State of Livestock in America

**Hearing of the Senate Committee on Agriculture
Nutrition & Forestry**

**The Honorable Deborah A. Stabenow
Chairman**

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On behalf of National Chicken Council

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**Dirksen Senate Office Building
G50**

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Good afternoon, Chairman Stabenow, Senator Roberts, and Members of the Committee. Thank you, Chairman Stabenow, for the opportunity to participate in this important and timely hearing on the issues impacting the state of livestock in America. On behalf of the National Chicken Council, I appreciate your invitation to provide comments and recommendations regarding a number of issues and challenges confronting the chicken industry. U.S. chicken producer/processors will certainly need the Committee's full support if the chicken industry is to successfully overcome the increasingly difficult issues and challenges I will outline in my statement. As a point of clarification, I will use the word "broiler" and "chicken" interchangeably in my statement. And, I am pleased the Committee is including "poultry" in the definition of "livestock" for the purposes of this hearing.

My name is Michael Welch and I am President and Chief Executive Officer of Harrison Poultry in Bethlehem, Georgia. I have been President of Harrison Poultry since 1992. Harrison Poultry is a small, privately held company operating one slaughter plant producing a variety of products that are carefully and specifically tailored to our end-customer requirements. More than 1,000 employees work hard everyday to make Harrison Poultry successful. Also, over 125 family farmers contract to grow broilers and an additional 40 family farmers contract to produce hatching eggs for the company-owned hatchery. Each week Harrison Poultry processes more than

6 million pounds of broilers on a liveweight basis. Some of Harrison Poultry growers have been growing broilers since Harrison Poultry became vertically-integrated more than 40 years ago, even though the company contract is considered a flock-to-flock arrangement. Harrison Poultry and other companies in the chicken industry provide good, steady income for family farmers across the United States where broilers are produced. The majority of our workers have been with us for many years and this stability in our workforce, I believe, is one of Harrison Poultry's greatest strengths.

Harrison Poultry is a proud member of the National Chicken Council; and I, as a former Chairman of the organization, am pleased to present this statement on behalf of the National Chicken Council. More than 95 percent of the young meat chicken (broilers) produced and processed in the United States come from the Council's members.

Chicken Production and Increasing Feed Costs

Over the past five decades broiler production has decreased on an annual basis only three times: two years in the mid-'70s and again in 2009. With the very steady track record of increasing production, the industry's growth has offered increased opportunities for growers to expand their operations and build their incomes and net worth. That strong track record of growth is in very serious jeopardy because an over abundance of corn is being diverted to fuel production and thus squeezing out corn that should be available for feed.

In 2010 almost 50 billion pounds, liveweight, of chickens were produced using more than 55 million tons of feed for broilers and the broiler breeder flocks that provide the fertile eggs for hatching. Of the 55 million tons of feed, over 36 million tons or about 1.3 billion bushels of corn or corn products were mixed into the finished feed. The average cost of chicken feed before the corn price began to rapidly escalate in mid-October, 2006 was $139.20 per ton. Last month (May, 2011) the same ton of feed cost over $300 per ton, more than doubling the cost since the second Renewable Fuels Standard became mandatory. The vast majority of the run-up in feed costs was the result of corn more than tripling in price since 2006. Last year the chicken industry's feed bill was almost $13.0 billion compared with total feed costs in 2006 of less than $7.0 billion. On a cumulative basis with the higher feed costs, the chicken industry has had to pay over $23 billion more for feed since October 2006. If the ballooning feed costs for turkey production and table egg production are added, the increased cumulative feed bill for poultry and eggs is now approaching $30 billion.

When Secretary of Agriculture Earl Butz spoke about broilers many years ago, he would fondly refer to broilers as "condensed corn." During the early '70s when Dr. Butz was Secretary, it took more than 2.25 pounds of feed to produce a pound of liveweight chicken. Today the feed conversion is better than 1.9 to 1.0, with many companies having conversion ratios of better than 1.8 to 1.0. Except for farm-raised catfish, no farm-raised animal is a better converter of feed to food than chicken. Nonetheless, even very efficient feed conversion cannot mitigate the high corn prices and the significant impact on the cost of producing chicken. Commodity futures prices reflect, at best, a pipeline quantity of corn available as carryover stocks at the end of this current crop year. With this precarious situation, it appears there will be further escalation in the corn price to allocate the tightening supply of corn. Therefore, the market fundamentals imply even higher feed costs for the rest of this year and beyond. Also, not only will corn prices most likely be higher, the volatility in corn prices will be much greater.

