Approved: Eugene L Shore 2-15-93
Date

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE.

The meeting was called to order by Chairperson Eugene Shore at 9:05 a.m. on February 2, 1993 in Room 313-S of the Capitol.

All members were present except:

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

Conferees appearing before the committee: Dr. Barry L. Flinchbaugh, K-State University
Dr. Ted Schroeder, K-State University
Dr. Michael Langemeier, K-State University
Tim Rose, Lyons, KS
Blake Waters, Bank IV, Liberal, KS
Keith Allen, Kismet, KS
Chris Knobel, Greensburg, KS
Ron Alexander, Plains, KS
Dan Massoni, Kismet, KS
Melvin Stanford, Admire, KS

Chairman Shore called the meeting to order and told committee members that the minutes of January 26, 27, 28 and 29, 1993 had been distributed and will be considered approved unless corrections are received by Tuesday, February 3, 1993 at 5:00pm.

Hearings for proponents opened on **HB 2069: Allows corporate swine production facilities to operate in Kansas**.

Dr. Barry L. Flinchbaugh, Professor and Extension State Leader, Agricultural Economics, K-State University, made an opening statement on the economic consequences of corporate hog farming, attachment #1, and introduced Dr. Ted Schroeder and Dr. Michael Langemeier who would assist him in responding to questions. Key points of Dr. Flinchbaugh's statement are: 1) He is addressing the economics of the issue and not supporting or opposing the issue. 2) Nationally, there is increased integration between producer and processor through contracting and corporate ownership. 3) His professional judgement is that contracting will help preserve the family farm rather than destroy it.

Representative Swall asked about the nature and quality of jobs that would be created if corporate farming is allowed. Dr. Flinchbaugh responded the jobs would not be dissimilar to some jobs now associated with hog farming and also related packing plant jobs. As quality is subjective, Dr. Flinchbaugh did not address that issue. Responding to Representative Swall's question about long-term job development, Dr. Flinchbaugh stated that by evidence of the meat packing industry in southeast Kansas, there is long-term job development.

Discussion continued comparing the U.S. hog market shares of Kansas, North Carolina, Nebraska and Iowa. (Included in attachment #1.) Dr. Flinchbaugh pointed out that Nebraska increased about 18% and North Carolina almost doubled. He also noted that Nebraska already had three packers when their law was enacted and Kansas has none. Hogs are being concentrated in larger units - that is economics at work irrespective of legal restrictions.

Representative Rutledge asked about the ratio of new jobs created by corporate farming to the number of small farmers no longer farmer. Dr. Flinchbaugh estimated a net negative - more farmers would be lost than employed by packers. He will provide additional figures on the top ten hog producing states as requested by Representative Rutledge.

Representative Rezac asked why Dr. Flinchbaugh thought the hog industry would be successful like the turkey industry and not go the way of broiler production. Dr. Flinchbaugh explained that broiler contracts were written in favor of the contractor and financing was hard to obtain. Turkey contracts are more conducive to the producer and local financing is more available. Representative Rezac asked how many of the current 5700 producers will be displaced by corporate farming. Dr. Schroeder clarified that any number of those 5700 could flourish, but the trend is for a larger size and decreasing number of producers. Producers that are not efficient will not exist in the future, regardless of the corporate farming issue.

Tim Rose, farmer, Lyons, KS, attachment #2, addressed the committee and stated the key word in the pork industry is "change". For the past year he has served as President of the Kansas Pork Producers Council and he believes the pork industry will see more functional integration where producers network and coordinate with each other, with feed suppliers and with pork processors.

Referring to a recent rumor that Seaboard would only buy contracted hogs, Representative Lloyd said he spoke with the Vice-President of Seaboard and was told this is not the case. Seaboard will buy hogs from pooling arrangements and from individual producers.

Blake Waters, Senior Vice-President, Agricultural Loans, Bank IV, Liberal, KS, attachment #3, clarified that support for **HB 2069** does not mean support for decreasing the survivability of the family farm. The family farm would benefit by being paid to care for corporately owned hogs or continue to own them and realize a higher net income from lowered freight expenses and operating costs. Mr. Waters also read a letter from Terry Coats, farmer, Plains, KS, who described his experience with DeKalb. (Included in attachment #3.)

Responding to questions from Chairman Shore and Representative Rezac concerning bank loans, Mr. Waters said his bank currently makes loans to individual producers. Loans above $1 million require additional procedures, but commitments can be made within 14 days. Security agreements would be the real estate mortgage on the facility and/or other assets.

Keith Allen, farmer, Kismet, KS, attachment #4, said he didn't think Kansas should try to work against national and global economic forces.

Chris Knobel, farmer, Greensburg, KS, attachment #5, described the trend in rural communities of the average population getting older and the farms getting larger and fewer in number. This has left a relatively small job base. Commercial hog operations could enhance the corn and milo supply, make better use of feed mills and add some additional jobs in the community.

Ron Alexander, Sales Manager, John Deere Dealership, Plains, KS, attachment #6, stated the pork industry will require more and more improvement in feed efficiency, number of pigs produced and carcass desirability. Corporate businesses have spent heavily in environmental and genetic research in which all producers can benefit.

Dan Massoni, farmer, Kismet, KS, attachment #7, said corporations in our state will help local economies by creating jobs, increasing the amount of feed grain products bought locally and supporting local merchants by buying food, clothing, housing and other essentials.

Melvin Stanford, farmer, Admire, KS, attachment #8, said the main problem with the swine industry in Kansas is marketing. Corporate swine operations will encourage production and offer a market.

The meeting adjourned at 10:55am. The next meeting is scheduled for February 3, 1993.

Statement Before the Kansas Legislature, House Agriculture Committee

February 2, 1993

Thank you, Mr. Chairman, members of the committee, I am Barry L. Flinchbaugh, Professor and Extension State Leader, Agricultural Economics at Kansas State University. Accompanying me today are Dr. Ted Schroeder, a member of our Research and Teaching staff who has done considerable research on the structure of the livestock industry, Dr. Michael Langemeier, an Extension specialist in farm management as it pertains to livestock production and Brenda Moore, one of our students who is doing an honors project on corporate hog farming. I will make an opening statement on the economic consequences of corporate hog farming and Drs. Schroeder and Langemeier will assist me in responding to your questions. Brenda is here observing as a learning experience.

First, let me make it perfectly clear that we are here at your invitation to address the economics of the issue, no more or no less. We are not here to support or oppose the status quo or to support or oppose any particular bill or constitutional amendment. The issue of allowing non-family farm corporations to own and operate swine production facilities or to contract with hog producers in Kansas is not just an economic issue. It is a social, legal and political issue. The social consequences are outside the professional domain of agricultural economists and can be addressed by sociologists. Likewise, so are legal questions which we will leave to the legal profession. The political consequences are also outside our domain and we will gladly leave those to you, our elected officials who are elected to make such tough decisions.

As I proceed, the economics of the issue will become very clear, but I



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ATTACHMENT #1

would remind you that economists do not make public policy because frankly they are not equipped to do so. If you don't agree with anything else we have to say, I suspect you will agree with that.

The state of Kansas represents 2.7% of the hog production in the United States. Bluntly put, in the national and international pork producing industry, what we do here is of little significance. We cannot determine the structure of this industry and what the Kansas Legislature does on this issue will have very little national influence. Those who wish to influence the structure of a national industry should talk to their Congressman (woman), Senators Dole and Kassebaum and Secretary Espy. If the state of Kansas elects to buck the national trends and attempts to pursue the status quo or revert back to a 50s style agriculture, we will lose market share. Our choice is whether or not to participate in a national industry that continues to increase integration between producer and processor through contracting and corporate ownership. Approximately 1/3 of U.S. agricultural commodities are marketed under contract integration and an additional 7% under ownership integration. If current trends continue and we would argue it is inevitable that they will, 2/3 of agricultural commodities will be produced and marketed under either contract or ownership integration by 2010. At least 3/4 of this integration will be contractual. Why do we say it is inevitable? First, our economic system is technology driven. Public policy never succeeds in reversing technology, it simply slows it down or decreases the pain of adjusting to it. This process is accelerated by the advent of the biotechnological-information age, the need for risk-assessed management and marketing and consumption patterns (fast food and microwaveable products) that require quality control, uniformity and orderly marketing.

The number of hog producers declined 40% in Kansas since 1983. The average size of Kansas hog operations increased 48% from 293 head marketed per operation in 1983 to 435 head in 1992. Comparable national figures are 46% decline in number of hog producers and a 91% increase in average size from 191 head to 365 head marketed annually. In 1991, the 1,100 largest hog operations in the U. S. (greater than 10,000 head) marketed 25% of all the hogs marketed. The percent marketed under contract increased from 12% in 1988 to 16% in 1991. From 1990 to 1991, of producers marketing more than 1,000 head annually, contractor hog production grew 20.7% while non-contract producers increased marketings 7.3%.

The Kansas share of U. S. hogs marketed declined 13% or 270,000 head since 1983. In North Carolina, where economics dictates structure rather than politics, market share increased 103% or approximately four million head since 1983. Comparable Nebraska figures are an 18% increase in market share or 1.4 million head. A case in point to back our contention that this issue is more than just economics.

The Kansas hog industry does not enjoy the immense benefits of a major packer and it will not under current law and structure. Any major packer will demand the opportunity to contract with hog producers, if not own hogs and hog production facilities. They will locate in the states that allow them to do so for reasons of quality control, uniformity, orderly marketing and cost containment which results in higher profit margins. What will a major packer bring to Kansas: (1) a larger market share, (2) a strengthened basis, (3) price premiums for local producers based on volume and/or quality, (4) more demand for feed grains and (5) jobs.

Finally, what is the bottom line? High cost producers in this highly competitive narrow margin industry aren't going to survive. Economies of scale in pork production and marketing are significant. If corporate hog farming is allowed in Kansas (ownership and/or contract), producers with low competitive per unit costs will find their bottom line increasing because a resident major packer will provide price premiums and the basis will strengthen.

If the status quo is maintained, Kansas producers will be less competitive and will face lower relative market prices. Even the low per unit producers will be at a competitive disadvantage to hog producers in those states where economics dictates structure.

It is our professional judgement that contracting will help preserve the family farm rather than destroy it. Contracting does change the decision-making prerogatives of the family farm enterprise, but it also allows it to take advantage of economies of scale in production and marketing such as capital acquisition and risk reduction. Thereby, affording family-based enterprises the opportunity to access other forms of business organization.

What is occurring in southeast Kansas in turkey production is a case in point. Those turkey production units under contract with a giant agribusiness conglomerate are affording the owner operator a net income from $15,000 to $25,000 per half-time unit of labor and management. Not too shabby by net income averages in Kansas for other crop and livestock enterprises. On the other hand, such results have been unobtainable to date in broiler production in Kansas.

The economics are clear. The sociology and politics are subjective. Attached to this testimony is a series of charts and data for your information. We would be pleased to respond to your questions. Thank you.

Table 1. Number of Hog Operations, Marketings, Marketings per Operation and Total Value of Hogs Produced in Kansas, 1980–1992.

| Year | Number of Operations | Hogs Marketed (1000 head) | Marketings per Operation (head) | Inventory Value of Hogs December 1 (1000 Dollars) |
|---|---|---|---|---|
| 1980 | 14000 | 3300 | 236 | $123,500 |
| 1981 | 13000 | 3069 | 236 | $111,510 |
| 1982 | 11200 | 2754 | 246 | $141,115 |
| 1983 | 9400 | 2758 | 293 | $88,275 |
| 1984 | 8400 | 2612 | 311 | $110,400 |
| 1985 | 8300 | 2636 | 318 | $99,560 |
| 1986 | 7000 | 2470 | 353 | $121,410 |
| 1987 | 6900 | 2289 | 332 | $102,225 |
| 1988 | 6500 | 2493 | 384 | $93,000 |
| 1989 | 6800 | 2598 | 382 | $109,475 |
| 1990 | 6000 | 2467 | 411 | $121,500 |
| 1991 | 5600 | 2469 | 441 | $92,950 |
| 1992 | 5700 | 2485* | 436* | $95,040 |

*KSU Projection
Source: USDA

Table 2. Annual Hog Marketings, Selected States and U.S., 1970–1992.

| Year | Kansas | North Carolina | Nebraska | Iowa | U.S. |
|---|---|---|---|---|---|
| | ----- | ----- | – (1000 head) ---- | | -------- |
| 1970 | 2721 | 2703 | 4972 | 20029 | 87049 |
| 1971 | 3375 | 3183 | 5952 | 22624 | 98636 |
| 1972 | 3293 | 2727 | 5203 | 20242 | 90486 |
| 1973 | 3084 | 2448 | 4766 | 18299 | 82329 |
| 1974 | 3186 | 2645 | 5263 | 18987 | 85933 |
| 1975 | 2442 | 2333 | 4411 | 16871 | 73627 |
| 1976 | 2617 | 2750 | 4576 | 18331 | 75747 |
| 1977 | 3077 | 2500 | 5007 | 20279 | 80939 |
| 1978 | 2974 | 2950 | 4949 | 19822 | 81271 |
| 1979 | 3305 | 3383 | 6282 | 21759 | 92499 |
| 1980 | 3300 | 3872 | 6602 | 23409 | 100651 |
| 1981 | 3069 | 3634 | 6143 | 23324 | 95986 |
| 1982 | 2754 | 3068 | 6017 | 23349 | 86972 |
| 1983 | 2758 | 3530 | 6026 | 22651 | 89168 |
| 1984 | 2612 | 3622 | 5903 | 22286 | 87344 |
| 1985 | 2636 | 3746 | 5629 | 22814 | 86731 |
| 1986 | 2470 | 3790 | 6073 | 21350 | 82895 |
| 1987 | 2289 | 4152 | 6348 | 20953 | 84249 |
| 1988 | 2493 | 4532 | 6656 | 22505 | 90476 |
| 1989 | 2598 | 5204 | 7048 | 22539 | 92553 |
| 1990 | 2467 | 5044 | 6917 | 21994 | 89373 |
| 1991 | 2469 | 5717 | 7313 | 22802 | 92293 |
| 1992* | 2484 | 7454 | 7401 | 23678 | 92648 |

*KSU Projections
Source: USDA

Table 3. Shares of U.S. Hog Marketings for Selected States, 1970-1992.

| Year | Kansas | North Carolina | Nebraska | Iowa |
|---|---|---|---|---|
| 1970 | 3.1% | 3.1% | 5.7% | 23.0% |
| 1971 | 3.4% | 3.2% | 6.0% | 22.9% |
| 1972 | 3.6% | 3.0% | 5.8% | 22.4% |
| 1973 | 3.7% | 3.0% | 5.8% | 22.2% |
| 1974 | 3.7% | 3.1% | 6.1% | 22.1% |
| 1975 | 3.3% | 3.2% | 6.0% | 22.9% |
| 1976 | 3.5% | 3.6% | 6.0% | 24.2% |
| 1977 | 3.8% | 3.1% | 6.2% | 25.1% |
| 1978 | 3.7% | 3.6% | 6.1% | 24.4% |
| 1979 | 3.6% | 3.7% | 6.8% | 23.5% |
| 1980 | 3.3% | 3.8% | 6.6% | 23.3% |
| 1981 | 3.2% | 3.8% | 6.4% | 24.3% |
| 1982 | 3.2% | 3.5% | 6.9% | 26.8% |
| 1983 | 3.1% | 4.0% | 6.8% | 25.4% |
| 1984 | 3.0% | 4.1% | 6.8% | 25.5% |
| 1985 | 3.0% | 4.3% | 6.5% | 26.3% |
| 1986 | 3.0% | 4.6% | 7.3% | 25.8% |
| 1987 | 2.7% | 4.9% | 7.5% | 24.9% |
| 1988 | 2.8% | 5.0% | 7.4% | 24.9% |
| 1989 | 2.8% | 5.6% | 7.6% | 24.4% |
| 1990 | 2.8% | 5.6% | 7.7% | 24.6% |
| 1991 | 2.7% | 6.2% | 7.9% | 24.7% |
| 1992* | 2.7% | 8.0% | 8.0% | 25.6% |

*KSU Projections
Source: USDA

Table 4. Number of Hog Operations and Percentage of Inventory by Size, Selected States 1982, 1987, and 1992.

| | | Operation Inventory* | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 1-99 head | | 100-499 head | | 500+ head | | 1000+ head | |
| State | Year | Oper-ations | Inven-tory | Oper-ations | Inven-tory | Oper-ations | Inven-tory | Oper-ations | Inven-tory |
| | | (%) | | | | | | | |
| Kansas | 1982 | 67.0 | 12.6 | 26.8 | 37.1 | 6.2 | 50.3 | N.A. | N.A. |
| | 1987 | 59.1 | 8.9 | 33.3 | 35.4 | 7.6 | 55.7 | N.A. | N.A. |
| | 1992 | 57.0 | 8.5 | 33.0 | 28.0 | 6.5 | 18.0 | 3.5 | 45.5 |
| North Carolina | 1982 | 92.7 | 15.9 | 4.6 | 13.5 | 2.7 | 70.6 | N.A. | N.A. |
| | 1987 | 86.6 | 7.6 | 7.0 | 9.4 | 6.4 | 83.0 | N.A. | N.A. |
| | 1992 | 80.0 | 2.0 | 7.3 | 3.5 | 3.4 | 4.5 | 9.3 | 90.0 |
| Nebraska | 1982 | 46.9 | 8.7 | 43.7 | 46.3 | 9.4 | 45.0 | N.A. | N.A. |
| | 1987 | 42.3 | 6.3 | 44.6 | 37.7 | 13.1 | 56.0 | N.A. | N.A. |
| | 1992 | 37.0 | 4.5 | 44.5 | 30.0 | 12.0 | 24.0 | 6.5 | 41.5 |
| Iowa | 1982 | 32.6 | 4.7 | 50.1 | 44.6 | 17.3 | 50.7 | N.A. | N.A. |
| | 1987 | 29.5 | 3.8 | 49.8 | 37.5 | 21.0 | 58.7 | N.A. | N.A. |
| | 1992 | 23.0 | 2.5 | 47.0 | 26.5 | 20.0 | 30.0 | 10.0 | 41.0 |
| U.S. | 1982 | 76.1 | 12.7 | 18.8 | 39.3 | 5.1 | 48.0 | N.A. | N.A. |
| | 1987 | 70.1 | 8.8 | 22.3 | 34.3 | 7.6 | 56.9 | N.A. | N.A. |
| | 1992 | 62.0 | 5.5 | 26.0 | 25.5 | 7.3 | 22.0 | 4.7 | 47.0 |

