS ASSOC
Luann Fruechtling	Plains Ks	Farmer
Sharon Houston	Meade, ks	Chamber of Commerce
CURTIS BOOS	Kismet Ks.	DEKALB SWINE BEDS
Mary Faust	Kismet, Ks	De Kalb
Jane & Ed	Kismet-Plains ks	DeKalb Swine
Mrs Mrs. Ron Eakes	Plains, Ks	Mid-Plains Const. Inc.
Joel Phelps	Kismet - Plains KS	DeKalb Swine
Mike Daiss	Plains, KS	DeKalb Swine
Del Jacobsen	Hays, KS	IRLC - KS ECAM, M.
Allen Mead	Kismet Ks	DeKalb

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February 16, 1988

TESTIMONY BEFORE  
KANSAS LEGISLATURE

Mr. Chairman and members of the select committee on the corporate farm law.

My name is Roy Poage and I'm president of DEKALB Swine Breeders, Inc. I've been asked to come here to answer some specific questions and set the record straight on DEKALB's operations in southwestern Kansas.

However, I need to inform you about DEKALB's plans. DEKALB is going to build more hog farms whether Kansas changes the corporate farming law or not. If we can't build in Kansas, we will have no other choice, but build somewhere else. We have to increase our production to meet the demand we have for our breeding stock. We are supply restricted. We can sell more breeding stock than we can presently produce.

I. Outline of DEKALB's operations in Kansas and the U.S.

Let me briefly give you the location of DEKALB's breeding stock locations throughout the U.S.

1. DEKALB has four research farms near DeKalb, Illinois.

attachment 1  
2-16-88

2. We have Genetic Evaluation breeding stock sales facilities located in Nebraska, Minnesota, Iowa, Illinois, Missouri, Indiana, North Carolina and Georgia.
3. All of DEKALB's foundation farms are located near Plains, Kansas. We have eight farms near Plains that produce all the boars, GP females and about 30% of the hybrid gilts we sell.
4. We have two farms near Lubbock, Texas for research and production.
5. We have crossing farms throughout the hog belt of the U.S. producing about 70% of the gilts we sell.
6. We sell breeding stock in Mexico, Canada, Venezuela, Dominican Republic, Ecuador, Japan, China, and Thailand. About 15 to 20% of the profit of the company comes from our international business.
7. Ninety eight percent of the breeding stock that is produced and sold by DEKALB is sold outside the state of Kansas either internationally or in other parts of the U.S.

II. What consideration do we give when contemplating locating in a particular state?

DEKALB intends to locate production facilities in progressive agriculture states. States that nurture and promote agriculture rather than restrict the growth of agriculture units. Since we are a corporation, a state's posture on corporate farming is of paramount importance, because the development of hog production takes infusions of patient money. Corporate structures whether it is from farmers and businessmen forming a corporation or other types of corporations are one of the few entities that can provide the type of capital necessary to build a viable hog production industry. DEKALB decided to come to Kansas in 1972, because Kansas appeared to be a progressive, agricultural state. Our observations were that Kansas would do everything within its' power to promote the development of its' agriculture economy. At least we never imagined it would pass laws to restrict it. We knew about the tremendous growth of the cattle feed lots in Kansas since their inception in the 1960's and we felt hog production could be developed in a similar manner. It was our observation that Agriculture is Kansas' natural resource. We had no indication in 1972 that Kansas would do something to prevent the development of its best natural resource. Kansas doesn't have large oil fields, great deposits of minerals, it doesn't have a sea port, it doesn't have a large labor force necessary for large scale manufacturing. Kansas has agriculture as a natural resource.

III. Economic advantages or disadvantages of locating large swine confinement facilities in Kansas.

When compared to other states Kansas has the best combination of favorable factors for commercial hog production.

1. Kansas has a good climate for hog production. It has a more moderate temperature and is drier than the corn belt states. Both of these factors favor production efficiencies.
2. There is an excess of grain in Kansas and it appears there will be a surplus of grain in Kansas for many years to come. It produces grain, sorghum, wheat, corn and barley. All can be fed to hogs. Grain can be shipped out of the state or it can be used to produce value added products to bolster the state economy.
3. The biggest disadvantage of locating a swine facility in Kansas at the present time is the uncertainty about the state legislature being willing to support and nurture the development of agriculture in Kansas. Kansas could be a major state in hog production in the years ahead but it must take a progressive stance towards animal agriculture. Restructuring of the swine industry will continue for another 25 - 30 years. If Kansas is going to be included in that restructuring, it has to promote the advantages of



Kansas for hog production. Most people don't realize the advantages of hog production in Kansas. The question that we have asked the most since we decided to locate here in 1972 is; why are DEKALB Swine facilities in Kansas? DEKALB has promoted Kansas as a hog producing state ever since we located here. As a result I believe more people within and outside of the state are becoming more aware of Kansas' potential for hog production.