Broiler companies until recently have tried to weather the storm of very high, very volatile corn prices. But, now, companies can no longer withstand the storm. Companies are trimming their production plans which mean growers will receive fewer chicks to grow to market-ready broilers and processing plant work shifts are being reduced or even eliminated. With less work time, workers are being laid-off. A broiler company in Georgia just announced 300 workers will not longer be needed. A fourth-generation family broiler company in Delaware has filed for bankruptcy protection while it works to secure another owner for its assets. A broiler processing plant in Virginia that was unprofitable was sold to another broiler company in the hopes that it can be made profitable so the growers can continue to grow broilers and the workers can continue to work. The U.S. Department of Justice intervened in this change of ownership transaction even though the premerger notification law did not apply in this case. Justice last week said it has reached an agreement in this case. The company, according to Justice, will be required to make "important capital improvements" in its operation as the main part of the settlement. It is my understanding that such a requirement by Justice is consistent with the new owner's previously announced plans for the plant.

I wish I could tell the Committee that the likelihood of more bankruptcies and changing of ownerships will diminish in the broiler industry. I cannot tell you that conclusion, because I believe just the opposite will happen. That is, a number of companies are trying to continue to operate on very thin financial ice. Banks and other lending institutions are telling these companies, "enough is enough," meaning sell your assets and repay your outstanding debt. What some analysts say about the broiler industry of "ten companies in ten years" may become a reality.

<u>Why the Future is Different than the Past</u>

Certain analysts have suggested that "we have been here before." That is, animal agriculture, including the broiler industry, has weathered high prices for feedgrains/oilseeds in years past and, for the most part, has survived. It is true that there have been high feed costs before now and, at certain times, the quick run-up in prices have come upon the market unexpectedly. In the past, the problem has been a one year or so supply problem. But now, however, the situation is not only supply-driven but also demand driven. U.S. animal agriculture has not been here before. For example, a number of econometric models both at universities and private analytical firms that analyze the animal agriculture sector and forecast how the sector interrelates with the feed complex have been reworked and have been significantly adjusted because the previous models simply could not handle the new dynamics of current and future scenarios. Government policy for corn-based ethanol that subsidizes, mandates, and protects it from competition has significantly changed how ethanol reacts to normal market forces and how it is put to the head of the line when competing for corn. This biofuel demand for corn is a new dynamic that changes essentially all relevant econometric models. Corn used for ethanol for the 2005/06-crop year was 1.6 billion bushels or 14 percent of total usage. For 2011/12 USDA is estimating over 5 billion bushels or more than 38 percent of this Fall's estimated corn harvest. If the corn crop this Fall drops below 13.0 billion bushels, as more and more analysts are expecting, ethanol's share could approach 40 percent of the harvest. The increase in the usage of corn for ethanol since 2005/06 has more than tripled.

The international demand for U.S. agricultural commodities must now more seriously and more fully take into account the China factor. Chinese government trade policy is often difficult to predict. Nonetheless, China's rapidly growing need for more agricultural imports seems somewhat evident. Many, if not most agricultural commodity analysts, believe China is poised to become a large net importer of corn on a consistent going-forward basis. If and when this development occurs, there will not be enough corn at reasonable prices to supply both domestic and foreign demand.

Increasing demand for corn is being placed on a limited supply. USDA is predicting ending corn stocks for 2011/12 at 695 million bushels which most analysts consider to be less than minimum pipeline requirements. There is no cushion, no extra bushels in inventory to carry the needs of the users of corn through the next crop year in the event of a shortfall in this fall's corn harvest. To assume that an adequate number of acres were planted to corn this year and will be planted at a sufficient levels during the next few years and to further assume favorable weather conditions for crops this year and the next few years are not assumptions the U.S. chicken industry is prepared to make, nor should prudent U.S. government policymakers be willing to make. Later this week USDA will report the number of acres of corn planted this Spring. I am not optimistic that USDA's number will be a sufficient number, but I am even more troubled by the acres of planted corn destroyed by flooding, drought, and other problems. Although USDA is estimating a below trend-line yield for corn this year, I question whether the deviation from the trend-line reflects the challenges occurring to the corn crop.

