103

REVIEW OF FARM-TO-RETAIL PRICE SPREAD FOR PORK

HEARING

BEFORE THE

SUBCOMMITTEE ON LIVESTOCK

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

NOVEMBER 29, 1994

Serial No. 85

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REVIEW OF FARM-TO-RETAIL PRICE SPREAD FOR PORK

TUESDAY, NOVEMBER 29, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LIVESTOCK,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 1:15 p.m., in room 1302, Longworth House Office Building, Hon. Harold L. Volkmer [chairman of the subcommittee] presiding.

Present: Representatives Peterson, Gunderson, Frank, and Roberts (ex officio).

Also Present: Representatives Johnson, Nussle, Bishop, and Pomeroy.

Staff present: Glenda L. Temple, Hearing Clerk; Jim Davis, Timothy P. DeCoster, John Frank, Dan McGrath, and Dale Moore.

Mr. VOLKMER. The Subcommittee on Livestock is meeting today to review the sharp decline in many prices received by pork producers and the farm-to-retail price spread for pork.

Pork producers who I have talked with are growing increasingly alarmed at both the drop in prices and the prospect that this situation may continue for some time. They are also concerned that consumers are not seeing a corresponding drop in retail prices, so they are asking me where that consumer dollar is ending up.

Producers are also anxious to see that product move, or else the surplus—in other words, ease the surplus so that the surplus does not continue to depress prices for a longer period of time. It is somewhat ironic that at the same time that producer prices are at a 22-year low, the producers themselves are paying for promotion programs to spark greater consumption, while others are gaining the profits.

One of our purposes today is to look into the farm-to-retail price spread, how it compares to historic margins, the factors that affect it and how it might be expected to change in the months ahead.

Beyond the price spread issue, we also want to consider the overall effects of the low cash prices on pork producers. The projections I have seen from the University of Missouri are for these low prices to continue well into the next year and our Members need to be aware of the impacts that will cause.

I will note that I have received two letters from producers in my district and copies of his sales tickets, showing on one that he received $27.50 per hundredweight for hogs sold on November 2, and then eight days later, he got $26.50 per hundredweight. These are well below break-even prices and they are actually headed in the wrong direction. No one can stay in business for long losing that kind of money, so this is certainly a critically serious situation for pork producers all over this country.

We on this committee are well aware that agriculture is a partnership of many businesses, including not just producers, but bankers, implement dealers, seeds and feed stores, processors, and retailers. These sectors all depend on each other for their common well-being and we must be cognizant of the fact that a chain is only as strong as its weakest link, and at this point producers are in serious trouble.

I am sure we will have an informative hearing today and I expect we will continue to work on this issue in the next session.

But before proceeding further, I want to take a moment to recognize our dedicated clerk, Glenda Temple. Glenda is retiring next month and her departure will be a true loss for the committee. Over the years, beginning even before I joined this committee, Glenda has staffed countless hearings and business meetings in a thoroughly professional manner. She has been responsible for every aspect of hearing management, removing furniture and fixing microphones, to distributing materials and keeping track of the Whip minutes.

She is also the one that I count on to track down an occasional ashtray. We will never know all of the things Glenda has done to make us look good through all these years and we will truly miss her steadfast committed work.

Glenda, I understand you will be moving home to Oklahoma. Let me personally thank you for all your good work and extend to you my very best wishes for your future endeavors.

At this time, I would like to include in the record a statement of the ranking minority, soon-to-be chairman of the committee, the Honorable Pat Roberts.

[The prepared statement of Mr. Roberts follows: [1]

The Honorable Pat Roberts
Hearing Statement: Livestock Subcommittee
"Review of farm-to-retail price spread for pork"
November 29, 1994

I want to thank the Subcommittee leadership for calling today's hearing to examine the factors contributing to the current farm-to-retail price spread for hogs and pork products. Hog producers across the nation are being hammered by the lowest market prices in nearly two decades -- prices that have already forced several Kansas producers to close the doors on their hog operations.

What is especially troubling -- and I am hopeful Mr. Collins can clarify any misperceptions I might have -- is that the supply, demand, consumption, export, etc., numbers seem to indicate that prices should be tracking the trend line of the past two or three years. Further, I suspect that the numbers I have access to may be somewhat dated. Which leads to a simple, but hopefully viable, suggestion to Mr. Collins that USDA increase the frequency of its livestock data reporting, particularly with respect to import and export numbers for hogs and cattle.