*In 1992 a larger size class of producers with inventory of 1000 plus head was added and the 500+ head category became 500 to 999 head.
Source: USDA

Table 5. Size Distribution of Hog Contractors, U.S., 1991

| Hogs Contracted Annually (head) | Percent of Contractors | Percent of Contract Production |
|---|---|---|
| Below 50,000 head | 97.5% | 49.5% |
| 50,000+ head | 2.5% | 50.5% |

Source: Rhodes and Grimes, University of Missouri

Table 6. Average Market Hog Prices for Kansas, North Carolina, Nebraska, Missouri, and Iowa, 1970–1991.

| Year | Kansas | North Carolina | Nebraska | Iowa | Missouri |
|---|---|---|---|---|---|
| | | | ($/cwt) | | |
| 1970 | 22.30 | 22.40 | 22.30 | 22.60 | 23.20 |
| 1971 | 17.70 | 17.20 | 17.10 | 17.50 | 17.40 |
| 1972 | 25.20 | 24.50 | 24.80 | 25.30 | 25.00 |
| 1973 | 39.10 | 37.90 | 38.50 | 38.60 | 38.10 |
| 1974 | 34.40 | 35.00 | 33.70 | 34.10 | 34.30 |
| 1975 | 45.00 | 46.40 | 47.10 | 46.20 | 46.60 |
| 1976 | 44.10 | 44.50 | 42.40 | 43.00 | 44.20 |
| 1977 | 40.00 | 39.10 | 39.40 | 39.60 | 39.70 |
| 1978 | 47.00 | 46.70 | 47.10 | 47.00 | 46.80 |
| 1979 | 41.90 | 42.30 | 41.90 | 41.60 | 40.90 |
| 1980 | 36.90 | 37.60 | 38.10 | 38.00 | 37.40 |
| 1981 | 42.80 | 44.00 | 43.70 | 43.80 | 43.20 |
| 1982 | 51.50 | 52.70 | 52.60 | 51.90 | 52.50 |
| 1983 | 46.10 | 46.30 | 46.90 | 46.70 | 46.70 |
| 1984 | 46.50 | 45.60 | 47.40 | 46.80 | 47.40 |
| 1985 | 43.00 | 44.70 | 44.00 | 44.20 | 43.90 |
| 1986 | 47.80 | 49.80 | 50.10 | 49.50 | 49.20 |
| 1987 | 50.10 | 51.30 | 51.60 | 51.90 | 50.70 |
| 1988 | 41.50 | 42.20 | 42.50 | 43.20 | 42.00 |
| 1989 | 41.20 | 42.20 | 43.10 | 43.20 | 42.10 |
| 1990 | 50.50 | 51.80 | 54.80 | 54.70 | 53.80 |
| 1991 | 47.30 | 47.20 | 49.40 | 50.50 | 47.90 |