Contingency Plan for Shortfall of Corn Long Over-Due

Since October 2008 when corn prices escalated to record high levels, it has become more and more clear that the national policy regarding corn-based ethanol has been heavily tilted toward using corn for fuel rather than for food/feed. The need to re-balance the policy is long overdue. Picking one market for corn to be the winner at the expense of the loser should not be the function of government. Mandating the use of ethanol, subsidizing its cost, and protecting ethanol from competition is triple over-kill. Greater energy independence is a worthy goal for the United States, but the negative and unintended consequences of moving too far too fast with corn-based ethanol have become overly evident. For the chicken industry, like other animal agriculture producers, fewer pounds of product have been produced and will continue to not be produced in the foreseeable years. Consumers who have sufficient income to devote to cover the higher costs of food will reach deeper into their pocketbooks and pay the higher food prices. Consumers in this country and around the world who do not have an adequate income and, therefore, cannot continue to afford animal protein in their diets will have to shift to other foods, and in some cases, no food. With land being a limiting factor in the production of food, it is most likely all foods, not just corn, will be higher in price and tighter in supply, whether of animal origin or not.

Foremost is the need for a credible, equitable, and workable plan-of-action in the event of significant shortfall in the corn crop. I suggest the United States is now experiencing a significant shortfall in corn supplies. Planting conditions for corn, soybeans, and other competing crops have not been favorable this year. The growing season is still in its early stages with July's temperatures and rainfall being critical for the crop. Harvesting a record quantity of corn is needed, but it is a questionable prediction at this time. Animal agriculture is experiencing major disruptions while ethanol producers continue to outbid non-subsidized buyers of corn. The National Chicken Council recommends a plan be implemented that would assure the

Volumetric Ethanol Excise Tax Credit (VEETC) be sunseted at the end of 2011 and that the Renewable Fuels Standard be adjusted when the stocks-to-use ratio for corn drops to low levels, which is the situation we now face.

With the weakened U.S. dollar, U.S. commodities, including corn and other crops, are more affordable to foreign buyers. Therefore, U.S. animal agriculture is the most vulnerable corn buyer when the supply of corn suffers a shortfall. It is highly unlikely the current shortfall crisis will be a one-year problem. The essentially non-existent stocks of corn means more and more acres of corn will be required as will higher and higher corn yields for the next three years or more. In addition to a contingency plan that uses the ratio of corn-stocks-to-use as a trigger mechanism for the Renewable Fuels Standard, the National Chicken Council also recommends that USDA be required to implement a plan to permit non-environmentally sensitive acres to be released from the Conservation Reserve Program without penalty. More acres are needed, not just for corn, but also for soybeans, wheat, cotton, and other crops that compete with corn for acreage.

Ethanol Debacle

As I have noted, chicken companies are increasingly being severely impacted by the growing diversion of corn into government-subsidized ethanol programs. This year’s farmgate corn price will likely be three times higher than the comparable price in 2005/06, the year prior to implementation of the second Renewable Fuels Standard mandate. Government policy requires that a fixed amount of corn-derived ethanol be used in motor fuel every year. Taxpayers subsidize the program by 45 cents per gallon through the Volumetric Ethanol Excise Tax Credit (VEETC) paid to fuel blenders. This credit will cost the Treasury over $5.67 billion in lost revenue this year. Ethanol manufacturers are also protected from foreign competition by an import tariff of 54 cents per gallon plus another two percent ad valorem duty. The tariff sharply limits the amount of ethanol imported from Brazil and Caribbean counties, where it is normally produced more economically from sugar. The ethanol industry has been subsidized for more than thirty years and has a large guaranteed market through the biofuel mandate set by the Energy Independence and Security Act (EISA) of 2007. Fuel blenders are required to use 12.6 billion gallons of corn-derived ethanol in motor fuel this year and 15 billion gallons by the year 2015. Yet, all this ethanol is doing little to improve U.S. energy security, which is what Congress intended to do with the 2007 Energy Act. Ethanol made from corn is the only product that receives government subsidies, has a mandate for usage, and is protected from foreign competition. Enough is enough.

