

STATEMENT REGARDING

ECONOMIC CHALLENGES AND OPPORTUNITIES FACING AMERICAN
AGRICULTURAL PRODUCERS TODAY

HEARING OF THE
U.S. SENATE COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY

THE HONORABLE TOM HARKIN
CHAIRMAN

PRESENTED BY

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Thank you, Chairman Harkin, Senator Chambliss, and committee members for the opportunity to present the views and recommendations of the National Chicken Council on the very important and timely issue of the economic challenges and opportunities confronting agricultural producers. The National Chicken Council very much appreciates this effort to focus on the issues causing more than the usual number of challenges for animal agriculture.

My name is Bill Roenigk and I am Senior Vice President of the National Chicken Council. Companies that produce and process about 95 percent of the young meat chickens in the United States are members of the National Chicken Council. I am pleased to have this opportunity to share with you some of the challenges chicken producers/processors are attempting to successfully address. In today's operating environment the number of challenges seem to far out-weigh the number of opportunities. For my statement for today's hearing, I will use the term "chicken" and "broiler" somewhat interchangeably.

For the first time in 32 years, broiler production this year (2007) will be less than the previous year, according to USDA's latest (April 10, 2007) World Agricultural Supply and Demand Estimate report. Much of the cause for fewer pounds to be produced can be traced to government policy. In 1975 and in 1973, the last two times broiler production slipped below the previous year, government policy was also a major cause for the decline.

Essentially all of animal agriculture is reacting to the challenge of the very rapid and very significant increase in corn prices and related feed ingredients. One very fundamental example

of the challenge is to note the decrease in the average per capita consumption of poultry/red meat. In May 2006, USDA forecast combined per capita consumption of poultry/red meat for 2007 to be 225.6 pounds, a record quantity.

In USDA's latest (April 10, 2007) report, combined poultry/red meat consumption is now expected to be 220.0 pounds or 5.6 pounds less than USDA first forecast for 2007. Much of the loss of 5.6 pounds is the result of animal agriculture producers reacting to not just current high corn prices but also the likelihood that high corn prices will be a major factor in the operating environment for the foreseeable years.

Here is the species breakout for the 5.6 pounds decrease in consumption:

Average Per Capita Consumption for 2007

	May 2006	April 2007	Forecast	Forecast	Change	
			pounds			Pounds Percent
Broilers	88.4	85.0	-3.4	-3.9		
Turkey	16.6	17.0	+0.4	+2.4		
Beef	66.9	66.1	-0.8	-1.2		
Pork	50.8	49.3	-1.5	-3.0		
Other	2.9	2.6	-0.3	-10.3		
TOTAL	225.6	220.0	-5.6	-2.5		

Broiler consumption is now expected to be 3.4 pounds or 3.9 percent less than when USDA first forecast its outlook for this year. Estimates for beef, pork, and other (veal/lamb/spent fowl) are also reduced. Fewer pounds of meat for consumers also mean fewer opportunities for farmers and ranchers to generate income, jobs, and local and national economic activity.

To meet the challenge of getting back on the upward path of producing more poultry and red meat, an adequate supply of corn at competitive values must be available in the critical years ahead. Corn usage for ethanol will undoubtedly continue to increase. The tax credit incentive to blend ethanol gives ethanol producers an economic advantage to devote more and more corn for ethanol production. Chicken producers understand that corn farmers must have a price incentive to continue to step-up the size of their harvests. At the same time, chicken producers must have access to an adequate supply of corn at a price that allows them to compete for consumers' food dollars at-home and abroad.

The National Chicken Council recommends that new provisions be created that provide options for non-environmentally sensitive acres in the Conservation Reserve Program (CRP) to better react to market forces. Such options will help in meeting the rapidly expanding demand for corn. In addition to provisions that would permit CRP contract holders of non-environmentally sensitive acreage to more timely react to market forces by exercising an option of early-release from their contracts, the National Chicken Council sees another option for these types of acres. Grains and oilseeds could be grown on non-environmentally sensitive cropland if the harvest

of these crops is dedicated to the production of biofuels. These acres could continue to remain in the CRP. At the same time, crops for biofuels in these CRP acres would have to follow practices that protect wildlife reproduction and populations. Until there is a significant breakthrough in corn yields, the only measurable way to produce more corn is to have more corn acres harvested.