Source: USDA

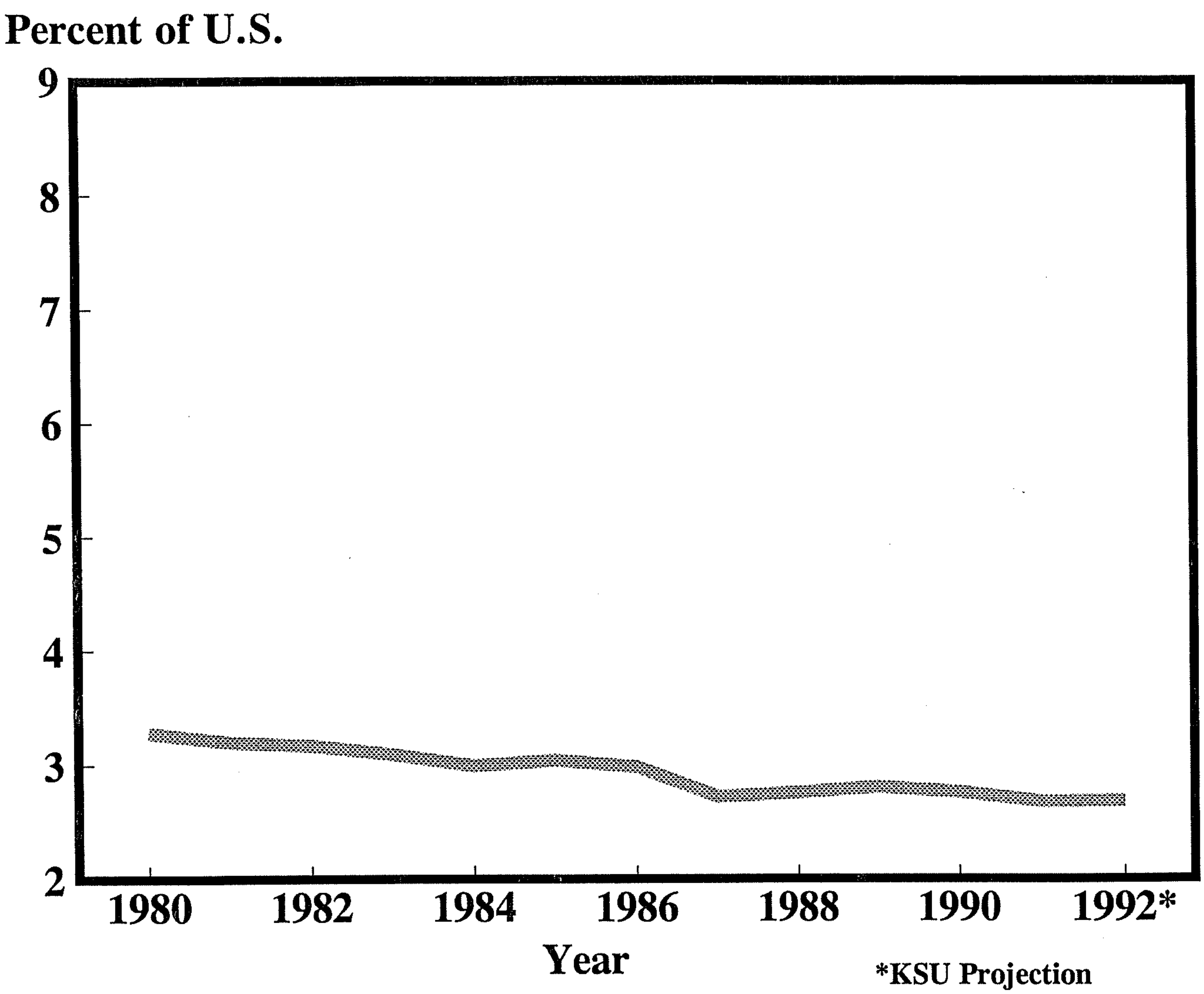


**Figure 1. Share of Hogs Marketed in Kansas, 1980-1992.**

Source: USDA

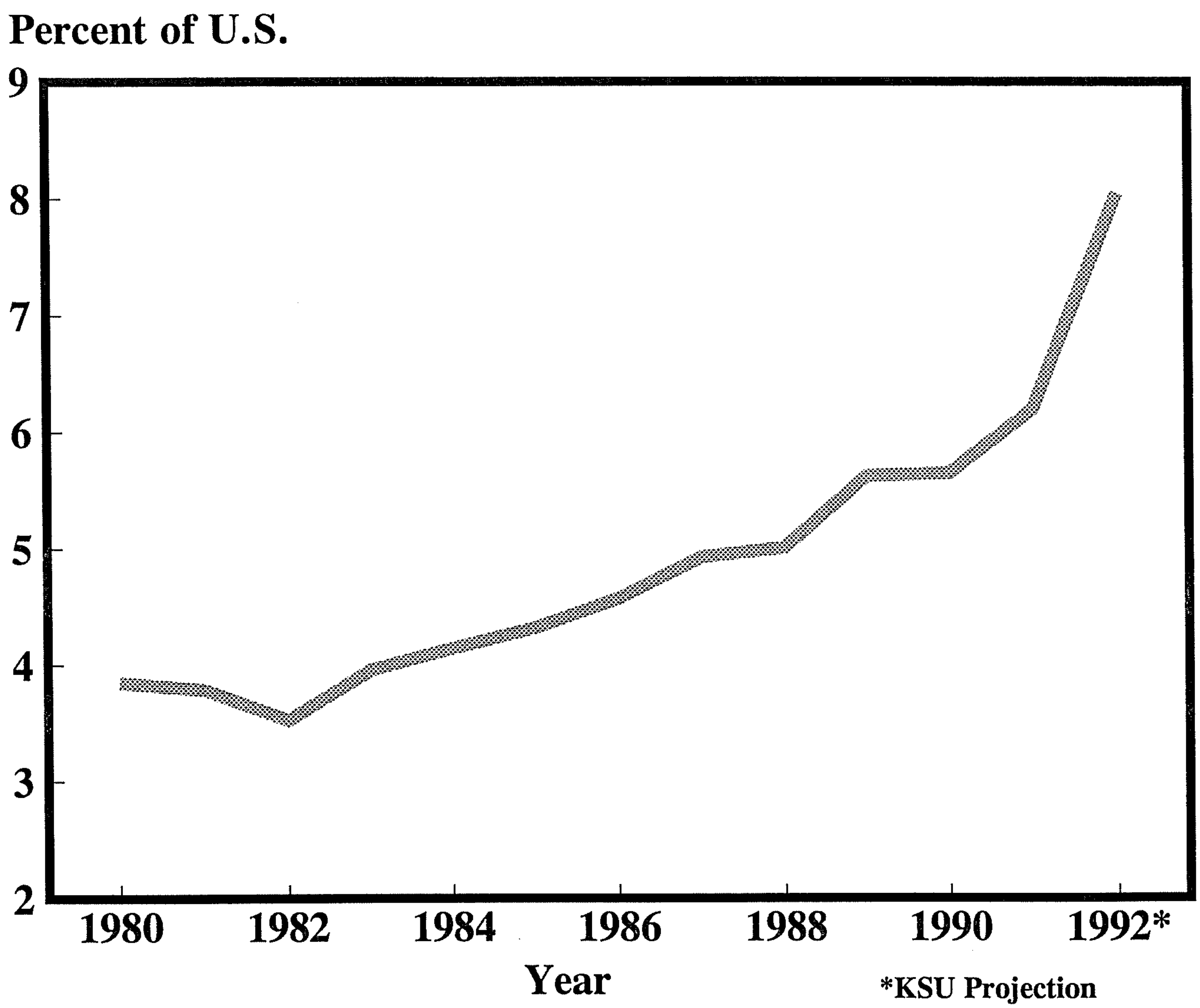


**Figure 2. Share of Hogs Marketed in North Carolina, 1980-1992.**

**Source: USDA**

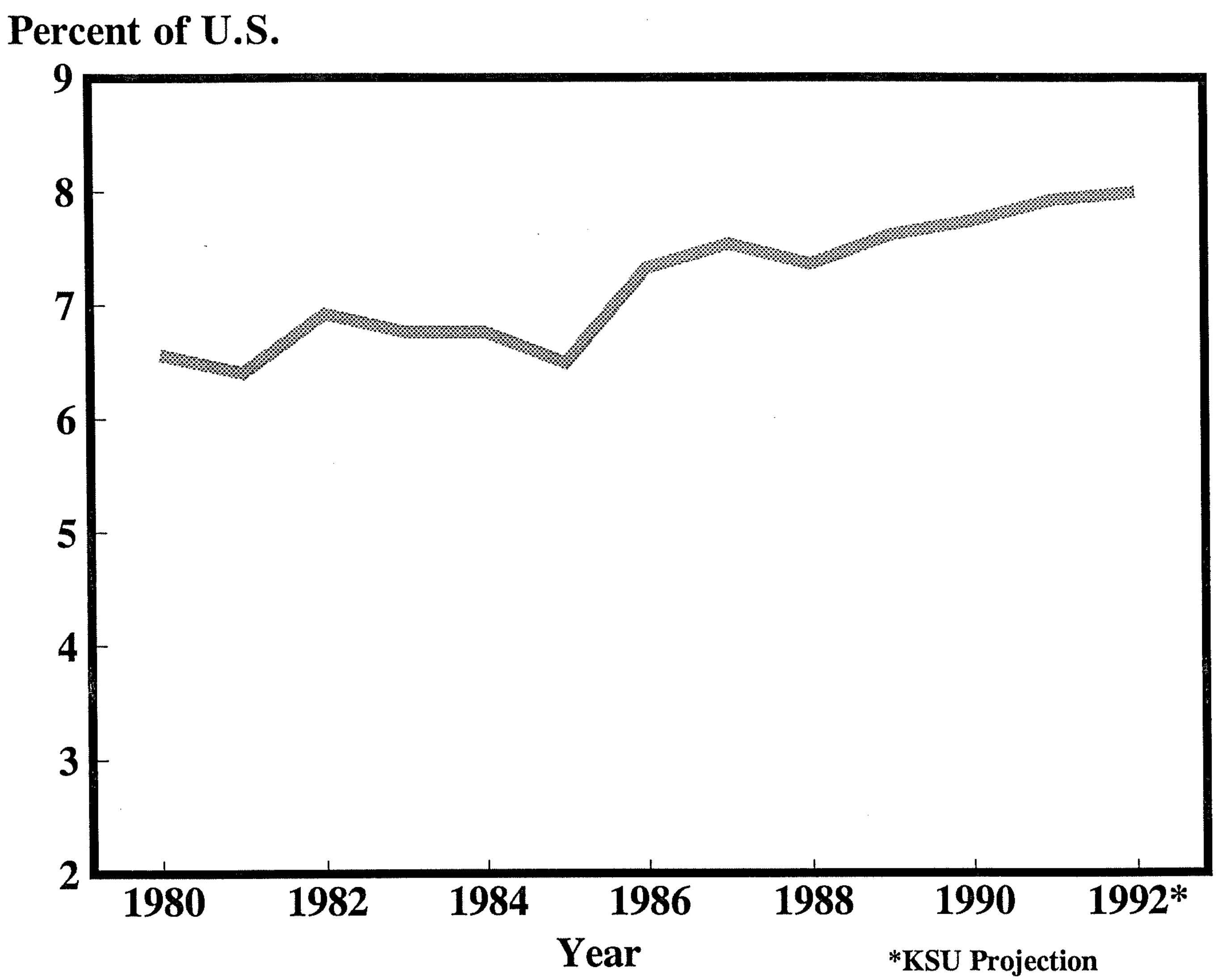


**Figure 3. Share of Hogs Marketed in Nebraska, 1980-1992.**

**Source: USDA**

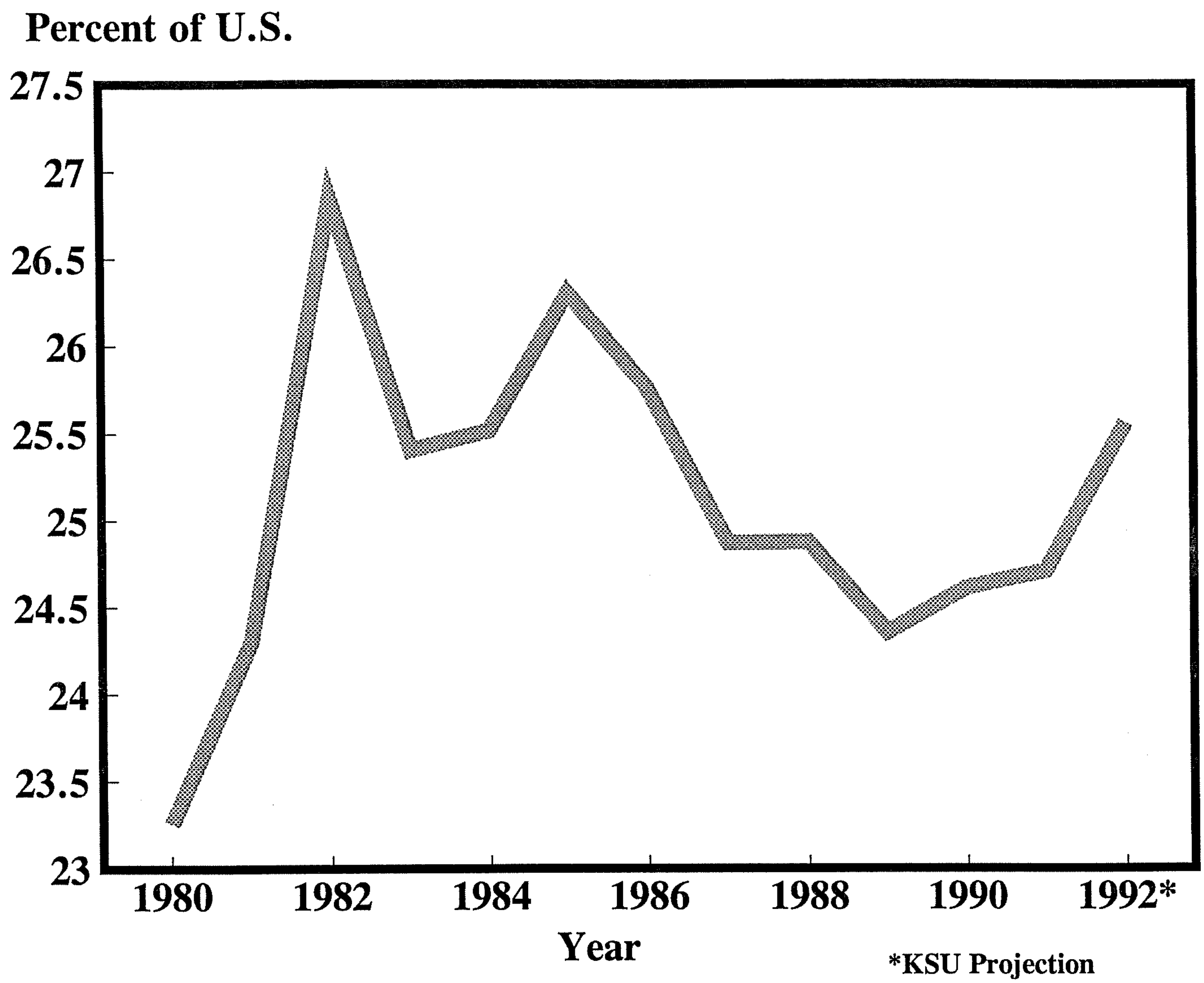


**Figure 4. Share of Hogs Marketed in Iowa, 1980-1992.**

Source: USDA

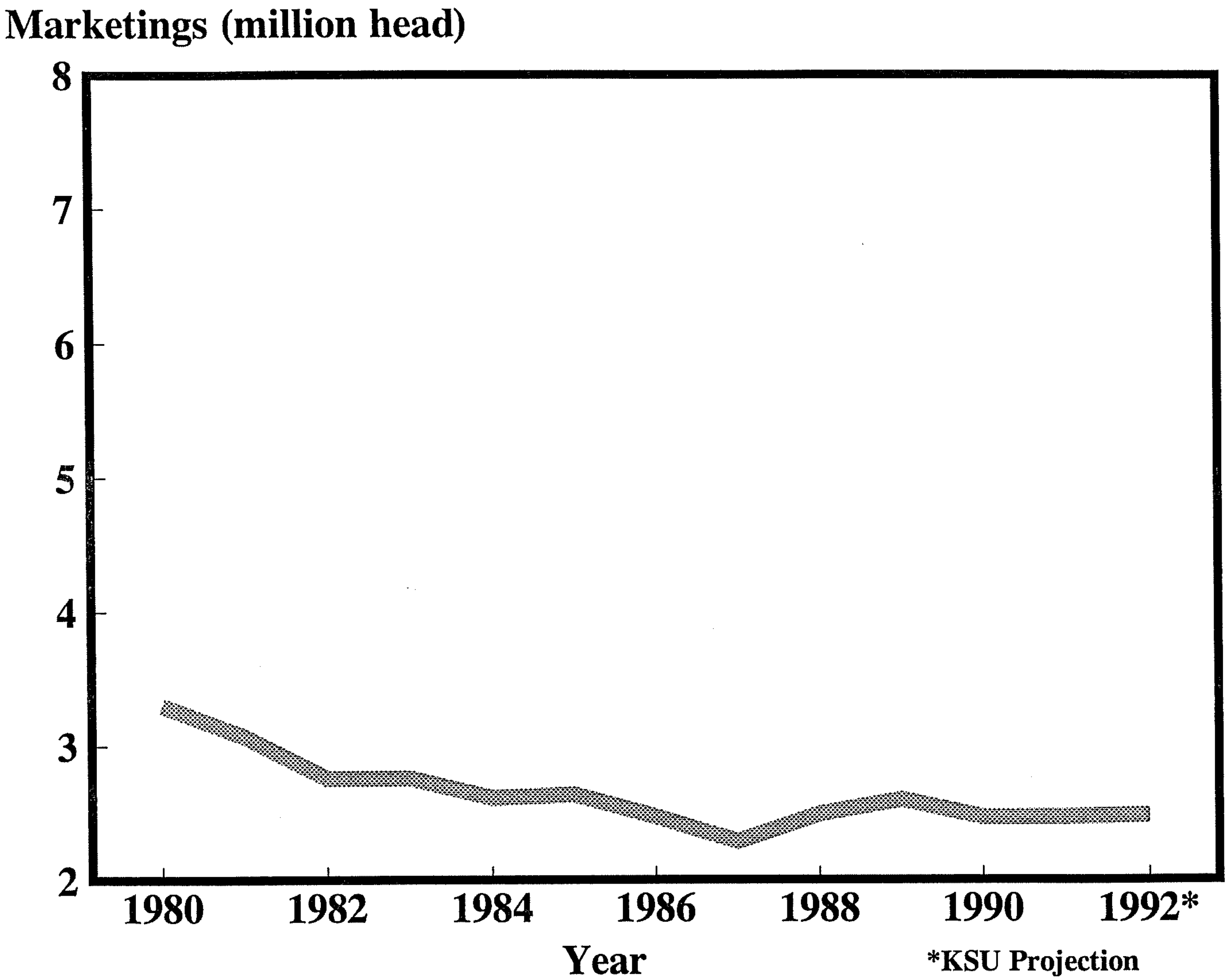


**Figure 5. Number of Hogs Marketed in Kansas, 1980-1992.**

Source: USDA

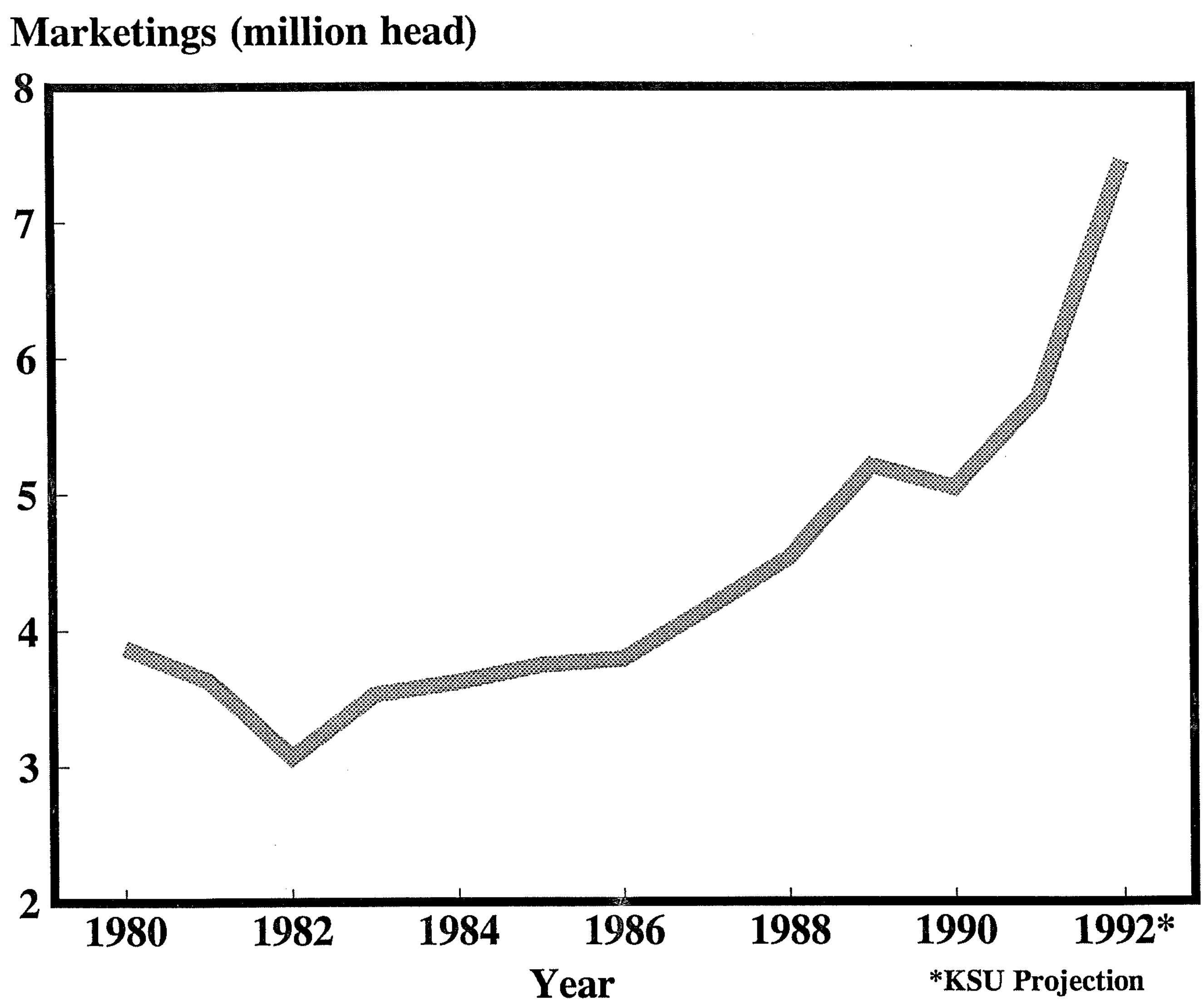


**Figure 6. Number of Hogs Marketed in North Carolina, 1980-1992.**

Source: USDA

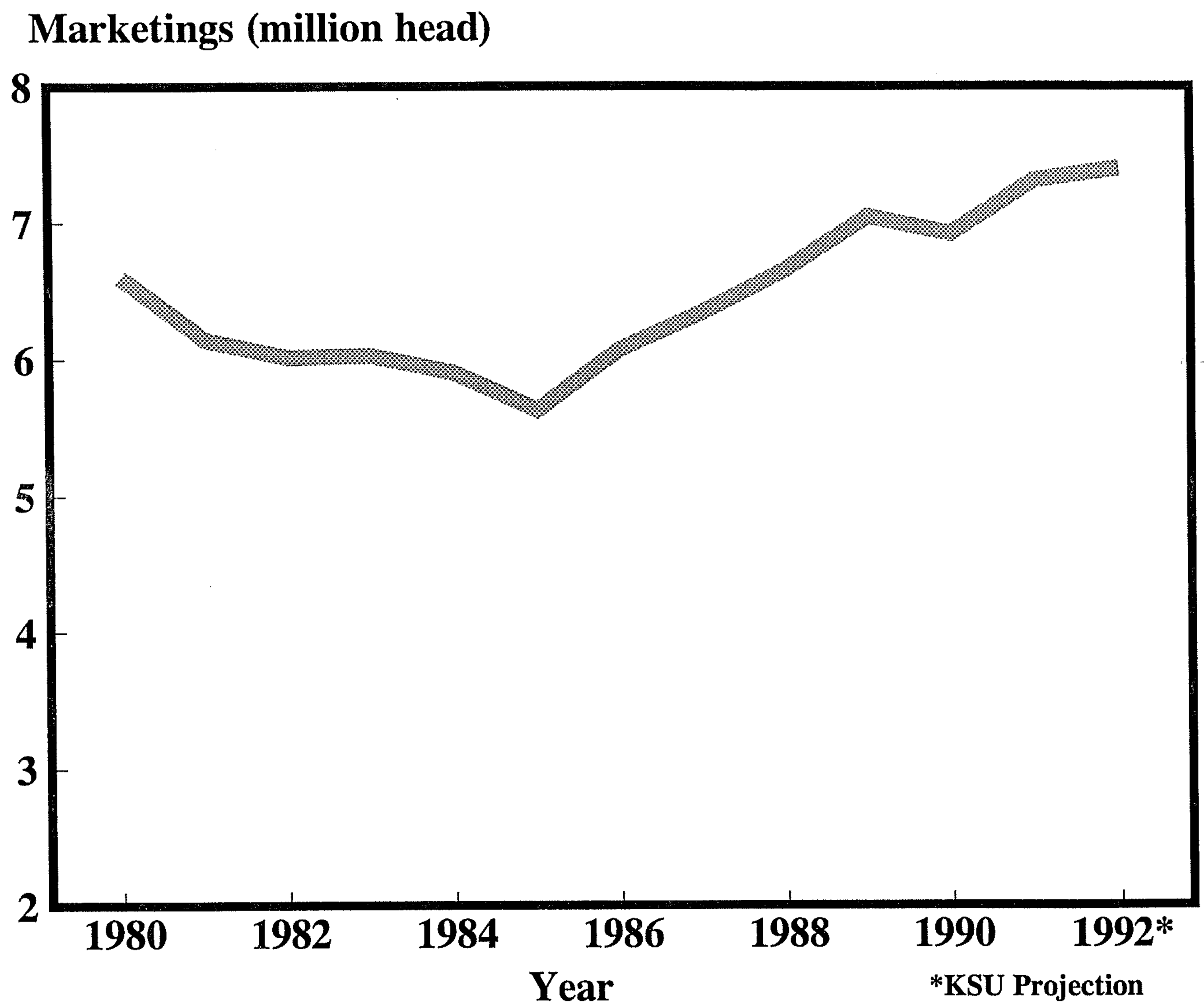


**Figure 7. Number of Hogs Marketed in Nebraska, 1980-1992.**

**Source: USDA**

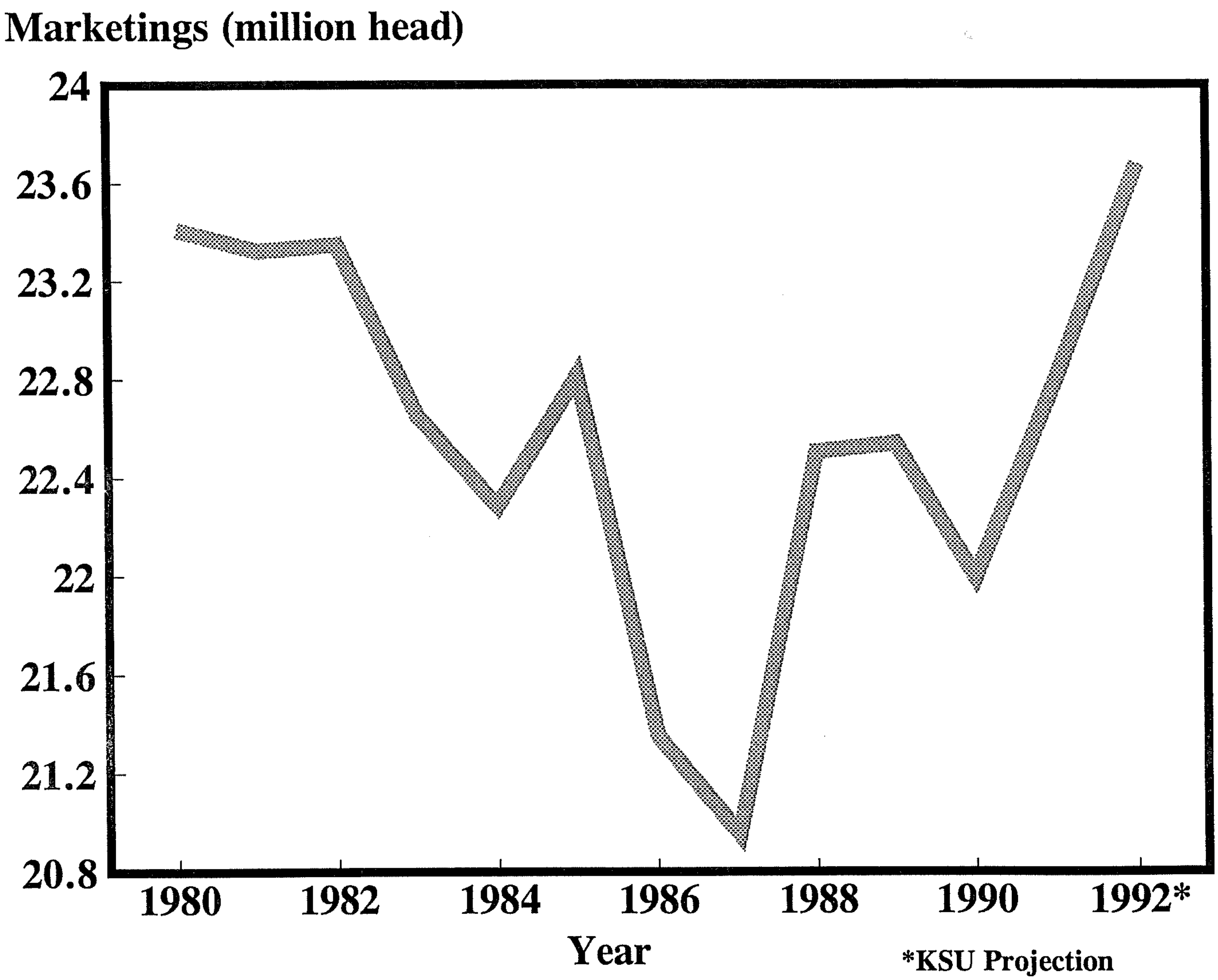


**Figure 8. Number of Hogs Marketed in Iowa, 1980-1992.**

**Source: USDA**

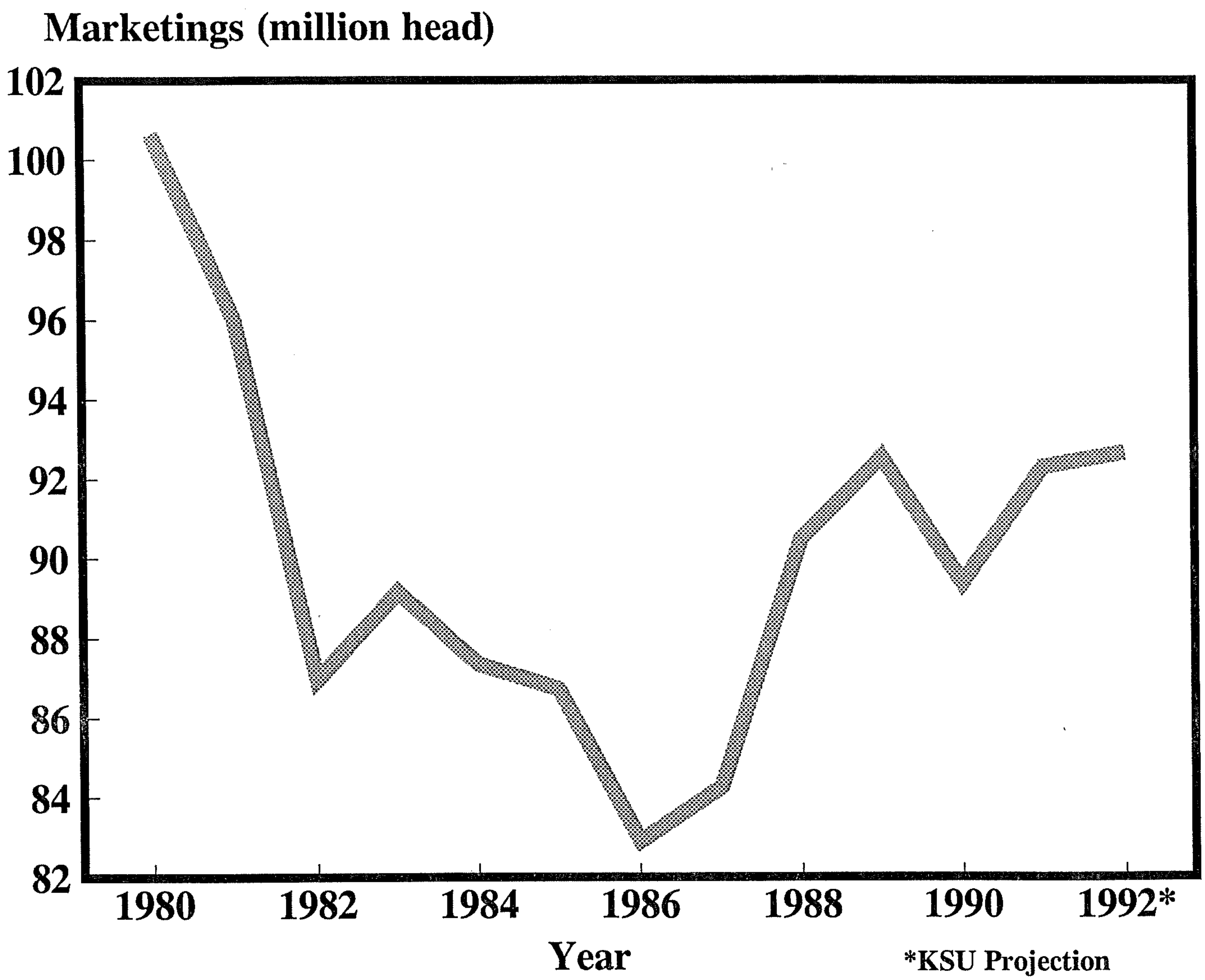


**Figure 9. Number of Hogs Marketed in the U.S., 1980-1992.**

Source: USDA

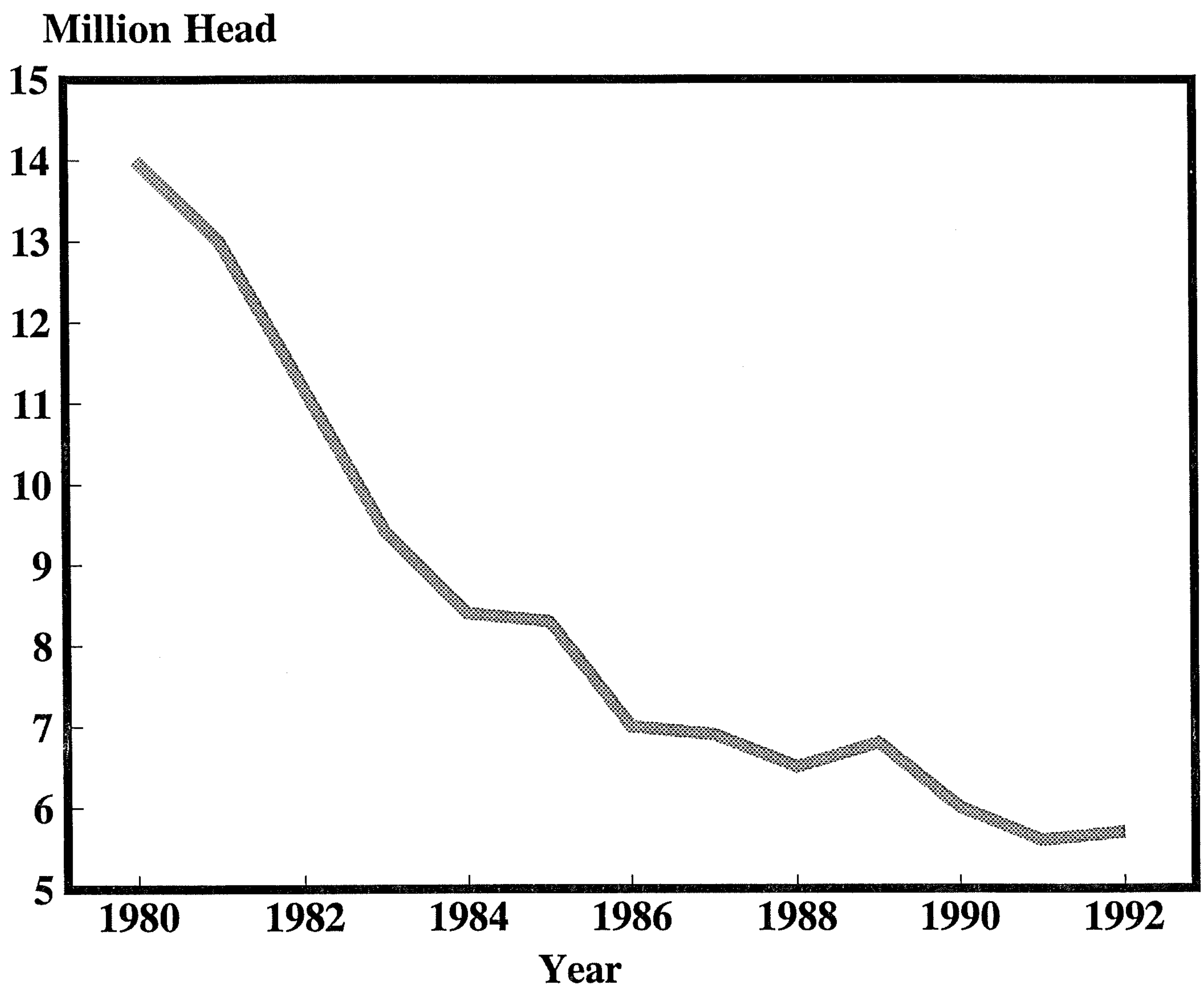


**Figure 10. Total Number of Hog Operations in Kansas, 1980-1992.**

**Source: USDA**

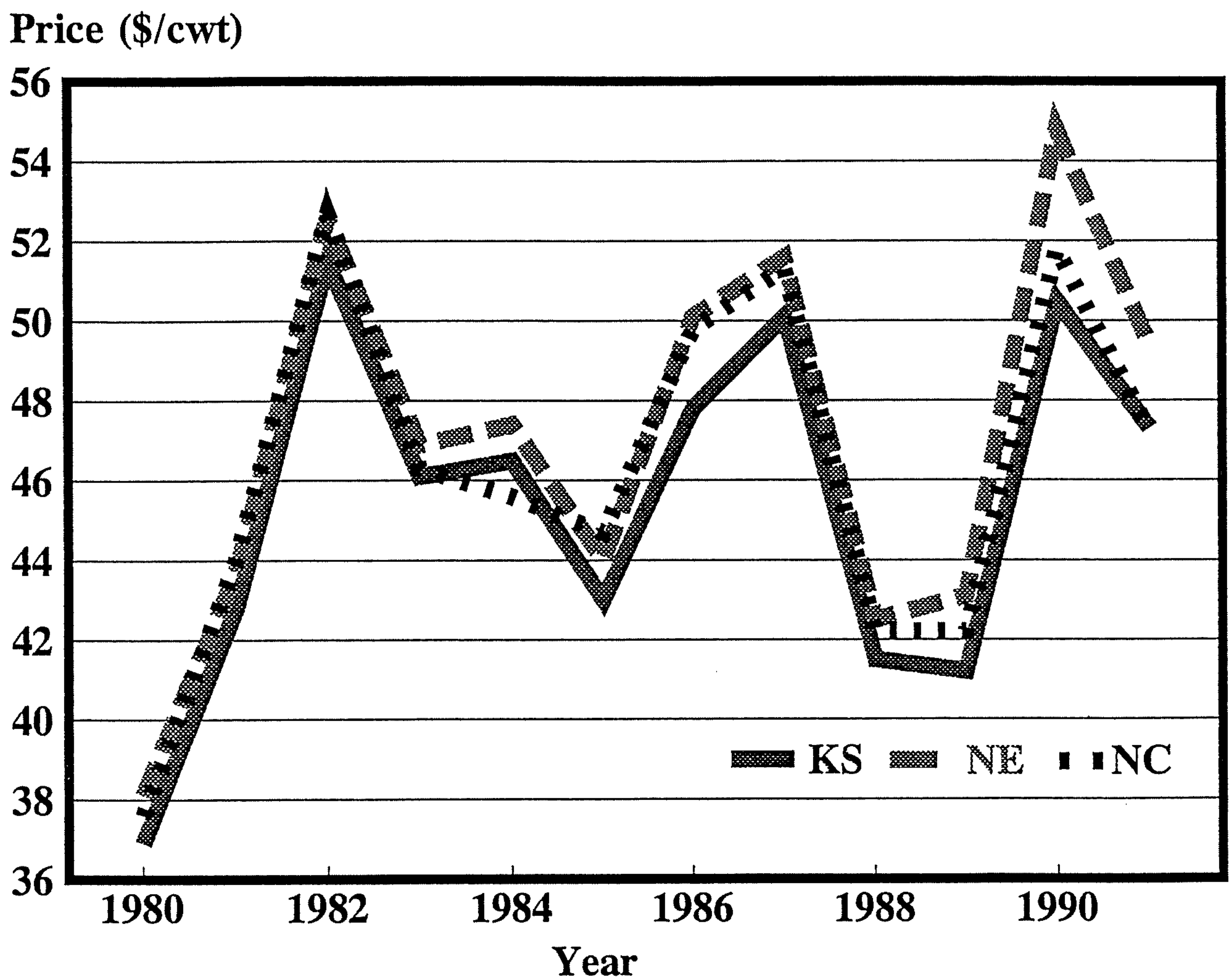


**Figure 11. Average Hog Price for Kansas, Nebraska, and North Carolina, 1980-1992.**

**Source: USDA**

# CHALLENGES IN THE U.S. PORK INDUSTRY

Presented by Tim Rose, Pork Producer
Lyons, Kansas
February 2, 1993

I am pleased to have this opportunity, to address current developments in the U.S. pork industry. My view of where we're headed can be summarized in one word. That word is <u>change</u>.

Let's take a look at what's happening at the farm level. Since 1970 we've gone from 871,000 hog operations to 256,000, a loss of 70%. Experts say we may lose another 30% in the next five years. By the year 2000 we will see less than 150,000 operations. But it's important to remember that we've been losing hog farms since the early 1950's, when around 3 million farms raised pigs.

Contract production is clearly growing, but still only represents about 15% of our output. About half of this contracting is being done by large companies, the other half is done by local feed companies, elevators and local business people.

From 1969 to 1991, the number of farms raising over 1,000 head grew from 6,600 to 30,000, an increase of 450%. These farms represent nearly 80% of the production, and about 16% of the producers. It's obvious that as producers we are becoming fewer in number, yet larger in size.



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I am often asked if our U.S. pork industry is going the way of the poultry industry with its totally integrated system, controlled by a handful of producers. In my opinion, I don't believe we are. For one thing, the capital requirements of a 250-pound hog compared to a two-pound chicken are significantly different. Some industry experts also believe that economies of scale can be maximized at around the 300 sow level. In addition, poultry integration was driven by the ownership and control of processing plants. Red meat packing companies so far have shown little desire to enter the hog raising business.

I believe we will also see more <u>functional</u> integration or networking. This will be characterized by producers who coordinate with each other, and other industry segments such as feed suppliers and pork processors. This will be essential in producing a high-quality product consistent with the end consumer's specifications. These cooperative efforts will include coordination of genetics and marketing functions. This will be a key strategy for efficient small and medium size producers to use to compensate for the economies of scale realized by the very large producer.

Another major challenge in U.S. pork production is the pressure to be more efficient. While the true average cost of production is an illusive number, records from Iowa State University indicate our break even cost in the corn belt is around $41 /cwt.

Although the U.S. is the least cost producer in the world, we have significant inconsistency within our industry. Some producers prosper, while others struggle. Our most efficient producers have production costs of around $35.00 per CWT, our least efficient need $47,00 per CWT to break even. Few industries allow this kind of variation for very long.

This illustration makes the point that until we repeal the laws of supply and demand, efficiencies will be an important part of pork industry structural change.

The geographic distribution of our industry is beginning to show some change. North Carolina is often the most mentioned example. North Carolina's production systems have been studied closely in recent years by almost everyone in the industry. That state's share of U.S. slaughter rose from 4.1% in 1982 to 5.8% in 1990, While North Carolina was ranked 14th among the states in pork production in 1961. It now ranks 6th. At the current growth rate of 5% per year, it will potentially rank #2 by the year 2000, just behind Iowa. This growth has been highly dependent of the expansion that has occurred in the packing industry in North Carolina in the last two years. Recently, a new Smithfield plant opened with the potential to process around 30,000 head per day, making it the largest in the world.