Proposed GIPSA Rule

In the 2008 Farm Act Congress directed the U.S. Department of Agriculture/Grain Inspection, Packers and Stockyards Administration (GIPSA) to develop criteria in five areas of poultry and swine contracts. The five areas are:

- Undue or unreasonable contractual preferences/advantages to/for particular contracting parties
- Whether a live poultry dealer or swine contractor has provided reasonable notice to a poultry grower or hog farmer of any suspension of delivery of birds or hogs
- Reasonable requirements for additional capital investments over the life of a contract
- Provide reasonable period of time for a poultry/swine grower to remedy a breach of contract
- Reasonable terms for arbitration in poultry and swine contracts

When USDA published the proposed rule in the *Federal Register* on June 22, 2010, interested parties were given 60 days to comment on the rule. The very short comment period provided an insufficient time for a serious and thorough analysis of the rule. Further, there was no credible, adequate economic impact analysis accompanying the proposed rule. Most egregious, the proposed rule went far beyond what Congress had instructed USDA to consider. After significant debate, USDA extended the comment period an additional 90 days.

Six areas in the proposed rule where GIPSA went beyond what Congress instructed are as follows:

- Onerous recordkeeping requirements

- Redefines "competitive injury" requirements
- Redefines the term "fairness"
- Additional capital investment requirement for grower to recoup 80% of costs
- Modification in the payment system to growers
- Disclosure and online publication of contracts

The rule, as proposed, would cost the broiler industry over $1 billion during the first five years, and further, would change the way companies and growers do business that has been successfully conducted for more than five decades. The vertically-integrated industry structure with growout contracts with family farmers is a system that has been successful and has made the U.S. chicken industry the most efficient and economically-viable in the world. The rule would put the U.S. chicken industry at a global disadvantage, as other countries would not have to face these onerous requirements. The rule would create uncertainty and cause unnecessary and costly regulatory and legal burdens in the marketplace by making it much more difficult for companies and contract growers to get competitive financing. In addition, companies would not have the incentive to use capital to improve and expand operations; rather there would be more of a financial incentive to restructure their businesses to include their own growout operations. USDA needs to withdraw the proposed rule and start over with a proposed rule that reflects the Congressional mandate and simple, logical common sense. The National

Chicken Council also believes that a robust, thorough economic impact analysis by USDA will conclude the cost impact is well over $100 million, the threshold that triggers such a study and, further, will find the cost of implementing the proposed rule far out weighs the benefits, if any.

<u>Time for Free Trade Agreements</u>

President Obama in his 2010 State of the Union speech called for a doubling of U.S. exports within five years. An important part of his effort is for have Congress approve three pending trade agreements: Colombia (signed in November 2006), Korea (signed in June 2007), and Panama (signed in June 2007). The White House's primary argument for passage of the free trade agreements (FTA) is that several hundred thousand jobs would be created and the U.S. economy will be stimulated.

Under the Andean Trade Preference Act, Colombia faces no tariff barriers on its agricultural exports to the United States. Approval of the agreement would not change that situation but it would add almost $1 billion of new U.S. agricultural exports to Colombia on an annual basis. In 2010 U.S. poultry exports to Colombia were $21.3 million compared with a five year (2005-2009) average of $13.2 million. When the agreement is fully implemented, poultry exports are expected to increase four-fold from the five-year average to reach about $55 million.

For Korea almost $2 billion additional U.S. agricultural exports will flow annually under the agreement. In 2010, U.S. poultry exports to Korea were $91.9 million compared with the five average (2005-2009) being $51.0 million. Under the agreement, U.S. poultry exports are forecast to triple compared with the five year average to reach over $150 million.

U.S. agricultural exports to Panama are expected on an annual basis to increase $200 million or more upon full implementation of the agreement. Panamanian agricultural exports to the United States enter with zero import tariffs under U.S. preference programs. U.S. poultry exports to Panama in 2010 were $14.4 million compared with the five year (2005-2009) average of $9.6 million. U.S. poultry exports are forecast to more than double the five year average and reach about $20 million sometime well before full implementation of the agreement.