I also am looking forward to today's second panel of witnesses in hopes they can enlighten us as to what is going on -- and why -- and hope they will provide us with their strategies and/or ideas for moving market prices out of the cellar. Note that I said strategies for moving prices out of the cellar.

It is in no one's best interest to resolve this situation by bringing retail prices down to decrease the spread. Packers, processors, wholesalers and retailers all have margins to cover. I understand and appreciate that. The bottom line is that hog farmers also have a margin to cover, and $29 hogs is not getting the job done.

Mr. VOLKMER. And at this point and at this time, since he has now arrived, I have talked as slow as I can to get him here, I would like to recognize the gentleman from Wisconsin, who is the ranking minority of the subcommittee and soon-to-be chairman, hopefully, of the Livestock Subcommittee, if we have a Livestock Subcommittee. I don't know what we're going to have. Maybe he can tell us later.

Mr. GUNDERSON. Just ask Mr. Nussle.

Mr. VOLKMER. That's right. We will find out what subcommittees and how many subcommittees we are going to have. But I am sure the gentleman from Wisconsin will be Chairman of one of them next year and I am sure we will continue to examine not only pork prices, but other aspects of agriculture and how they affect our consumers and also how they affect our producers.

The gentleman from Wisconsin.

OPENING STATEMENT OF HON. STEVE GUNDERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. GUNDERSON. Well, thank you very much, Mr. Chairman, and I appreciate the fact that you are holding this hearing and I think that the issues that you want to focus on this afternoon, unfortunately, are not going to conclude with the end of this hearing or the end of this session.

And from that perspective, let me just assure this is one area, if I am lucky enough to chair this subcommittee in the future, that we will continue, because the dramatic depression that we have seen in prices is, I think, just one of the many issues that the pork industry is facing that we are going to have to look at over the next couple of years and we simply want to continue that with you.

I have a statement I want to insert in the record and, Mr. Chairman, let me also make a personal remark and that is to you, Glenda. I hope you are not leaving because we are coming into bar. I hope we have not driven you out of town, because you have, I think, have displayed the kind of bipartisan professionalism and the kind of personal friendship that has meant so much to so many of us. And let me just say, for all of us on our side of the aisle, you are a wonderful friend and a wonderful person and we wish you all the best.

[The prepared statement of Mr. Gunderson follows:]

PREPARED STATEMENT OF THE HON. STEVE GUNDERSON

RANKING MINORITY MEMBER

HOUSE SUBCOMMITTEE ON LIVESTOCK

NOVEMBER 29, 1994

MR. CHAIRMAN:

For those of us with significant pork-producing areas within our respective districts, it is no secret that market prices headed south in a hurry this fall. Simply stated, there's a glut of pork on the market right now.

If that wasn't bad enough, the percentage of the retail prices received by pork producers, compared to wholesalers and retailers, is at a five-year low. Accordingly, farmers are not only facing a bad market, but an increasingly smaller percentage of that bad market.

Interestingly, in October, 1994, pork producers are only getting 25.7 percent of the retail price of a pound of pork in the supermarket with the remaining 74.3 percent of that price going to the wholesaler and the retailer of that product. By way of comparison to previous Octobers, that same pork producer was receiving between 33 and 37 percent of the retail price of a pound of pork from 1991 - 1993 and a full 40 percent of that retail price in from 1989 - 1990. It would seem that downward fluctuations in the hog market are not being shared equally by the "partners" who deliver pork products from the farm to the supermarket. Those of us with large dairy interests are all to familiar with this scenario.

As such, I believe that it is very appropriate for us to review the farm-to-retail price spread of pork products, Mr. Chairman, and I commend you for holding this hearing. I look forward to the testimony of the various witnesses and, perhaps, later to looking into the causes of the existing glut in the hog market.

The CLERK. Thank you.

Mr. VOLKMER. Thank the gentleman from Wisconsin.

At this time, I recognize the gentleman from South Dakota.

OPENING STATMENT OF HON. TIM JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. JOHNSON. Thank you, Mr. Chairman, and I join in your comments and the comments of Mr. Gunderson relative to Glenda, and we all wish you very well and thank you for the wonderful professional service you have provided to our committee.

I want to thank the gentleman from Missouri for agreeing to hold this hearing today after a request made by several of us on the Ag Committee. There is a sense of frustration and fear among hog producers who are facing a number of challenges, many of which are really beyond their control.