We're also beginning to see changes in some of the traditionally fringe hog states, such as Colorado, Oklahoma, and Texas. This is due in part to expansion by some of the large scale producers. National Farms, for example, is building an operation in Texas which will increase production of the state by over 30%. This trend is fueled in part by the desire to avoid debate over the environmental issues of manure disposal and odor, and a friendly business environment. The wide open spaces provided by these states is a major incentive. Just as North Carolina has learned to compensate for its great distance from the corn supply of our midwest, so too have producers in the fringe states. Unit train transport of corn, for example, from lowa to North Carolina can be achieved for around 50 cents per bushel. The message here is that there's nothing sacred about where hogs can, or cannot be produced.

Looking at our packing industry, consolidation also seems to be the trend. Our four largest firms now account for about 45% of total slaughter. This is an increase from about 36% just five years ago. Four percent of our plants account for 85% of the slaughter. Our four leading firms are IBP, Monfort (Con Agra), Morrell, and Excel (Cargill). In 1984 the largest firms were Wilson, Swift Independent, Morrell, and Hormel. The fact that only one of these big four firms from 1984 is now in the top four is indicative of the changes we're seeing.

A joint venture plant in Indiana, owned by Central Soya and

Mitsubishi, is also a concept worth watching, namely the continued globalization of the pork industry. Tyson Foods is also now a player in the pork slaughtering business. We can expect to see even more change as plants are built to follow the hogs, and the market opportunities, as is the case in Oklahoma and perhaps in Utah.

As you can see there are many factors that will affect our future direction. There's much uncertainty, yet I believe there is a true sense of optimism about our future in the pork business. The changes will be difficult for some to accept and welcomed by others.

1992 was a record year for pork production. 1993 will see even more pork produced. NPPC's stated goal of making Pork the Meat of Choice by the year 2000 will be dependent upon increased market share. This can only happen if we continue to improve pork quality and if we become more efficient.

We must also recognize we live in a competitive domestic and global market place. Competition for us is the poultry industry. It's also the foreign producer who receives government subsidies. Producers of the future should be provided a level playing field, but they will also need to be business oriented, globally aware, technically adapt, politically astute and most of all, consumer focused. These will be the keys to success in the years ahead.

BANK IV Liberal
5th & Lincoln
Liberal, Kansas 67905

BANK IV

February 2, 1993

House of Representatives
Agricultural Committee

Mr. Chairman, members of the committee, my name is Blake Waters, Senior Vice President, Agricultural Loans, BANK IV, Liberal.

I have provided testimony as a proponent to changing the existing Corporate Farm Statues and appreciate your introduction of House Bill No. 2069. I standby my testimony of January 14th and request that you refer to it as I continue to reinforce and clarify those statements during this hearing.

As we listened to the opponents to change two weeks ago, it was impressed upon me that those folks actually consider the proponents to be in favor of decreasing the income and survivability of the family farm. This could not be further from the truth.

Our agricultural loan portfolio consists primarily of family farm operations. We reinvest their family farm deposits back into our rural community by financing their many prudent credit needs for expansion and cash flow. It is inconceivable to me that the opponents have the idea that we would support any change that would be detrimental to the family farm and our rural communities when our survivability co-exists with their own.

It is my belief that the corporation and small family farm are beneficial to one another. The vertical integration of corporate ownership could help diversify and improve the economic base of the rural community by increasing our grain prices, decreasing crop production costs and subsidizing farm and ranch income. Existing farm contracts would be further enhanced by new corporate expansion into our state as these ownerships could compete with one another. For example, if HB2096 is passed, new packing houses could compete in Kansas for the business already existing with Seaboard in Guymon, Oklahoma.

HOUSE AGRICULTURE
2-2-93
ATTACHMENT #3

The family farm would benefit from the competition for production contracts by being paid to care for the corporately owned hogs or continue to own them and realize a higher net income from lowered freight expenses and operating costs.

I grew up on a small family farm in northwest Kansas. I am a Deacon, Trustee, and Sunday School teacher at the First Southern Baptist Church of Liberal. My job is to finance our rural community and promote the family farm, not to destroy it. We can work as a team for this great state of Kansas by supporting HB2096 or shut the door to future agriculture growth. Let's prosper together by getting this bill out of committee, on to the floor and into law.

For your information I am attaching copies of articles taken from "Pork Magazine", "Farmland News" and the "Livestock Digest". This material discusses the pros and cons of farm contracts and vertical integration. I also attach a letter from the Terry Coats family which discusses their beneficial use of corporate agricultural industry.