Taken together these three markets could add over $150 million to U.S. poultry exports, more than double the combined five year average. That is, U.S. poultry exports are forecast to exceed $225 million compared with $74 million for the five year average for the combined total of these three countries.

With the United States two largest poultry export markets, Russia and China, severely disrupted and curtailed from previous trade levels, it is more important than ever to expand poultry sales to other world markets. Further, Congressional approval of these FTAs will encourage the U.S. Trade Representative to seek out and secure new trade agreements with several interested countries. Passage of these trade agreements would cost taxpayers essentially nothing but would create several hundred thousand jobs in the United States while providing for a more robust general economy. While there are reports of Congress working of technical language for passage of these agreements, the National Chicken Council is not aware of implementing legislation which is necessary for a Congressional vote. The National Chicken Council believes certain interests continue to pursue a strategy that prevents Congress from being given the opportunity to vote on the FTAs. If NCC's belief is correct, it is highly unfortunate that jobs that would be created from stimulated trade are not available to the nine percent of Americans who are unemployed. It is difficult to think of a time, such as now, when more jobs and an improved economy are more truly needed.

Risk Management for Poultry Farming

In addition to the challenges being caused by the high cost of feed, a number of companies and growers, especially in Alabama and Mississippi were challenged this Spring by severe tornadoes. Birds were lost, poultry houses destroyed/damaged, and power sources to operate plants and facilities were interrupted. Weather events, such as tornadoes, hurricanes, flooding, and similar, while not common in terms of striking the poultry industry, nevertheless, can, and do, result in severe disruption to operations and cause the financial strain. Most processors have sufficient insurance coverage to address damages and business interpretations. However, growers tend to have more limited coverage. So, unfortunately when disaster does happen, growers can face a very difficult time re-grouping and getting their growout and breeder operations back to normal.

USDA has studied risk management programs that could possibly help address disruptions to poultry growers and other segments of animal agriculture. However, the National Chicken Council is not aware that these studies have moved beyond that stage. It may be time for USDA to conduct at least a few pilot projects to determine the best way to assist growers in managing risks caused by weather, disease, and other potential disruptions to operations.

Conclusion

While there are many issues impacting the state of the chicken industry, I have limited my statement to what the National Chicken Council considers to be top priorities. To summarize those priorities, I note the following:

- The rules of the game must be balanced and the playing field should be leveled to permit chicken producers and other animal agriculture producers to more fairly compete for the limited supplies of corn this year and in the next few years. Included in this effort must be a safety-valve to adjust the Renewable Fuels Standard when there is a shortfall in corn supplies. In addition, a plan should be implemented to allow a reasonable number of good, productive cropland to opt out of the Conservation Reserve Program. This provision must be acted upon as soon as possible.

- With respect to the USDA/Grain Inspection Packers and Stockyards Administration's proposed rule addressing competition and contracting in the poultry and livestock industries, USDA should withdraw its proposed rule and Congress should insist that GIPSA adhere to the legislative mandate regarding the type, scope, and intent of any rule that is implemented. Affected parties are anxious to see and review USDA's economic impact study on this issue.

- Regarding the pending three free trade agreements, the National Chicken Council suggests, as have other groups, that these agreements be called U.S. job-creation agreements. Increased poultry exports as the result of implementing these agreements would definitely result in more jobs in the poultry industry and more family farmers growing poultry.

- USDA should renew its effort to study and implement measures and programs that would assist poultry farmers to more affordably manage their poultry production risks.

The National Chicken Council, its members, and the many allied industry companies that support poultry production, processing and marketing look forward to working more closely with the Committee and others in Congress so that poultry producers have a better opportunity to successfully manage the increasingly difficult challenges and issues. Improving the state of the poultry industry not only helps poultry companies and poultry farmers but, perhaps, more importantly will allow consumers of poultry products to continue to enjoy an ongoing, adequate supply of animal protein at reasonable prices.

Thank you, Chairman Stabenow, Senator Roberts, and Members of the Committee, for the opportunity to share the thoughts, comments, and recommendations of the National Chicken Council. NCC looks forward to working with you to successfully overcome the challenges confronting the poultry producers and processors. I request that my statement be entered into the record of the hearing and I look forward to your questions and comments.