IV. What statutory changes would you believe be necessary in order for your company to build more facilities in Kansas?

Before we will expand in Kansas or before we would relocate any of our research or production facilities in other states in Kansas, we would have to feel the political environment in Kansas is and will be favorable to all of agriculture, large and small. Of course there has to be a change to the corporate farming law to allow land purchases for the production of pigs. The current law will allow the purchase of land to feed hogs but it will not allow for the breeding and production of pigs. Because of disease problems and other management factors, it isn't possible or practical to build a swine industry on feeder pig operations. The most efficient producers have farrow to finish operations.

V. What types of incentives do you believe the state can offer or make available in order to make swine production in Kansas a larger industry?

1. Kansas has to project an image of being a progressive agriculture state in which the legislature will not unduly or unjustly restrict growth of agriculture units large or small. If the swine industry in Kansas is to become a sound, thriving industry it is going to require a constant infusing of capital over many years from those who will participate, be it farmers or corporations. Farmers or any other participant will not invest their money in an uncertain political environment. Kansas farmers are not investing in hog production in Kansas. If there are any farmers in Kansas making a major investment in hog production, we don't know where they are. In fact the last five years have been the most profitable in the history of hog production. During that period 1400 farmers quit producing hogs in Kansas.
  
2. I don't believe there is any special economic incentives that you have to offer because Kansas has the natural resources for the development of a large swine industry. We didn't locate here because of IRB's and the benefits attached to it. We didn't get in the swine business because of any federal tax breaks. We are in the swine business because we feel it has a great future because many farmers don't want to raise hogs or breeding stock anymore. The trend in the swine

industry for the past 40 years has been to fewer and larger farms. We believe this trend will continue for the next 20 - 30 years. In 1954 there were 2.4 million hog producers in the U.S. Today there are 350,000. Fifty-eight thousand producers have discontinued their hog operations in the last two years even though the last two years have the greatest profitability in hog production in history. No special economic incentives are necessary. Kansas has an environment for hog production.

VI. Do you believe, if Kansas were to permit large corporate swine operations to own agricultural land in its state that this would eventually attract swine processing facilities?

Large hog farms per say will not attract packing plants. It is going to take an increase in hog numbers in order to attract swine processing plants. The cattle processing plants in Kansas came after the cattle were being fed not before. I think the immediate concern is that there is for the only large processing plant left in the state of Kansas. If hog numbers decline any further, that plant will probably close. That one plant can kill most of the hogs produced in Kansas today. Wisconsin recently lost their last large packing plant. Producers are now trying to find a place to sell their hogs. Most will have to ship to Iowa or Illinois. The price of hogs in Wisconsin will decline and more producers will discontinue their operations. The same

situation has already happened in Georgia, Texas and Kentucky. At one time these states were in the top fourteen hog producing states.

#### VII. The restructuring of U.S. agriculture

U.S. agriculture is changing and has been changing since the 1920's. In 1940 25% of the U.S. population lived on farms. Today less than 5% of the U.S. population lives on farms. Just recently the census bureau stated there are 4,986,000 people living on farms in 1987, 240,000 fewer than in 1986. This is the smallest farm population since farm census records have been kept. The Census Bureau estimated that the last time there were fewer than 5 million farmers, was in 1820. The U.S. farm population grew to a peak of 32.5 million in 1916, and remained near 30 million until world war II when a steady decline began. This trend has not been disrupted and from all indicators will continue. Even the \$25 to \$30 billion government subsidy each year for agriculture has not and will not stem the exit of the population from the rural areas to the cities across this land. The continuing flow of people from farms to the cities is a reality that must be put into proper perspective. The federal and state governments attempts to create artificial barriers and artificial environments in order to keep people on farms have been failing for many years.

Corporations are not putting farmers out of business.

There is a misconception that corporate hog farms are displacing small hog farmers. I submit to this committee there is no verifiable evidence that this has happened or is happening. I submit to you that hog corporations have only taken the place of hog producers who have quit.