Signed,

L. Blake Waters
Senior Vice President

LBW/rmc

January 24, 1993

House of Representatives
Agriculture Committee

Mr. Chairman,

I am writing this letter as spokesman for three generations of farmers, my mother Faye Coats, myself Terry Coats and my son Wesley Coats. We farm 30 quarters, 23 of which are irrigated. We raise 1,675 acres of corn, 370 acres of milo and 1800 acres of wheat. My family has lived in the Plains, Kansas area for 63 years.

DeKalb Swine Breeders buys milo from area farmers and pays $.20 per hundred more than the elevators. We have sold a lot of milo to DeKalb and have had no problem with them. We are also using DeKalb's waste water for fertilizer for a circle of corn and a circle of wheat. This waste water usually supplies all the fertilizer needs for this farm. DeKalb has been good for the Plains, Kansas area economically.

We believe the Corporate Farm Law should be changed in favor of companies like DeKalb.

Signed,

Terry Coats

Terry Coats
Box 82
Plains, Kansas 67869
316-563-7786

THE BUSINESS MONTHLY FOR PORK PRODUCERS DECEMBER

# PORK 92

**GET MORE OUT OF YOUR SWINE PRACTITIONER'S ON-FARM VISITS...32**

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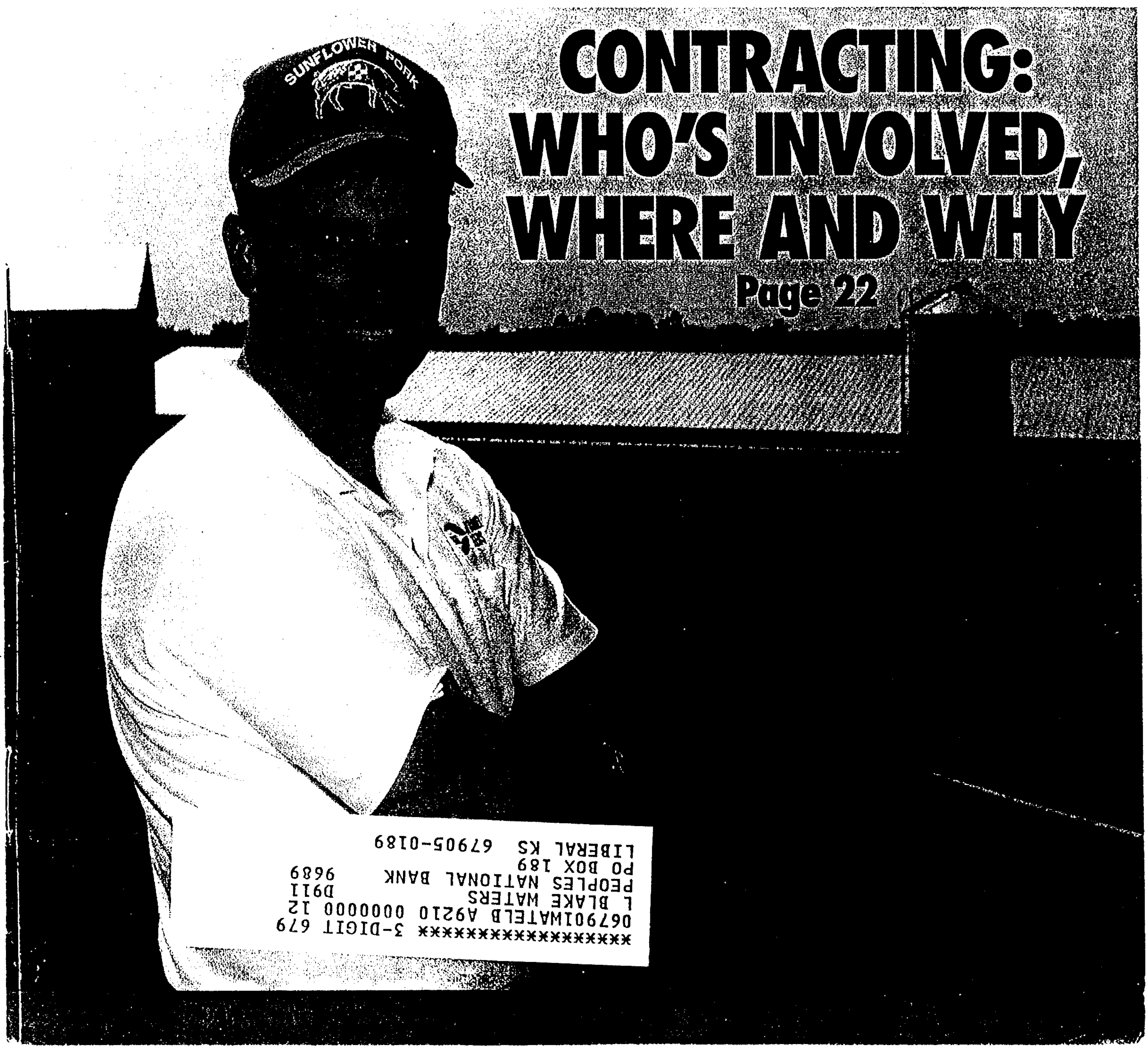


## CONTRACTING: WHO'S INVOLVED, WHERE AND WHY

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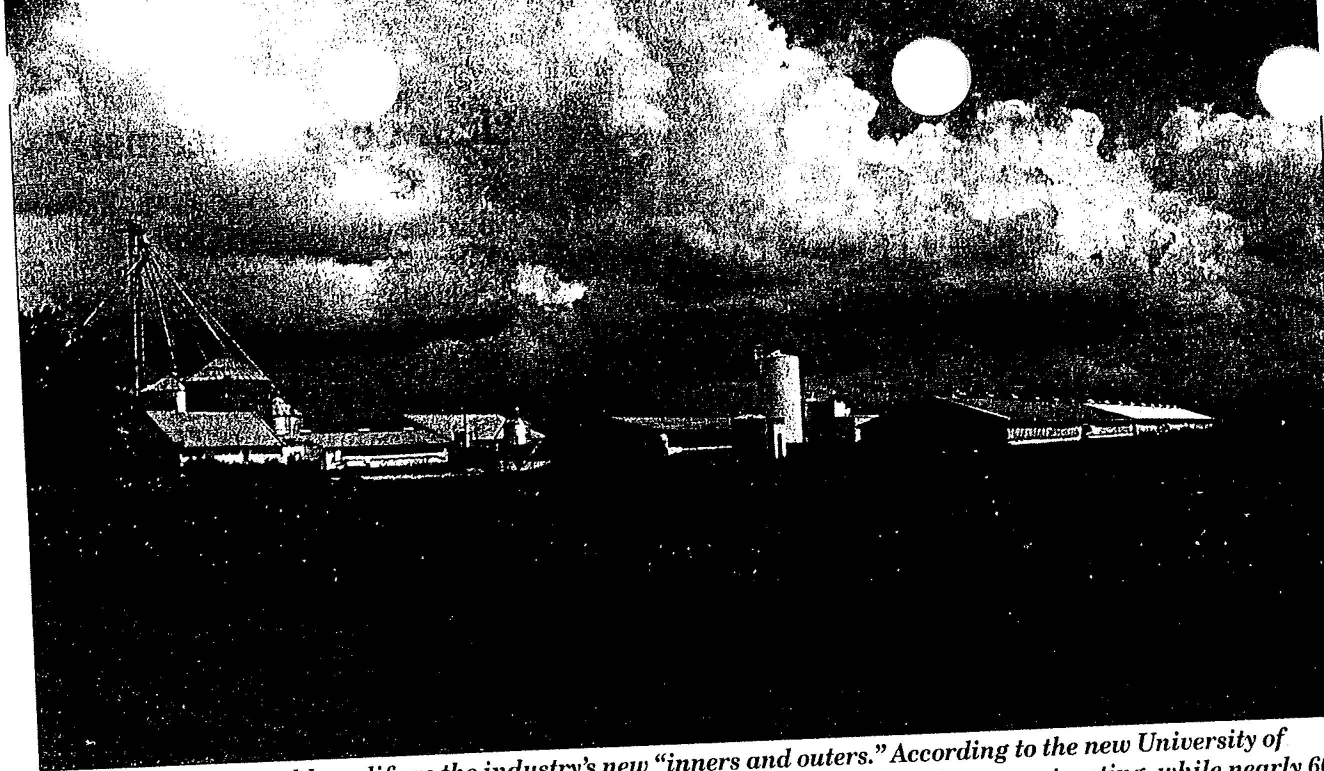

MIKE KING-STAFF

*Small contractors could qualify as the industry's new "inners and outers." According to the new University of Missouri/PORK'92 structure of the industry study, roughly 800 producers have begun contracting, while nearly 600 have quit since our 1988 survey. Quitting contracting does not mean they quit production.*

■ STRUCTURE OF THE PORK INDUSTRY

# CONTRACTING: A PERMANENT FIXTURE IN THE INDUSTRY

*By Marlys Miller*

It's on the rise, but contract production is growing at a steady, not explosive rate.

Contracting was going to be the demise of the independent pork producer, according to coffee-shop talk during the early 1980s. "Just look what it did to the poultry industry."

It's true that not everyone is a proponent of contracting today, but a decade or so later we find that it has not taken over, nor are corporate operations the only production game in town. Far from being railroaded out, more independent producers are using contracting as a way to expand their production or to remain in the hog business.

"We're going to be facing more contract feeding operations in Iowa," says Jim Ledger, immediate past president of the Iowa Pork Producers Association. "But we can't put walls up around Iowa to keep these things out, because no matter where the competition is, it's still competition for us."

Fellow Iowan and past president of the National Pork Board, Harold Trask agrees. "I'm totally against legislation to protect Iowa (from contracting) because I don't think that's good for anyone in the long run," he says. "I fully support free-enterprise, but we do need to educate producers."

**Part of that education is** in identifying what's really happening with contracting. This year's University of Missouri/*PORK'92* industry structure study provides some insight. To start, it tells us that more hogs are being raised on contract today than five years ago, but contracting hasn't grown at the breakneck pace some expected. In fact, contract



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represented one-fifth of total 19[illegible] marketings from surveyed producers raising more than 1,000 head annually.

Extrapolated to the industry, James Rhodes, University of Missouri ag economist and survey director, estimates market hogs raised on contract account for about 15 percent to 16 percent of the nation's slaughter. That's a growth of 4 percentage points from 1988's market-share of 11 percent to 12 percent. Take a step back to 1986, and contract hogs made up 9 percent of the nation's total.

That's steady, not explosive, growth and you can expect it to continue. But the contracting sector isn't made up only of corporate producers and feed companies. More independent producers are utilizing contract production arrangements. "It's part of the way the family farm can endeavor to stay in pork production," contends Trask.

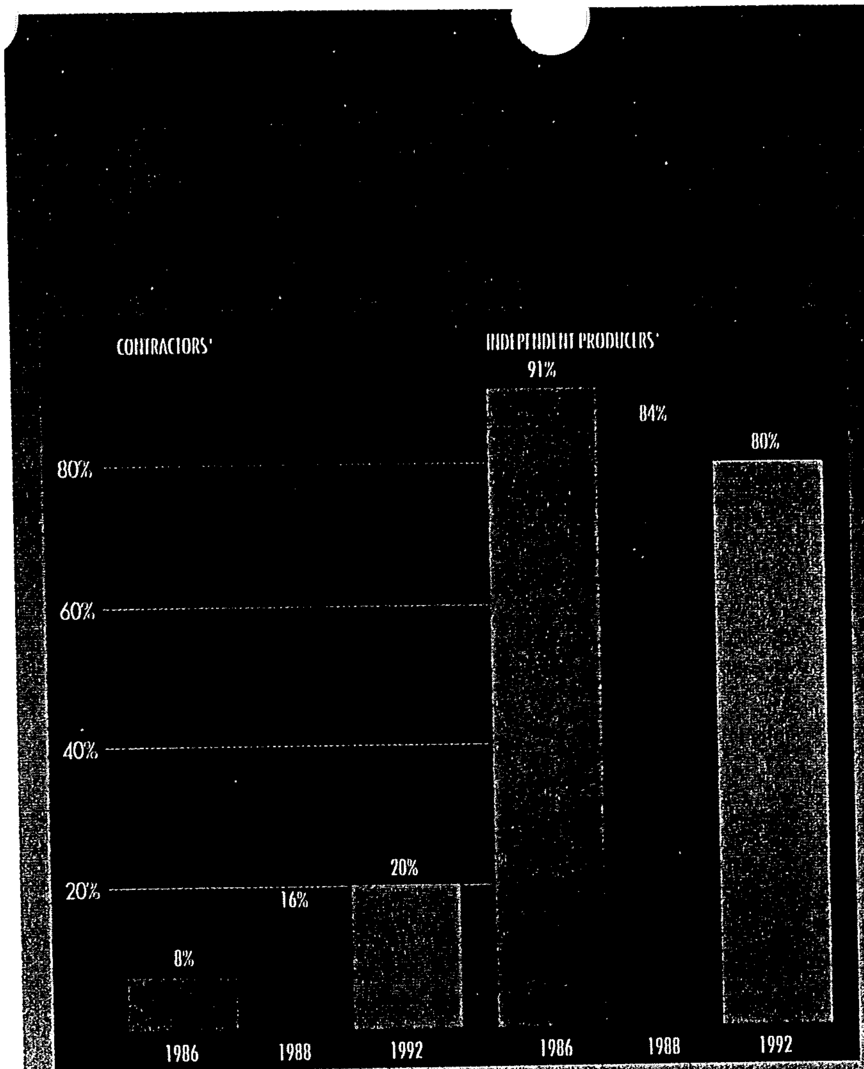
The survey categorized contractors — producers who own the hogs— into two groups: small contractors, those marketing 1,000 to 49,999 hogs annually; and super-contractors, producing 50,000 or more hogs a year. To eliminate the chance of double counting, growers — producers who raise the hogs on contract — are not included when discussing hog marketings.

There's no way to determine exactly how many independent producers have become contractors, but you can assume most of the 1,225 small contractors were independent producers. "And many of the companies involved are much smaller than Cargill and Tyson," notes Rhodes. "Also, many contractors produce more hogs in their own facilities than via contract." So, if you look at only market hogs raised on contract, they make up 9 percent of all U.S. hog slaughter. That's a modest increase from 1988's share at 8 percent.

What's more, the super-contractors don't have anything on the small guys. According to the survey, each group controls half of all hogs on contract.

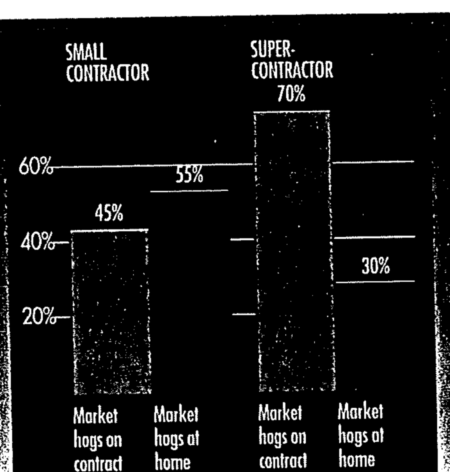
**When did all this begin?** No surprise here — during agriculture's economic turmoil of the 1980s. Super-contractors, on average, began raising hogs in 1973 and signed on their first grower in 1980. Small contractors got into the hog business in 1976 and started contracting in 1988.

Today, contract finishing is much more common than contract farrowing. Even fewer contractors specialize in selling




*Percentages are rounded up
Source: University of Missouri

Because the University of Missouri/*PORK'92* surveys omit producers raising fewer than 1,000 hogs per year, James Rhodes, University of Missouri ag economist, had to project contractors' share of the total U.S. market. He estimates contractors produce 15 percent to 16 percent of today's hog slaughter. That compares to his 1988 projection of 11 percent to 12 percent.




[illegible] contract finished hogs account for [illegible] percent of the hogs marketed by survey producers compared to 8 percent in 1988.

Source: University of Missouri



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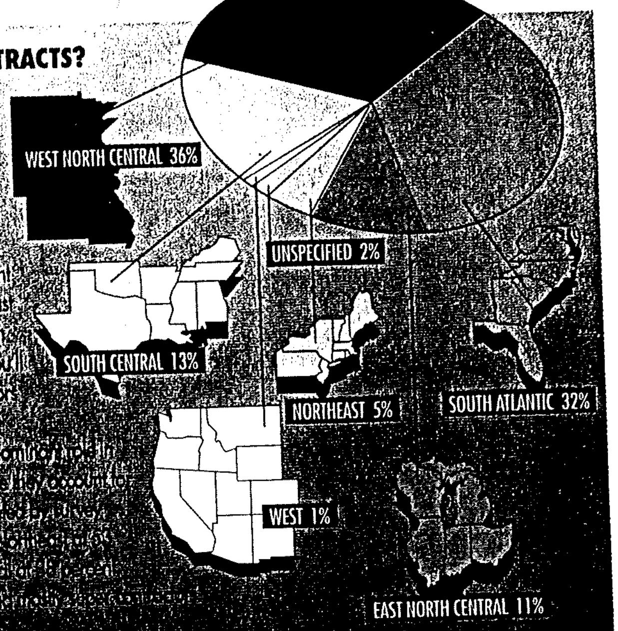
## WHERE ARE THE CONTRACTS?

The two North Central regions of the United States account for two-thirds of the hogs controlled by contractors in our survey. However, contract-related production accounts for only 8 percent to 15 percent of the hogs marketed in the East North Central and West North Central region respectively. You'll most often find small contractors in these two regions.