If there is a significant shortfall in any corn harvest over the next five to ten years, there will be little ability to allocate a severe shortage of corn without causing a major disruption in animal agriculture. Before U.S. animal agriculture faces a year when total demand for corn far outstrips the supply of corn, an appropriate plan of action must be developed. Such a plan should include a relief valve on the renewable fuels standard (RFS). This action would be warranted in such a major shortfall event. The ratio of projected corn ending inventory to corn usage could be one signal or factor to determine that a relief valve for the RFS is needed.

In addition to adjusting to the cost of feeding chicken, companies continue to work to improve their biosecurity, monitoring, and surveillance programs to protect their flocks from avian influenza (AI). USDA and the other agencies working to protect domestic flocks from all types of avian influenza are commended for the dedicated and diligent job they have done thus far. Adequate funding and resources are critical to maintaining the current success, particularly for surveillance activities in wild birds, commercial flocks, and live bird markets.

Adequate funding is also needed to support USDA's Foreign Agricultural Service to enhance and build on record farm exports. At the same time, the needs of USDA's Animal and Plant Health Inspection Service are expanding, especially internationally. With tariff trade barriers being reduced, foreign governments increasingly use non-science based sanitary and veterinary provisions to slow or halt U.S. agricultural exports. Agricultural animal disease issues continue to challenge APHIS personnel and budget resources.

As poultry growers and other animal agriculture producers work to become better stewards of land, water, and air, many have found USDA's Environmental Quality Incentive Program (EQIP) to be of great help. Assistance to farmers in developing and improving their nutrient management programs is a good use of EQIP funds. Also, assistance with the investment necessary to follow-through with a proper and complete implementation of the plan is a prudent use of EQIP funds. The National Chicken Council urges the committee to provide an adequate budget for EQIP so that the environment can become even more protected.

Market structure, contract production, and related issues remain a focus of certain interest groups. For the chicken industry, vertical integration and contracting with family farmers to grow chickens and produce hatching eggs has stood the test of time quite well. The chicken industry has over the past six decades provided consumers at-home and abroad with an abundance of wholesome, affordable, and nutritious food. In 1955, broiler production was 2.4 billion pounds, ready-to-cook weight basis. This year (2007) broiler production will be 35.2 billion pounds or more than 14.5 times the quantity in 1955. Today, the price of chicken to consumers, adjusted for inflation, is less than one-fourth the cost of chicken 50 years ago. Another way to measure the cost of chicken to consumers is to note that in the mid-1950s, it took the average manufacturing worker 19 minutes of work time to earn enough in wages to buy a pound of chicken. Today, the same worker needs to work less than four minutes to

purchase a pound of chicken.

Contracts with growers offer many very important benefits. These benefits and advantages include substantially reduced market risks; quicker and more thorough understanding of production requirements; better access to capital; more reliable and predictable income flows to labor, management, and investment; and better opportunities to leverage success to expand and/or diversify farm operations.

Family farmers who contract with chicken companies have benefited in good measure over the past six decades. More than 25,000 family farms currently contract with companies to raise broilers and can do so more confidently because, to a very large degree, they are insulated from the risks of the chicken marketplace. Contract growers are basically guaranteed a fixed payment plus a bonus for above average performance. University studies have found that returns on investments for contract broiler farmers are very comparable to returns on investments for chicken companies. A young farmer starting out or a farmer with limited equity can obtain a loan to begin growing chickens because he/she can use the contract as collateral. Depending on the farmer's situation, more growout houses can be added to expand production and, in many cases, the farmer can mesh chicken growing with other aspects of the farming operation. Financial institutions tell the National Chicken Council that the default rate of contract growers is very low, perhaps, the lowest in all of agriculture.

Another measure of the successful relationship between companies and contract growers is that the majority of companies have a waiting list of growers who are requesting to add to existing growout housing capacity or farmers who wish to begin broiler growout operations. If the system was not a favorable one, would these waiting lists exist year-after-year and decade-after-decade?

The National Chicken Council does not see the need for new or additional laws nor USDA regulations that would involve government further in the grower-company business relationship. Nonetheless, if the committee does have concerns or questions about the chicken industry, the National Chicken Council would very much appreciate the opportunity to respond to those questions and address those concerns.

The National Chicken Council looks forward to working with the committee to help craft a new farm bill that does not just meet the current challenges and opportunities but truly helps set the foundation for generations of American farmers involved in animal agriculture to more fully benefit from the success of the expanding demand for food.

Thank you again for the opportunity to share the thoughts and recommendations of the National Chicken Council.