1. In 1959, there were 37,615 hog farms in Kansas by 1969 there were 19,784. 17,000 hog farmers discontinued their operations from 1959 to 1969. There were no corporations in Kansas during that period. Corporations didn't displace small hog producers in the 1960's nor are they doing it today.
2. Large hog corporations started after hundreds of thousands of producers discontinued their hog operations.
3. The corporations listed in the Kansas Inc. Study did not become large operations until the late 1970's after nearly 1.5 million hog producers had quit raising hogs in the previous 16 years.
  - a. Wendell Murphy was an Ag teacher and started on a small scale hog farm in 1960's. Wasn't big until the mid to late 1970's.

- b. Tyson started in the late 1960's. Wasn't big until the mid to late 1970's.
- c. Cargill started in the mid 1970's. Wasn't big until the early 1980's.
- d. National Farms started in the early 1980's.
- e. Carrolls' Foods started in the late 1960's. Not real large until 1980's.
- f. Sand Livestock started in the mid to late 1970's.
- g. Goldkist started in the mid 1970's.
- h. Hastings Pork started in the early 1970's.
- i. Agrivest started in the late 1970's.
- j. DEKALB started in 1971.

These companies including DEKALB farrow less than 3% of the pigs farrowed in the U.S.

The proper perspective of corporations roles in hog production is that they started only after over 1.5 million producers quit. Corporations didn't displace producers. Large corporate hog

farms didn't force small producers out. Corporations took the place of the producers who quit.

VIII. DEKALB's impact on southwest Kansas.

I would like to set the record straight on DEKALB's affect on hog production in SW Kansas. It has been called to my attention that information has been circulated to many of you about how DEKALB has displaced hog producers in southwestern Kansas. In the information I received was this statement "DEKALB's entrance into hog production in the mid-seventies in southwest Kansas has lead to the decline of other hog producers." That is simply not true. First of all one must compare what has happened in northwest, central and eastern Kansas as compared to southwestern Kansas before a true perspective can be established. We have made that comparison, which I will hand out.

DEKALB decided in 1972 to start production in southwest Kansas. So we took the inventory of hogs and pigs of the year prior to our decision so there is no influence by DEKALB on the numbers which was 1971. We compared the inventory of all hogs and pigs of 1971 to 1986. We used the inventory of all hogs and pigs on December 1st as reported by the USDA and the Kansas Crop and Livestock Reporting service. The inventory number of all hogs and pigs are the most accurate numbers available because the numbers are determined for a given date. The pig crop numbers used in the hand out that were circulated are inaccurate because

pig crop numbers are based on years and cannot be accurately verified for a given county or region. Inventory numbers can be verified because they are taken on a given date.

I understand this information has also been given to this committee, that DEKALB doesn't buy its' grain in Kansas and doesn't buy supplies locally. Again that is not true. About 80 to 90% of the two million bushels of grain we use is bought within a 20 mile radius of our farms near Plains. The remainder is bought from other parts of Kansas. Each year we purchase the following within Kansas:

* Grain -	\$3.5 to \$5 million
* Other feed ingredients	\$3 to \$4 million
* Labor	\$3 million
* Kansas natural gas and Kansas electrical power	\$1 million.
* Kansas trucking	\$.6 million.
* Equipment, supplies, building material and local contractors service	<u>\$1 million</u>
TOTAL	\$12 - \$14 spent yearly in Plains, Liberal, Dodge City, Garden City, Wichita, Lyons, Emporia, Gypsum and Kansas City.