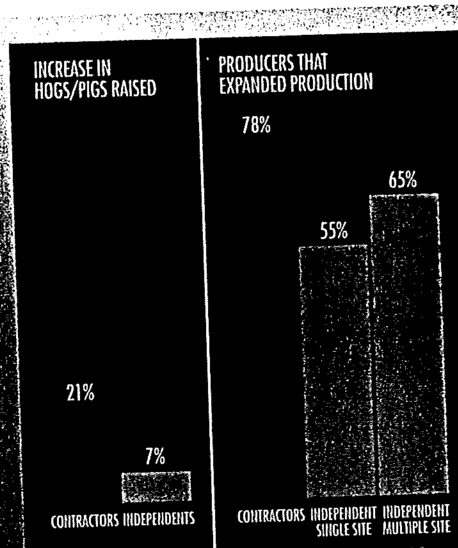
Contractors play a more dominant role in the South Atlantic states where they account for 57 percent of the hogs marketed by survey producers there. [illegible]




## 1990-1991: CONTRACTORS ADD TO INDUSTRY'S GROWTH

While independent producers added more hogs to their herds from 1990 to 1991, contractors outpaced them. Contractors raised 21 percent more hogs and pigs in 1991 than they did in 1990. On average, independent producers increased their production by 7 percent.

During the two years, 78 percent of the contractors expanded production compared to [illegible] percent of independent producers [illegible]




## NOT IMMUNE TO GROWTH LIMITATIONS

There's the perception that contractors have an unlimited supply of resources and can expand at will. However, they encounter limitations just like independent producers. The survey offered them a nine-point checklist to identify factors likely to limit expansion. Here are the most common obstacles.

Independent producers, on the other hand, were most concerned about personal considerations such as health and age. [illegible]

| Small contractors | Super-contractors | Limiting factors |
|---|---|---|
| 18% | 30% | Environmental regulations |
| 18% | 14% | Inadequate profits |
| 17% | 14% | Hiring and keeping good employees |
| 17% | 13% | Limited facility loans |
| 10% | 13% | Limited operating loans |

feeder pigs. Consequently, the s[illegible] focuses primarily on finishing results. Only 13 percent of the small contractors have farrow-to-finish growers, 19 percent have farrowing contracts and 88 percent contract out finishing hogs. Meanwhile all super-contractors finish hogs on contract, 71 percent have farrowing and 36 percent run farrow-to-finish contracts.

One-third of both contract groups agree that contract farrowing is less efficient than farrowing at home. Fewer than 1 percent said it was more efficient, the rest say the two are about equal.

The concern many producers have about hog contracting is the potential for vertical integration. While that's certainly what's occurred in the poultry sector, integrators are finding it slower going in the pork industry. Take feed companies for example: only 19 percent of the contractors said they are involved in the feed business.

**Getting down to specifics,** the survey asked contractors and growers specifics about their arrangements.

Contractors were more flexible about buildings with growers who finished hogs than those farrowing. Twenty-two percent had growers build new finishing facilities, while 44 percent required farrowing construction. The more hogs involved, the more demanding the contractor was about facilities. Nearly 90 percent of the super-contractors required new units for both production phases. However, Rhodes points out: "Large contractors more frequently recruit producers with no existing facilities, who must construct."

Design requirements vary with the contractor. For example: Swaledale, Iowa producer, Jon Caspers isn't concerned about the type of finishing buildings his growers have, as long as they meet production demands.

Conti Feeds gave Myron Holder, a grower from Highland, Kans., the final word on building design decisions.

How much did it cost the growers to build facilities? Finishing growers spent \$92 to \$100 per head capacity on average. It cost farrow-only growers between \$834 and \$867 per sow capacity. And to obtain a farrow-to-finish contract, growers dished out \$1,423 to \$1,578 per sow capacity. No surprise — growers for super-contractors spent more on buildings.

Nearly 85 percent of growers reported that their contract income was enough to



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.ntain their hog buildings. T. close to 1988's response at 89 percent.

If you're going to farrow on contract, expect it to be a full-time job. That's the message from 68 percent of the super-contractors and 26 percent of the small contractors. Few contractors expected growers to spend all their time finishing hogs. Half of the growers said they work in other farming enterprises or off the farm. Some growers — 39 percent have to hire or use additional family labor to get the contract job done. Other growers, 13 percent to 19 percent, also raise hogs on their own, often on the same site as contract hogs.

**Unlike most jobs,** the super-contractors don't care whether you've had experience working with hogs before. In fact, they prefer their growers operate by the book — their own book that is. Forty-two percent want to train finishing growers and half prefer farrowing personnel with no experience. However, three quarters of the small contractors want experienced personnel in both farrowing and finishing houses.

Growers with hog experience averaged nine to 13 years. The survey reinforced the fact that young producers see contracting as a way to start out. Growers' averaged 42 years old, three years younger than independent producers and two years older than contractors.

Most super-contractors don't have to worry about finding new growers or expanding production with existing ones. Nearly 70 percent report a waiting list for both options. One third of the small contractors have prospective growers waiting in line, while 24 percent said they have a list of growers who are willing to expand.

Contract lengths vary between contractors and the type of production. Farrowing contracts require a longer commitment, averaging three years. Finishing contracts typically run 12 months. Many contractors said the agreements run indefinitely but can be terminated by either party with due notice, often 30 to 90 days.

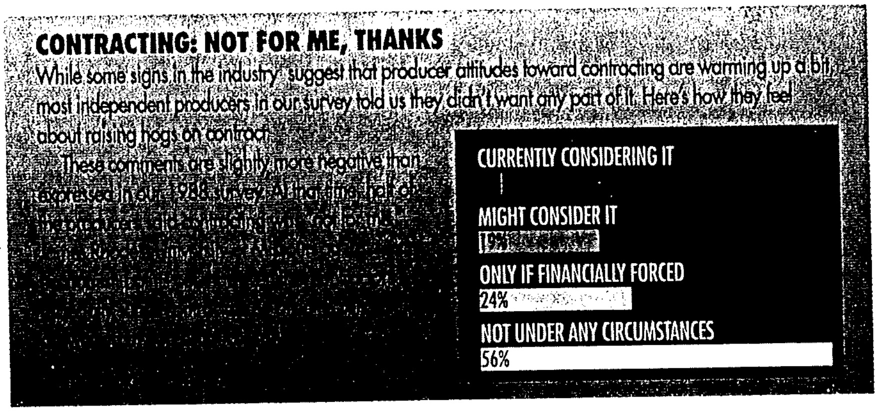
How satisfied are contractors with their arrangements? Survey participants gave it a slightly better than average rating, with super-contractors more satisfied. "Perhaps the dissatisfied drop out or correct the source of their dissatisfaction," says Rhodes.

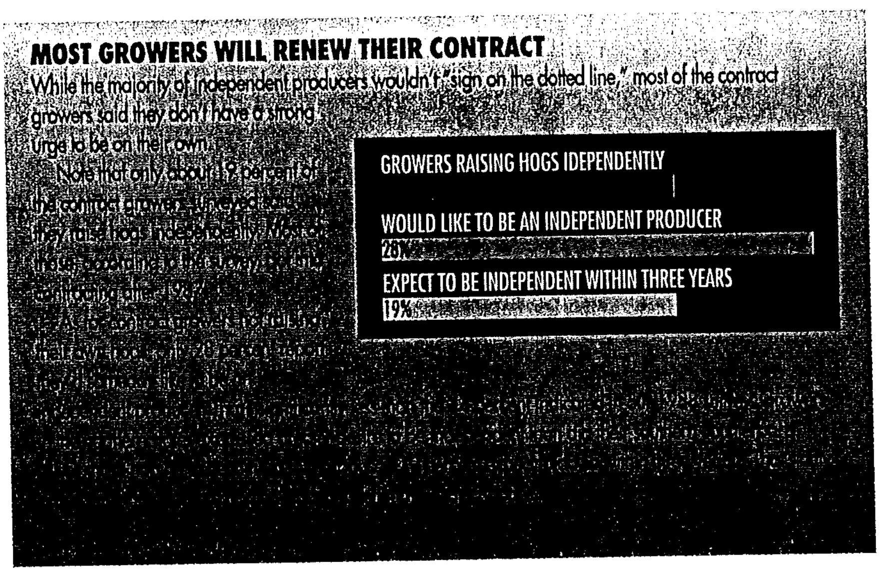
Interestingly, grower's are slightly more satisfied with contracting than are the contractors. "More telling is the percentage of growers reporting that they are dissatisfied," adds Rhodes, "overall, it was only 4 percent of respondents."

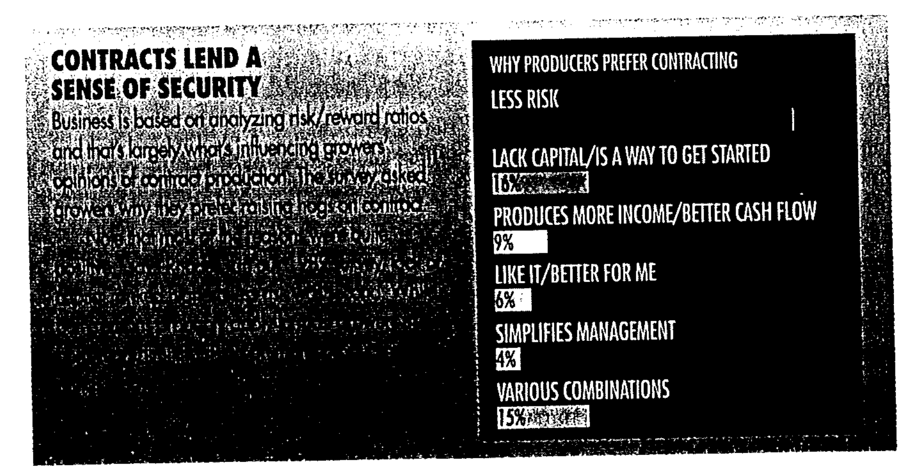
**No doubt about it,** contracting is here to stay. Contractors are the most determined of all producers to raise hogs in the future — they unanimously expect to be in business five years from now.

"We have to accept the contract," says Ver[illegible]raw, a Pleasantville, Iow producer who's president-elect of IPPA. "Many different types of contracting are going to be here in the future and offer the opportunity to some people to get started in farming.

"We have to try to keep as many pork producers competitive as we can, whether they are an individual farmer, a partnership or a corporation. We have to be concerned with all pork production."



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# CONTRACT PRODUCTION: PRODUCERS WHO LIKE IT AND WHY

*A PORK'92 Staff Report*

MIKE KINGSTAFF

***Stanley, Stan Jr. and Brent Cook***

Contracting isn't the dirty word it once was in the hog industry. Today, more producers, independents included, are raising hogs on contract.

Some producers see contracting as a temporary fix. For others, it's a long-term commitment. Still others want no part of it. Whatever your position, the fact is, it's a trend that will likely continue to grow.

Capital seems to be the common denominator. For producers with excess production, placing hogs on contract lets them expand without additional capital expense. For the contract grower, especially young producers just starting out, contracting gives them an opportunity to raise hogs and secure capital they might otherwise not receive.

There are many reasons why a producer might get involved in contract production. Here are some of those producers and what they think about the whole idea.

■ STANLEY COOK FAMILY, CALIFORNIA, MISSOURI

## CONTRACTS LET MISSOURIANS EXPAND

If the Stanley Cook family lived somewhere else, they might not have considered contract production. But, the Cooks have farmed in the rolling hills near California, Mo., since the 1830s. And contracting is helping them stay there.

This part of central Missouri lacks prime crop land, but producers here have experience with hog and poultry contracting. And more of them are willing to talk business when it comes to alternative ways to raise hogs.

Cook and his two sons Stan Jr. and Brent have been partners in the hog operation since the mid 1970s. According to them, they're just using the area's open attitude toward contracting and their proximity to grain and hog markets to their advantage. Five years ago, the Cooks quit farrowing and began finishing feeder pigs — which they say is a "more comfortable" arrangement.

Currently, comfortable means finishing 20,000 head a year on five sites within a 25-mile radius of home. Slightly more than half of the hogs are finished in outside lots at home. The Cooks contract with three other producers (one is a lease-only unit) using various arrangements and paying on a per-head basis in return for the growers' facilities and labor.

One of the Cooks' contract producers is

*Continued on page 28*



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Lawrence Strobel whose two finishing units are a couple of miles away. A Cargill-type finishing floor holds about 700 head and a double-curtain sided building houses another 1,000 head.

"I've worked with the Cooks for about three years and overall I'm well satisfied with our arrangement," says Strobel. He's a former contract grower for a large corporate producer.

Strobel provides the buildings, some labor and manure disposal. The Cooks provide the pigs, feed, and medicine when needed.

While Strobel likes the arrangement, there's still an element of uncertainty working under contract. He wants to keep his buildings full, because if the hogs go, so does the cash flow. So far with the Cooks, he says, that's not been a problem.

"We decided to contract because it was a quicker way to expand and less financially risky than increasing our own farrow-to-finish volume," says Stan Jr. And when it comes to capital expenses, the Cooks like to be conservative by first maximizing what they have.

Feed processing is one area where the Cooks have loosened the purse strings. In 1990, they replaced their old stationary mill with a new one capable of producing four tons of feed an hour. That combined with plenty of grain and ingredient storage and truck scales make it practical to move large amounts of customized finishing rations through their mill to other units.

Most of the pigs come from semi-loads of 40- to 50-pound feeder pigs. The remainder are smaller pigs placed in the former farrowing house that's been converted to a nursery. Eventually, pigs are sorted into and raised in various grow/finish units.

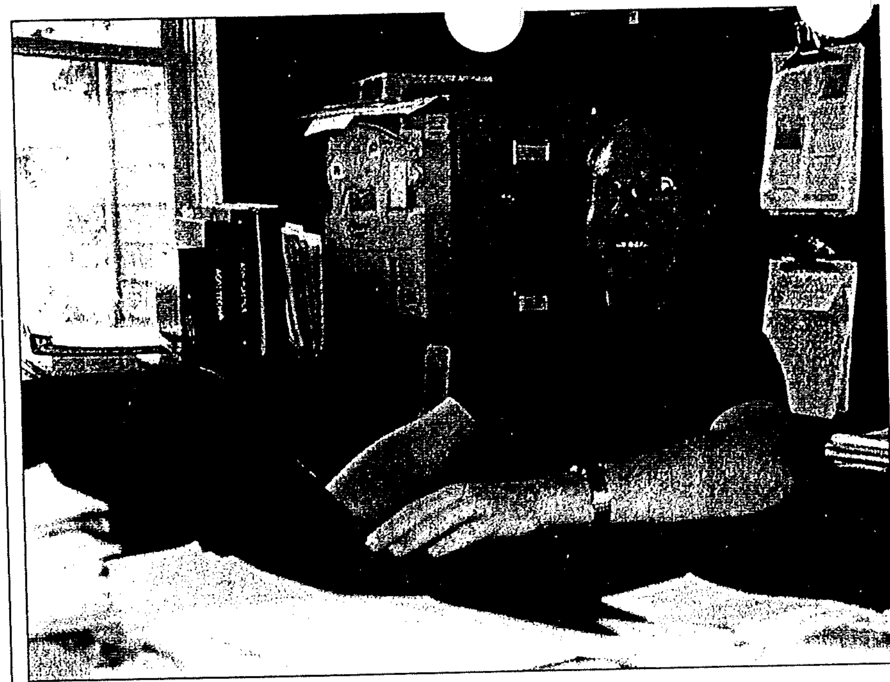
Ideally, the Cooks think finishing has definite advantages over farrow-to-finish production. "Farrowing is very intense," says Stan Jr. "And we can often buy feeder pigs for less than what it would cost us to farrow them."

"You also have to look at the level of management required to farrow," says Brent. "We've had a tough time finding good employees for that."

Spreading out pig density is an additional plus. "We can keep more hogs off of our property and spread them out more," says Stan Jr. "We have to keep the DNR (Department of Natural Resources) and our neighbors in mind."

Only two items concern the Cooks about their current arrangement — the disease potential of co-mingling pigs from different sources and the genetic variation. It's keeping them from marketing a uniform animal and receiving grade and yield premiums. In fact, the marketing disadvantage is big enough that they're planning to get back into farrowing. They plan to have 1,200 sows of the same genetics farrowing in their own and contract units by the end of 1993. They also want to move all finishing indoors and split-sex feed.

With these changes, Stan Jr. says, his family can look forward to a bright future in the pork industry.



LIBBY POWERS

*Jon Caspers*

■ JON CASPERS, SWALEDALE, IOWA

## IT STARTED WITH OVERFLOW FINISHING

If you ask Jon Caspers, specialization is the key to competing in the hog business today. Caspers heads a family-owned contracting operation in which he manages local growers.

Caspers, his father, Dale, and neighbor Buford Floy of Thornton, Iowa, own Pleasant Valley Pork Corp., headquartered in Swaledale, Iowa. The four are equal partners, but Jon is the only one active in the operation.

The trio own the breeding stock, about 520 sows and gilts. They recently invested in a multiplier unit in southwest Iowa and will expand to 1,080 sows. The corporation also utilizes 380 sows from separate farrowing contracts.

Pleasant Valley Pork has 25 contract growers, most of which are located within 50 miles of home base. Some specialize in the farrowing and nursery end, while others finish hogs. The corporation markets 17,000 hogs a year. With the expansion, annual sales should reach 25,000.

Caspers says he started contracting in 1976 out of necessity. The 460-sow, farrow-to-finish operation he and his father ran produced more pigs than they could finish. Caspers arranged for neighbors to handle the overflow. At the time, he had no long-term contracting goals.

"I had no idea where this might go," he says. "The reason we've moved toward contracting is because it offers an efficient use of capital."

Caspers sees the result as a benefit to both parties involved. He gets a place to finish his expanding production, and growers get a sense of security and the opportunity to work in the hog business.

Caspers modeled his current contract after several older finishing contracts he'd seen. He supplies the pigs, feed and transportation. Growers supply facilities and labor. The two split medicine costs.



3-10

Growers are paid a base rate ar. tap into an incentive program, says Caspers. Superior feed conversion and low death loss can lead to bonuses. Poor herd health may result in discounts. But Caspers is careful not to punish growers for things they can't control.