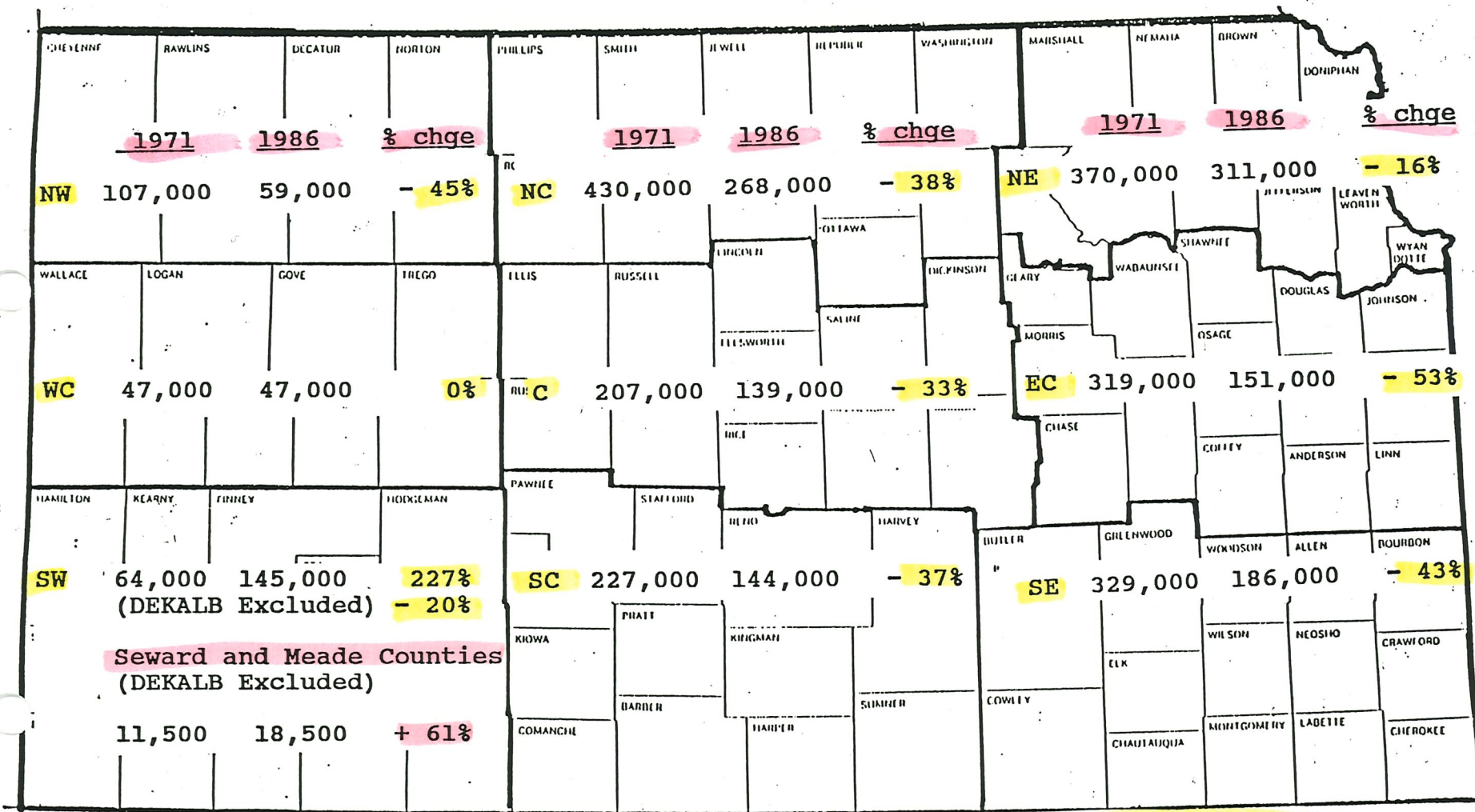
There are big expenses involved in breeding stock production.



DEKALB decided to locate its' facilities in Kansas in 1972 because we thought it was the best place to build a swine operation. I hope this information puts in perspective, the positive impact that DEKALB has had on hog producers in southwest Kansas as well as the state economy.

If you have any questions, I would be glad to try to answer them.

**INVENTORY OF ALL HOGS AND PIGS  
ON DECEMBER 1, 1971 VS. DECEMBER 1, 1986**



**TOTAL WESTERN REGIONS**

218,000    251,000    + 15%  
(DEKALB EXCLUDED)    - 28%

**TOTAL CENTRAL REGIONS**

864,000    551,000    - 36%

**TOTAL EASTERN REGIONS**

1,018,000    648,000    - 36%

	<u>1971*</u>	<u>1986</u>	<u>% change</u>
<b>TOTAL KANSAS</b>	2,100,000	1,450,000	- 31%

ALL HOGS AND PIGS ON DECEMBER 1ST

\* Highest inventory on December 1, of last 16 years.

CORPORATE FARMING LAW FACT SHEET

1. Decline of hog producers in Kansas.\*

	<u># of Producers</u>	<u>Change</u>
1959	37,615	
1969	19,784	- 17,831
1979	15,000	- 4,784
1987	6,900	- 8,100

\* SOURCE: U.S.D.A.

2. Decline in number of U.S. hog producers.\*

	<u># of Producers</u>	<u>Change</u>
1954	2.400 million	
1971	.870 million	- 1.530 million
1986	.348 million	- .522 million
1987	.332 million	- 16 thousand

\* SOURCE: U.S.D.A.

3. U.S. farm population decline.\*

	<u>Farm Population</u>	<u>Change</u>
1916	32.5 million	
1940	30.5 million	- 2.5 million
1986	5.23 million	- 25.3 million
1987	4.99 million	- 240 thousand

Last time U.S. Farm population was less than 5 million was in 1820.

\* SOURCE: U.S. Census Bureau

Richard Linton

February 16, 1988

Presented to the Select Committee on Farm Law

Gentlemen, I am here today to urge you to very seriously consider the adverse impact the current farm law has on economic development in the State of Kansas and particularly on the more remote areas of the state such as Osborne County.

This committee will surely hear a great deal of testimony about the swine industry in this state and the nation from experts in that field. I am neither a hog producer nor a swine industry expert. However, it is not necessary to be an expert to read reports. USDA reports clearly show total production of hogs in the nation has hovered around 90 million head per year for the last 3 to 4 decades. Those same reports also show that in the last decade or so Kansas' share of that total has slowly but steadily declined. This trend worries me. It is especially worrisome because this down trend is occurring during a time when the state's farm law is very protective of the small producer. Not being an expert, I simply ask "What will reverse this trend if the law is not changed?"

The report on a study conducted by Development International for Kansas, Inc. on this subject concludes in part: "The universal opinion of the research team and of others involved in the industry is, unless changed, hog/pig production in Kansas would continue to deteriorate at an accelerated pace..... A straight-line projection based on trends in recent years indicated the industry would essentially cease to exist as a commercial entity during the mid-1990's." I see no reason to disagree with the experts. I urge you to find your way through the emotions of this issue and accept the recommendations of the report.

As stated earlier, my main purpose in being here today is to address the economic development aspect of this issue. Small rural communities such as Osborne continue to suffer from outmigration and shrinking population mostly as a result of the rapidly changing agriculture industry. Our area produces as much total agriculture

attachment 2  
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product as it ever did. This production simply can now be done with a lot fewer people than it required a few years ago. We have accepted that this trend will continue unless we actively do something about it. We have worked hard to attract industry and other businesses to our area who would provide jobs and slow the population loss. To a small degree we have been successful but we have also learned that this is an extremely difficult and slow task and our odds for total success are small. We do not have a vast diversity of natural resources that might help attract a substantial industry to our area. We have hard working people, land and what the land will produce. These are the assets that we must build upon.

What community, faced with our problem, would ignore an industry willing to put a 25 to 50 million dollar investment in that community. An industry that would employ many of the people who will leave because of lack of employment. An industry who would increase the price received for grain produced in the area. In summary, an industry that needs the assets that the community has to offer, its primary natural resources. I think it is safe to say that the industry would not be ignored but rather it would be pursued vigorously. Furthermore, if this industry were classified as a manufacturer or material processor, the state would do all it could to help any community obtain it. But that is not the case here. This community is not so lucky because the industry best suited to their situation is classified as a "Corporate farm." Consequently, the state withholds its help and even worse, with its current law, will not allow it to be established in the community. The industry which is a natural for the community is not allowed.

Now, let us imagine what might happen if these laws were changed and this community were successful in its efforts to attract this industry. Let's further imagine that this industry builds its facility along the lines of its other facilities in other communities in other states. That operation would locally purchase its feed grain typically increasing the proceeds that the grain farmers in the area

realize from their crops by several thousands of dollars. Typically, it would employ more than 100 people and, according to the Institute for Economic and Business Research at the University of Kansas, 100 new jobs will: Create another 458 new jobs, produce \$5,900,000 more a year in personal income, add \$3,100,000 in bank deposits, and create the need for nine new retail establishments. These 100 jobs would also generate \$3,200,000 in additional retail sales annually, generate \$200,400 in additional property taxes per year, \$370,000 more in yearly service receipts, and increase housing demand in this community.

It sounds almost too good to be true but the proof can be seen in the healthy economics of the other communities in the other states that are fortunate enough to have already attracted one of these modern facilities.

But let's not stop here. Let's imagine that this community works hard enough to attract more than one of these facilities. Let's further imagine that some of the neighboring communities are successful in obtaining one or more facilities. Is there any reason to think that the hog industry cannot mirror and become as big a success story as the beef industry in Kansas? There is one reason and that reason is the present corporate farm law. We are not asking for state financial aid or expensive programs. We are asking for an opportunity. Change that law and you will give every community like ours the opportunity to thrive. I assure you that the Osborne community will go after it.