A field representative for the corporation visits all contract farms regularly to answer questions and check progress. They have established some production guidelines, but each grower is responsible for ordering feed.

Caspers isn't as particular as some contractors about facilities. "If I had my druthers, they would all be in new, total-slatted, curtain-sided buildings, but I don't," he says. "Hopefully we'll have more like that in the future, but we still have a lot of conventional facilities, and if the growers are doing a good job, we aren't ready to pull up stakes."

Despite some opposition to contracting in Iowa, Caspers has had no problem finding growers for his operation. He looks for people who can do the work, will accept the partnership relationship, will accept change, have good facilities and equipment, and are financially stable. "That allows them to concentrate on production without worrying about finances," says Caspers.

Those that join his ranks come from many backgrounds. One long-time feeder is also a buyer for a local packer. He wanted to feed pigs, had a place to do it, but didn't want to do it on his own because the people he was buying for might see a conflict. At the other end are the young producers who have the land and facilities but lack the capital and risk-taking ability to strike out on their own.

Efficiency is the result of this specialization, Caspers says. Without it, operations of all sizes will have a tough time staying in business. Although contracting may not be an option other producers would consider, it's been a real bonanza for Caspers.

■ MURPHY FARMS, ROSE HILL, NORTH CAROLINA

## BORROWED IDEA CEMENTS COMPANY AND GROWERS' SUCCESS

When it comes to contract hog production, North Carolina is sure to be one of the first places that comes to mind. And an[d] [tho]se contracting, you're likel[y] thi[nk] Murphy Farms.

RHONDA BAKER/MURPHY FARMS

*Randy Stoecker*

And there's a good reason. Murphy Farms, founded in Rose Hill, N.C., by Wendell Murphy in 1962, has expanded into four states and ranks among the United States' leading swine contracting companies.

Randy Stoecker, company group vice president, was reluctant to release figures on the operation, but conceded that the company has been on the expansion trail. "South Carolina was just an extension of the North Carolina business. It's not far from here," Stoecker says. "Iowa was a conscious effort to locate a business in the Corn Belt, and Missouri was to produce pigs to finish in Iowa."

Although Murphy is one of the largest hog contracting players, the company borrowed the concept from the vegetable and poultry industries. The arrangement was popular in both sectors when Wendell Murphy started.

"It offered an approach to involve independent farmers in the production process, not as employees but as growers," Stoecker says. "It let the company grow and involve other people."

What's evolved is a segmented system that involves contract growers who specialize in nursery, feeder or finishing pigs. Breeding stock originates at Murphy-owned facilities.

Under the contract, Murphy provides the pigs, feed, medication, recordkeeping, supervision and service people to train and assist growers. The growers provide land, facilities, labor and utilities, Stoecker says.

The company arranges a trial period with the potential grower, allowing him to raise a set number of pig groups. If all goes well, Murphy makes a commitment to the grower on a group-to-group basis. Stoecker says the company does some recruiting, but most growers make the initial inquiry.

Murphy Farms seeks competitive genetics and designs rations to the hog's sex and genotype, and follows an intensive phase feeding program. Extensive records on each farm, which are reviewed weekly, verify success or failure and help growers understand why something does or doesn't work. Although they don't follow a "cookbook style of management," the records help growers match Murphy production techniques and goals, and pinpoints how farms are doing, Stoecker says.

"Our approach is to have a high level





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of performance across severa[illegible] not just one," Stoecker says.

Separate research farms continually test new concepts that might work on growers' farms. Growers can also try out new ideas. Those that prove useful are implemented company-wide.

But the hog industry is changing, Stoecker says, and independent and mega-producers alike must tighten their belts and focus on efficiencies.

"Things that some people consider complex like split-sex and stage feeding will become commonplace," he says. "I also think there will be an increase in all-in/all-out production just because it's a very practical way to manage herds."

Although Murphy Farms would like to expand, size is not the issue, Stoecker says. "Carcass merit programs will widen the competitive differences, regardless of herd size. I don't think size matters much. I never have," he says. "Size is no guarantee for success. It's a matter of being an efficient, low-cost producer. We must produce a product that packers want and will pay the best price for. Do that, and you can compete."


*Myron Holder*

■ MYRON HOLDER, HIGHLAND, KANSAS

# CONTRACTING COMPLIMENTS FAMILY OPERATION

Everyone in the hog business has an opinion on contracting. Myron Holder's is: "What can it do for me?"

About two years ago, this Highland, Kan., native decided to expand and update his operation. His goal: Do it without going broke. The logical solution: contracting.

"A couple of years ago I had that in mind, so I went to North Carolina and looked at a lot of facilities," he says. "I decided if I could attain a contract I could go ahead and build some new facilities."

For the past year and a half, Holder has been finishing for Conti Feeders. Running hogs through his two new 1,000-head confinement units each year. He and his father, Vincil, also run their own 160-sow farrow-to-finish operation.

For the seven years prior to contract growing, the two had been renting finishing floors and a nursery for their family business. But those buildings were old and worn, and Holder knew they'd need to be replaced. He saw contracting as the best way to pay for them.

"Being a young guy, I saw this as a fantastic way to get started and have somebody else help pay for the facilities while I got established," the 36-year-old Kansan says.

Although he concedes contracting limits profit potential when prices are high, it also takes the risk out of raising hogs.

Like most contracts, Holder's divides responsibilities between the company and the individual. Conti Feeders supplies hogs, feed and technical services such as recordkeeping and field representatives who assist growers with questions. Holder supplies labor, facilities, utilities, sanitation and waste disposal.

The contract does allow for some flexibility. For example, although Conti Feeders prefers the buildings to be built a certain way — totally slatted floors and double curtain sides — Holder owns the buildings, so final design decisions were left to him. "I like it because it's still farmer-run. I manage it myself," he says.

So far, Holder is pleased with his arrangement. Refined management techniques have not only improved performance in his contract hog units, but that knowledge has given his entire farming enterprise a boost, he says. Originally, Holder planned to remain with the contract only until he paid for the buildings, five to six years. Now, he says, it depends upon hog prices. If prices stay low, he'll stay with his sure bet.

He may even cut his own operation back and expand his contract. Yet he's not likely to move completely in that direction. "I like being the owner," he says. "I've been in hog houses all my life. I'm not going to spend the rest of my life in hog houses doing all of the work."

He recognizes that contracting is not for everyone. "Some people are intimidated by working with corporations," he says. "But if you treat the people like other members of your community and take care of their products like they were your own, you won't have any problems."

Despite producers' reluctance, Holder sees contracting as the wave of the future for his home state. He believes it will spark the economic development that is desperately needed in Doniphan and Brown counties along the Kansas/Nebraska border. Business investment there in recent years has been nil.

"I want to see the Kansas hog industry grow, and if contracting is what it takes to help it grow, then so be it," he says. "It's important to try to keep the young farmer interested in agriculture and keep money rolling into an area. This is one tool that can help. Sure, you give up some independence, but when the contract does expire, you have an option to use (the facilities) for yourself or to continue contracting."



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Livestock MARKET Digest
Syracuse Edition
Week of January 25 through 31, 1993
Volume 33, No. 4

## Riding Herd

by Lee Pitts

### Cover up

Every dry cloud has a silver lining. I have been very lucky these past seven years in that it hasn't rained and I haven't had to cover the hay!

I have a friend who hasn't been so fortunate. John lives in a wetter climate and he and his wife got divorced last year and he blames all their arguments on having to cover the hay stack.

Recently the ducks have relearned how to swim around our place as the storms have been coming every other day. This means of course that the hay has to be covered every other day after loading the feed truck. During a recent break in the weather I took the time to explain the proper method for covering the hay stack to my recently divorced friend in case he should ever want to remarry.

"The trick to spreading the tarps while balanced precariously atop a hay stack in the strong winds that always precede a storm is tires," I explained to John. "Basically you need three things to cover a hay stack; heavy tires, a good tarp and an even better wife. With our proven method I get on top the stack while my wife stands in the bed of the truck and lifts the heavy old truck tires up to me. Then I strategically place them on the tarp to keep it from blowing."

"But why not let the wife be on top of the stack and you lift the heavy tires up to her?" asked my stupid friend. It's no wonder his wife left him!

"Because my wife is afraid of heights," I explained. "Oh, sure I used to put her on top of the stack but that was before the little incident when she discovered a mice nest in the top of the hay stack and tried to run from them. It was a nasty fall and she had to take the rest of the afternoon off to do housework. Ever since she's been afraid of heights."

"I can certainly understand that," said a sensitive John. "Have you ever considered building a hay barn?" he asked, as if I was made of money.

"Oh, sure we have but my wife is afraid she'd have to roof it. I wanted a pole barn for Christmas but paying for my wife's back

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# Here comes Tyson

by Lee Pitts
A Digest Exclusive

There's new leadership emerging from the state of Arkansas and no, we are not referring to our new president. During the presidential campaign Ross Perot often made fun of the "chicken pluckers" from Arkansas. But not everyone was laughing. Certainly not retailers who have had to compete with Arkansas born and bred Wal Mart. Nor were truckers who have grown used to sharing the road with more and more yellow big rigs with Arkansas plates and a J.B. Hunt decal on the door.

We all know how Sam Walton became the largest retail operator on his way to becoming the richest man in America by breathing new life into the retailing business. What Sam Walton did for retailing and what J. B. Hunt has done for trucking another Arkansas entrepreneur, Don Tyson, is doing for the food business.



### Chicken Or The Egg?

"Most Wall Street analysts would agree that Tyson Foods is the best managed, most profitable food processing company in the U.S.," says Forbes Magazine which also lists Don Tyson as one of the 400 richest men in America. It all began back in 1935 in Springdale, Arkansas. John Tyson, Don's father, was in the produce business delivering apples, grapes and other fruit six months out of the year. Looking to fill in the down time he began hauling chickens on those same trucks. It was a natural extension to go from trucking the birds to feeding them and then into actually hatching the eggs. In 1958 John Tyson built his first poultry processing plant.

Tragically, John Tyson was killed in a car and train collision in 1967 and his son, Don, took over. The rest is a chicken or the egg kind of story. Was Tyson's meteoric growth a result of America's new love affair with poultry? Or was our new love affair with chicken sparked by Tyson Foods?

Red meat producers are well aware that during the past ten years annual chicken consumption has risen 55%. Tyson Foods growth under Don's leadership has far surpassed that. Less than 60 years after John Tyson started hauling poultry and just 25 years after Don assumed control, Tyson Foods now produces 25-30 million chickens per week in 34 company owned hatcheries. They breed all their own birds and pay contract raisers to grow them out. The birds are under Tyson's ownership until they reach the food service outlet or the retail store. The chickens are fed Tyson feed produced in 23 company owned feed mills making Tyson the largest single purchaser of grain in the United States.

When Tyson purchased competitor Holly Farms in 1989 to secure its position as the world's largest chicken processor Wall Street analysts worried about the 1.4 billion dollars of debt that Tyson took on. But this was no junk bond pyramid. This was Tyson Foods. The debt was paid off in three years as Tyson's revenues soared 65• to 4.2 billion dollars.

As it turns out the 1.5 billion dollar price tag for Holly Farms was cheap-cheap. But then acquiring companies is something that Don Tyson has always done well. It has been one of the secrets to his success. During the last twenty years Tyson has acquired 20 different companies in an effort to reach eight billion dollars in sales by 1995. Tyson's 50,000 employees work in 59 company owned food processing plants in 16 states. Tyson only built three of the plants, the rest were acquired.

Typically Tyson buys companies and then immediately adds value to their products. "Value adding has been the key to our success," says company spokesman Archie Schaffer. "We pioneered the concept." Value adding is also one of the things that has allowed Tyson to grow so rapidly. University studies have shown that selling meat products on a brand name basis at the retail level can triple profit margins to the processor.

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NEWSPAPER PRIORITY HANDLING

# People

One of the country's most respected animal science educators, **Dr. John Edwards,** has been named Executive Vice-president of the North American Limousin Foundation, headquartered in Englewood, Colo. For the past 15 years Edwards has taught at the university level, most recently at Texas A&M University.

The Hill Country Brangus Breeders Assn. in conjunction with their annual San Angelo Show & Sale, held their annual membership meeting. Officers elected were: pres., **Kent Smith,** vice-pres., **Gary Bruns;** sec/treas., **George Hinkle.** Directors were **Sherrill Dannheim, Cammy Garey, Tom Hunt, Jess Bryce** and **Ed Moonen.**

**Gary Bruns** was honored as 1992 Member of the Year, by the Hill Country Brangus Assn.

The new officers of the California Cattlemen's Assn. are: pres. **Stu Brown,** Sacramento; 1st v.p. **Marden Wilber,** Clements; treas. **George Scovel,** Gilroy; 2nd v.p. **Jack Hanson,** Susanville; **Sam Avila,** San Ardo; **Jack Shannon,** Porterville.

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# Here omes Tyson

cont m ne

"While most poultry producers rely mainly on ready to cook whole chickens," according to Forbes, "Tyson gets 70% of its sales from chicken products such as Hot Wings for Kentucky Fried Chicken and Chicken McNuggets." 55% of Tyson's products are sold to the food service industry and 45% to retail outlets. 85% of the products are sold in frozen form.

## Just Chicken Pluckers?

If you thought Tyson would be content to dominate the poultry industry you are guilty of once again under-estimating the Arkansas work ethic. Last October 5 Tyson became a major player in the seafood industry when they acquired Arctic Alaska Fisheries Corporation, based in Seattle. That move was right on the heels of Tyson's purchase of Louis Kemp Seafood Company from Oscar Meyer. These two acquisitions added $300 million in seafood sales and made Tyson a significant factor in the seafood business.

Typical of the way Tyson thinks is their tortilla business. They were already selling meat ingredients for tacos to companies such as Taco Bell so why not sell the tortillas as well? Tyson's three corn and flour tortilla plants are now responsible for 3% of Tyson's total sales and their "Mexican Original" line of tortillas has become the second largest in the United States in just 12 years.

It may surprise you to learn that Tyson Foods is already the largest feeder pig producer in the United States. From their large operations in Arkansas, Oklahoma, Alabama and North Carolina Tyson markets 1.2 million hogs per year mostly selling them on the open market. But that is only until they get their pork processing plants up and running. Currently they are renovating a plant in Marshall, Missouri that will open in less than thirty days. During a single shift they will process 6,000 hogs per day and hope to add a second shift soon.

Tyson already operates a pork processing plant in Michigan known as Henry House. At this location Tyson buys boxed pork and further processes it into hot dogs, sausage and a full range of pork products for the food service industry.

## A Major Player

When Tyson purchased Holly Farms their main purpose in doing so was to acquire their poultry capacity. But in the process they also acquired four beef plants that sold products under the Harker House brand. That marked Tyson's entry into the beef business. It is noteworthy that Tyson did not keep all of the affiliated businesses of Holly Farms, they sold some of them. But not those associated with beef and pork.

"We see a lot of opportunity for growth in both beef and pork," says Norb Woodhams, group vice president of Tyson's Beef and Pork Division. "We don't see a limit to how far we can go if we apply the same marketing skills and use the knowledge we have gained on the chicken side of the business. We also see a lot of growth in beef and pork internationally."

Tyson's chickens are owned all the way from the egg to the door of a Taco Bell or a Safeway store. But that is not the case with their beef. Although they are "looking at all the options," according to Woodhams, currently Tyson is buying primal beef cuts and then further processing them in their four plants primarily for the food service industry. Tyson has every intention of developing a full line of products for the retail trade including fully cooked meats. "We have made a long term commitment to beef and pork," says Woodhams, "and hope to become a major player in both by 1995."

Although they are using the same philosophy and marketing skills learned in the chicken business the sales force for the beef and pork division is different. Restaurants and retailers may be called upon by a Tyson representative selling chicken and another one eef and pork. It's no won e better companies today ind their toughest competition is themselves.

## Bad Press

Success has not come without controversy. Like all large and successful companies Tyson has had their share of bad press. A March 22, 1992 Washington Post article on Tyson blamed the poultry industry and Tyson in particular for polluting Arkansas waterways. "Nearly half of the 600 miles of streams in the northwest part of Arkansas where the poultry industry is centered are considered so polluted by chicken and livestock waste that they are off-limits to swimmers," said the Post.

Tyson is also at the center of a swirling controversy over industry concentration. The Wall Street Journal has reported that Tyson along with other chicken processors are attempting to squelch the efforts of independent growers to organize under the National Contract Poultry Growers Association which now boasts 11,000 members in 18 states. The Association forced Tyson, Perdue and ConAgra to offer health insurance to their growers even though they are perceived as independent contractors.

## The Tyson Culture

These minor skirmishes have not stopped Tyson from brir cal integration and brandec to all facets of the meat ind ... red and white. If branded products are truly the future for beef and pork then surely that future will include Tyson. Bringing their expertise in brand name marketing to beef will no doubt be welcome, but perhaps not if it includes integration to the point where ranchers become nothing more than contract growers.

Yes, if you are a meat producer there is probably a Tyson in your future. They have made a long term commitment that pervades the company. When you telephone their company headquarters a real person answers the phone and even a reporter gets straight answers immediately. Company representatives talk of the "Tyson Culture" and the company commitment to become "the primary center of the plate protein provider" within this decade. The company is 25% owned by the employees all of whom wear the company uniform to work everyday ... even Don Tyson. And it is not a suit and tie but rather khakis with the employee's name sewn above the pocket.

It may turn out that Arkansas' greatest contribution to the revitalization of our business won't be wearing a suit in Washington D.C. He may be wearing work clothes, living in Springdale, Arkansas.

# Digest Classifieds

## Auction Market/Sale



## Auction Schools



## Branding Irons



## Buildings



## Cattle



## Cattle



## Equipment



## Fencing



## Hay For Sale



## Help Wanted



## Horses



## Loans



## Real Estate



## Real Estate



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# Contract swine operations gaining market share, satisfaction in method of business

Big swine operations are fast getting larger and more hogs are being grown under contract, according to a national survey conducted by the University of Missouri-Columbia.

More than three-fourths of the 88 million slaughter hogs marketed in the U.S. last year came from fewer than 30,000 farms, says Jim Rhodes, MU agricultural economist. There are 256,000 hog farms in the country.

Rhodes surveyed swine producers marketing more than 1,000 hogs a year in a sample drawn from 11,240 subscribers to *Pork 92*, a swine farm magazine.

Rhodes estimates there are 28,394 independent producers and 1,256 contract producers for a total of 29,650 in the group of producers selling more than 1,000 market-hogs a year. They produced 68.8 million hogs for commercial slaughter last year.

According to his best estimate, Rhodes says, contract hog production accounts for 15 to 16 percent of the total, an increase of four percent since the last survey was taken in 1988.

Under swine contract operations, a typical agreement calls for the contractor to supply the hogs, feed and management to a grower who provides the labor and facilities.

The 41 largest operators — or mega producers — sold more than 50,000 hogs apiece last year. Their total production was 8.9 million hogs, or more than 10 percent of the U.S. production. In the mega-producer group, 77 percent of the hogs were grown by contractors.

Rhodes interviewed or corresponded with all of the largest producers. They received production numbers from all but two of the mega-producers.

The mega-producers increased their size markedly from 1990 to 1991, Rhodes found. Swine contractors with more than 50,000 hogs per year increased their marketings by 25 percent in one year. In the same time, the independent operation in the 50,000-and-over class increased marketings by 23 percent.

"The growth of 20.7 percent for all contractors far exceeded the 7.3 percent for the surveyed independents," Rhodes says.

Most contractors farrow and finish in their own facilities as well as contracting with growers to do one or the other, or occasionally both, Rhodes says.

Increasingly, the large hog producers are feeding out more of their own hogs, Rhodes says. The hogs fed out by contractors finishing their own hogs increased by 137 percent since the last survey was made in 1988.

"That's an eye-popping increase," Rhodes says.

Contracting of hog production varied by region of the country, with 57 percent of the hogs on the East Coast under contract. That area is dominated by North Carolina, where most hogs are grown under contract. Last year North Carolina passed Missouri in the number of hogs produced.

In the north central states, only 12 percent of the hogs are under contract. However, since there are so many hogs raised in the Midwest, the actual number of hogs under contract is greater than those along the East Coast, Rhodes pointed out.

Growers feeding hogs under contract are satisfied with that way of doing business, Rhodes says. Rated on a six point scale, the growers rated their satisfaction at 4.7.

Growers listed several reasons why they liked contracting. Half said it was less risky, 16 percent said it provided the capital for them to get started in hog production, 9 percent said it gave more income and better cash flow.

However, independent producers have a more negative view of contract farming than when the last survey was taken. Now 56 percent said "no way, no how" would they farm under contract. That's up from 50 percent in 1989.

Hog units, such as this one in North Carolina, are becoming larger as more producers contract their hogs for slaughter — (Photo by Jim Tucker).

# Agricultural bankers cautious about 1993

Rural bankers are cautious in their optimism for economic improvements during the coming year, according to a survey of bankers attending the American Bankers Association's National Agricultural Bankers Conference.

Only two in 10 of the bankers surveyed expect an improved economy during 1993, nearly half of them (48 percent) expect "no change" and 32 percent expect it to be worse. At the same time, the vast majority (95 percent) said the supply of credit in their areas is adequate.

When asked about lending opportunities in their communities, 45 percent of the bankers said they had seen no change in the number of creditworthy borrowers in their area in the past year. Thirty-seven percent said the number of eligible borrowers had actually declined in the past year, and only 18 percent saw an increase.

The survey also indicated that the bankers feel that a shortage of real estate appraisers in agricultural areas has eased during the past 12 months. When asked if the supply is sufficient in the lending areas, 45 percent said "yes," compared with only 28 percent a year earlier.

Both last year and this year, a majority of the bankers predicted that the newly required appraisals will drive up the cost of loans. A majority (59 percent) said the additional cost will be more than $300 while 27 percent estimated the appraisal cost to be between $200 and $300.

The liability faced by banks involving environmentally contaminated property continues to hamper lending, according to the results. Seventy-eight percent of the bankers said environmental liability laws have affected whether they will make a loan (up from 48 percent a year earlier). On the other hand a vast majority (82 percent) said they have escaped having to pay clean-up costs.

In the area of farm accounting procedures, the ag bankers overwhelmingly agreed (72 percent) that financial standards are needed by farm borrowers and agricultural lenders. Nearly four out of 10 (39 percent) said they expect to adopt them at their bank.

The bankers were also asked to predict the outlook for the FmHA program during 1993. Nearly one-half (49 percent) said they expect to make more FmHA guaranteed loans in the year ahead, compared with 44 percent who expected an increase when they were asked a year earlier.

# Uniform reporting standards for farm financial records take a giant step

In the future, the standards for reporting farm finances should be more uniform, according to a farm management specialist at the University of Nebraska-Lincoln.

Larry Bitney was one of 50 individuals attending the Farm Financial Standards Task Force annual meeting in Minneapolis, Minn., recently.

The ongoing recommendations bring farm and ranch business analysis a step closer to the generally accepted accounting principles of the American Institute of Certified Public Accountants, said Bitney.

So far, said the Institute of Agriculture and Natural Resources specialist, various impacts from the recommendations include:

- The Association of Agricultural Computing Companies is incorporating the recommendations of the task force in their proposed certification program for farm accounting and analysis software suppliers.
- Farm financial management education curricula are being revised. The National FFA Foundation is funding a project to redesign the financial management education curriculum for vo-ag teachers, which is to be pilot tested in 20 states.
- With universal financial reporting, producers may need to fill out only one set of financial statements for all of their lenders. But those forms likely will be more detailed than in the past.

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Testimony of Keith Allen , agricultural producer from Kismet, Kansas for the Kansas House Agricultural Committee.
Feburary 2, 1993

Thank you Chairman Shore and members of the House Agriculture Committee for allowing my testimony today in support of changing the corporate farming laws. I am an ag producer from Northern Seward County. My present operation consists of dryland wheat and irrigated corn, wheat and soybeans with total acres farmed being 1500.

My question for the committee today is: Are we talking about ostrichs or are we talking about pork? The paradigm of young children is often that of an ostrich sticking it's head in the sand. Do we have our head in the sand by limiting our economic growth for not only ag producers but the urban Kansas population also.

What opportunities for Kansas will we miss out on? I will list a few.

--Increased Construction and the associated jobs
--Increased Property Valuation
(\$9600 property tax/sow unit @ 32 mills)
--Grain price stabilization for all Kansas farmers by by decreasing status quo flucuation in grain basis.
(Cattle feedlots have reduced basis to 0 or + in nature in SW Kansas and decreased basis clear into Central and Eastern Kansas.)
--Increase jobs in rural area's to keep our young people in Kansas
--The opportunity for such high tech production as human blood plasma producing swine
--The opportunity for displacing Candian subsidized hog production because of freight advantages with the advent of NAFTA

With farm production in this country being a very mature business or also known as commodity production, this fact is changing the face of Kansas and US agriculture. As in all commodity type business, it is a high volume, low margain, least cost type of business. This is the root cause for change in farms of this country. The last two decades has seen change from ag markets being local & national in scope to global in scope. My second question is "Are we trying to legislate agains't economic forces that are national & global in nature?"

Another factor that will change ag production in this country tremendously is the "Truth in Labeling" laws. This will require "cookie cutter" type ag production to meet these stringent laws. Hence strategic alliances & contracting to produce certain types, quanity, and quality of ag commodities will become prevalant. This represents more of the changing face of animal agriculture market structure than any other economic or social force.

House Agriculture
2-2-93
Attachment #4

I would also like to address the battle cry of those opposed to changing the present laws. That is the Nebraska Initiative 300 laws. If these laws really work, then how come in 1970 Nebraska had 73,000 farmers, in 1980 65,000 farmers, and in 1990 only 56,000 farmers. More farmers were lost in the decade of the 80's with Initiative 300 than the decade of the 70's without. Most farmers were lost in the time period because of the drop in land values caused by Initiative 300 in 1982. And is the slowing of farmer loss more because of Initiative 300 or because of the emphasis upon value-added agriculture with a $7,000,000 VAC budget versus a Kansas VAC budget of $500,000.

Let's look at Kansas vs. Nebraska farm numbers

| | | |
|---|---|---|
| Farmers | 65,000 | 56,000 |
| Net farm income | $929,400,000 | $1,954,900,000 |
| Ave.farmer inc. | $13,469.57 | $34,908.93 |

These are a reflection of this valued added commitment.

With farm management experts telling ag producers that it takes in 1992 $30,000 disposable income to run the average farm family comfortablely (Max. of 10% of gross farm sales), Kansas numbers must increase significantly and fast. If we leave the status quo as is of $929,400,000 net income, this will only support 30,980 farmers. Either farm income will have to increase or farm numbers will have to decrease to meet income availability. The true but harsh reality is that both will probably occur.

Also there has been opposing testimony about enviromental issues. With the silly season being session in Disneyland East (Washington, D.C.), I personally will need access to fertilizer sources other than presently available to buffer the radical enviromental thought. I see hog manure from contract hog production as a possible alternative for that fertilizer. With a 6-7 month timelag because of careful scrunity by KDHE of PE designed hog houses at present, Is not this type of operation more enviromentally responsible than point-source potential of dirt run operations?

How will this law change affect my personal operation? By allowing me to quit two other off-farm part time jobs. These are contract office cleaning 2 nights/week and substitute teaching. Also the manure availability will decrease crop fertilizer costs and grain price income will increase.

Finally I want to leave a couple idea's with you. First the old saying "No man is an island". Are we creating an economic island that is exporting economic opportunity to the neighboring states of Texas, Oklahoma, New Mexico, & Colorado. And lastly the old sayings of "An apple a day keeps the doctor away" and "Eat an onion a day, keeps everybody away" are important. Will the status quo have farmers of Kansas eating apples or onions?

Farmers Grain and Supply Company
316-723-3351 311 N. Main
GREENSBURG, KANSAS 67054-1599

I would like to thank the committee for allowing me to express my opinions and what I believe to be facts.

As one looks out through the rural communities he sees two things which become very apparent.

1. The average rural population is getting older and is declining in numbers very fast.

2. The farms are getting much larger and fewer in numbers every year.

This has left a relatively small job base for persons wanting to stay in the rural communities to work and raise their families.

Farming is a relatively mature business with only the faces and the equipment they operate changing. We need to therefore find local Value-Added incentives to maintain the way of life we in the rural communities have chosen.

In the past two years the local Coop, of which I am a board member, has looked into some of these opportunities. One of these possibilities was a commercial hog operation. Our main stumbling block was the Corporate Hog Law. If we could help get one of these operations established it would greatly enhance the use of our corn/milo supply, make better use of our feed mill and at the same time add some additional jobs in our community.



HOUSE AGRICULTURE
2-2-93
ATTACHMENT #5

As in many communities, the Coop is one of the larger employers and pays a sizeable amount of property tax.

As we began our search for a hog farm, we found:

1. One man who would donate the land for the facilities.

2. You need to start with a sow unit before you can have pigs to feed out. This is because the large corporations in the surrounding states are very reluctant to ship small pigs a long distance.

3. The sow unit is the most expensive part of the entire operation and does require a large initial investment in buildings and animals. The large corporate hog producers with established genetics, trained managers, and nutritionists are the groups most interested in making these investments.

4. The large corporations also had ongoing research, very strict health programs, knowledgeable financial planning, and stringed environmental plans.

What would a 1200 sow operation, which is expandable to 2500, mean to Greensburg, Kansas and the local economy?

1. It would employ eight to ten people.

2. It would use 150,000 bushels of corn/milo annually.

3. It would add another 15 people to support services. ie: transportation, feed mill.

4. When finishing units were added to feed out the pigs, it would utilize an additional 385,000 bushels of grain as well as more service employees.

It is for these reasons I would like this committee to make a change and allow corporate hog operations to operate in the state of Kansas.

Thank You,

CHKnobel

Chris Knobel

Mr. Chairman and Members of the Committee,

My name is Ron Alexander. I am the sales manager for a family owned John Deere farm equipment dealership located in Plains, Ks. I have also been involved extensively in swine production in past years and continue to stay current with the industry. I spent 2 years as a private producer and approximately 10 years with the leading swine breeding company. My employment included various production, construction, and international sales management positions. I hold an advanced graduate degree in Animal Science from the neighboring state to the south.

My interests in the issues before this committee are "two fold". The first concerns the farm implement business. We are in a rural town that needs new business whether it be corporate or family. Secondly I have an interest in building a swine finishing unit so that my two teenage sons can have jobs while attending high school.

My recommendation to the committee and the legislature is to make the changes as proposed by the KPPC. Why? Let me ramble through some thoughts and maybe one will have some meaning.

Previous testimony has clearly shown that producer numbers and market share continue to decline despite the protectionism of Kansas law. Industry opportunities have been lost in Southwest Kansas for the same reason. Both sides have lost one way or the other. The emotions that are brought about only cloud the true business picture.

The industry is going to change regardless of Kansas law. Consumer demands (quality, quantity, and price) calls for change. Look at the change in the poultry industry. Some good and bad problems surfaced but the demand was met. If you disagree, look in the meat case, in the frozen food shelf, or in your childs nugget box at McDonald's. This change was not achieved out on the family farm.

Kansas is not a big player in the pork industry. A 2.5 percent increase in breedings in the other states would offset the yearly market hog production of Kansas. One very large slaughter plant could handle the state supply. My point is, that demand can be met in other states. Oklahoma and Texas wait with open arms.

HOUSE AGRICULTURE
2-2-93
ATTACHMENT #6

Changing the laws will not doom the family hog farm. It will bring change. I believe numbers will continue to decline until a degree of profitability for the pork farmer can be maintained year in and year out. Grain farmers and implement dealers also continue to decline because they too are not exempt from change.

The way to stay in business for the next ten years is to win the lottery or make the necessary industry required changes to stay profitable. The industry will require more and more improvement in the economic traits such as feed efficiency, number of pigs produced and carcass desirability. Lack of improvement in these traits is usually brought about by a producer who wants to continue traditional management practices, wants to be his own nutritionist or wants to practice small population genetics.

The very businesses that are so feared in Kansas continue to play a vital roll in meeting these industry demands. They have spent heavily in environmental and genetic research in which all producers can benefit. Improvements in these areas can be made more quickly because there is less red tape and they have larger populations with which to work. These businesses must also maintain profitability to the shareholders while developing this technology.

In conclusion; let's make changes and see if the situation improves. As it is now, both sides are without gain. I believe an equilibrium will be met between the different type producers. At that point the consumer will have a quality product in enough quantity and at an affordable price.

February 3, 1993

TO: Agriculture Committe Members

FROM: Dan Massoni
RR 1, Box 111
Kismet, Kansas 67859

My name is Dan Massoni. I am the fourth generation to farm our family farm in southwest Kansas. I have been farming for 15 years. I raise wheat, corn, grain sorghum & soybeans. From 1979 to 1988 I had a 90 head farrow to feeder pig operation.

My father at the age of 50, due to finanical and health reasons had to leave the farm and pursue a different career.

Because the farm would not support both my brother and myself, he went back to school and now has a job out of state in a different industry.

In southwest Kansas we have a climate that is favorable for cattle feeding and swine production. This in turn creates a more competitive market for the grain we raise by paying premium prices.

Because of the present corporate laws Dekalb Swine Breeders, located in southwest Kansas, has moved new construction and improvements to Oklahoma. This will reduce the amount of feed grain products bought locally. The Oklahoma panhandle farm producers will reap the benefits of our loss of higher prices. This will leave us with few options for premium prices.

HOUSE AGRICULTURE
2-2-93
ATTACHMENT # 7

This is only one of several corporations that have chosen to locate in another of our neighboring states.

By keeping the corporations in our state we help our local economy by creating jobs in trucking, repair shops and other related businesses. These people spend money with our local merchants by buying food, clothing, housing and other essentials.

My wife and I have chosen to diversify our farm operations by contract feeding pigs, in an effort to continue living on the homeplace. Unless economic conditions improve, I will most likely be the last generation to operate our family farm.

In closing I would ask you to please not shut the door on young farmers who could get started in farming by contract feeding and help existing farmers survive by contract feeding for corporations, the same corporations that help make our local markets competitive.

Dan Marsau

Testimony in Favor of H.B. 2069

By: Melvin Stanford, Farmer
Rt. 1
Admire, Kansas 66830

To the House Agriculture Committee
February 2, 1993

HOUSE AGRICULTURE
2-2-93
ATTACHMENT # 8

Mr. Chairman - members of the committee

Thanks for opportunity
Melvin Stanford - son

Really have mixed feeling about being here

Ks. Swine Profitability Conf.
Feel strongly about erosion of swine industry in Ks.

Raised on 5 cow 5 sow - 500 chicken farm

1963 - Bought 10 sows - side line - to use poultry buildings -

1973. Son Gary came home from school - expanded in hogs

1965 Swine producers LSM. 61 producers
Last year 7 - -

Hog numbers have declined

Why - as I perceive - lack of markets. -

1965 - Ks. Armour - Swift.
Wichita Cudahy,
Emporia - Farmstill
Ark City - Rodeo - Morrell.

Not a viable packing house in Ks.
Why -
Last year - Sioux City, Fremont, Crete, St. Joe.

8-2

The smaller producer does not have - competitive market

Ks. Producers lose #3-4 less than producers in states with market

A few years ago Wamego - Osage City, only recently lost out to Oklahoma -

We lose out in many ways:

1. Competitive market.

2. Market for grain -

3. Tax base -

4. Employment. -

On farm -

Packing industry

Urge you to extend to the swine industry the same opportunity that the cattlemen, the poultry industry, and the bunny folks have. —