These include the so-called mountain of meat we keep hearing about which has caused pork, beef, and lamb prices to take a tumble or remain below average. There are other issues such as corporate involvement in hog feeding operations and the cost of meeting a number of environmental regulations, which have been imposed by local, State and Federal Governments. All of these factors are making staying in business harder and harder for many family producers.

The current hog prices are some of the worst experienced in a number of years for the producers in my State of South Dakota. These are the folks that have hung on and weathered the storms in the past years, only to face the impossible situation of $28 hogs, which doesn't allow them any profit at all.

Meanwhile, the packer and retail share of the price paid for that hog are at higher levels in relation to past years. This situation has led many of my producers to question what is taking place in the market and why the lowered prices they are receiving is not being reflected in the retail price that consumers are seeing in the grocery store.

It is my hope that this hearing and the request of several Midwestern Senators will help to shed some light to our producers on why this gap in the farm-to-retail price is taking place. Even with efforts by the Clinton administration to help shore up the pork industry through EEP offers and school lunch purchases, the experts are telling us it is going to be a long road back to decent market prices.

I hope my producers in South Dakota and throughout the country will not be forced to liquidate because of this. Livestock is South Dakota's number one cash crop, and the health of our livestock sector determines the well-being of our State's entire economy.

Again, thank you, Chairman Volkmer, for convening the hearing today. As co-chair of the Congressional Pork Industry Caucus, I am certain all of my colleagues with significant pork production in their districts are also appreciative of your efforts.

This hearing is also important for all the consumers we have in our districts if the price they are paying in the grocery store does not reflect the oversupply of meat and low prices being received by producers. I look forward to the testimony of the witnesses scheduled to appear and to the continuing input that I have received from the South Dakota Pork Producers Council as we deal with the crisis.

And, Mr. Chairman, I would like to ask unanimous consent to submit into the hearing record a copy of a letter that several of my colleagues and I sent to you requesting the hearing. I would also like to submit a copy of a letter I received from the South Dakota Pork Producers Council, as well as copies of the letters sent to the various meat industry groups by our colleagues on the Senate Agriculture Committee.

[The prepared statement of Mr. Johnson follows:]

OPENING STATEMENT OF CONGRESSMAN TIM JOHNSON

HEARING ON FARM-TO-RETAIL PRICE SPREAD FOR PORK BY THE LIVESTOCK SUBCOMMITTEE, HOUSE COMMITTEE ON AGRICULTURE

Short

NOVEMBER 29, 1994

I want to thank the gentleman from Missouri for agreeing to hold this hearing today after the request made by myself and several of our colleagues here on the Agriculture Committee. There is a sense of frustration and fear among hog producers who are facing a number of challenges, most of which are beyond their control. These include the so-called "mountain of meat" that we keep hearing about, which has caused pork, beef and lamb prices to take a tumble or remain below average. There are also other issues such as corporate involvement in hog feeding operations and the cost of meeting a number of environmental regulations that have been imposed by local, state and federal governments. All of these factors are making staying in business harder and harder for many family producers.

The current hog prices are some of the worst experienced in a number of years for the producers in my state of South Dakota and these are the folks who have hung on and weathered the storms of past years, only to face the impossible situation of $28 hogs, which doesn't allow them an ounce of profit. Meanwhile the packer and retail share of the price paid for that hog are at higher levels in relation to past years. This situation has led many of my producers to question what is taking place in the market and why the lowered price they are receiving is not being reflected in the retail price that consumers see in the grocery store.

I hope that this hearing and the request by several Midwestern Senators will help to explain to our producers why this gap in the farm to retail price is taking place. Even with efforts by the Clinton Administration to help shore up the pork industry through EEP offers and school lunch purchases, the experts are telling us it is going to be a long road back to decent market prices. I hope that my producers in South Dakota and throughout the country will not be forced to liquidate because of this. Livestock is South Dakota's number one cash crop, and the health of our livestock sector determines the well-being of our state's entire economy.

Again, thank you Chairman Volkmer for convening this hearing today. As co-chair of the Congressional Pork Industry Caucus, I am certain that all of my colleagues with significant pork production in their districts are also appreciative of your efforts. This hearing is also important for all of the consumers that we have in our districts if the price they are paying in the grocery store does not reflect the oversupply of meat and low prices being received by producers. I look forward to the testimony of the witnesses scheduled to appear and to the continuing input that I have received from the South Dakota Pork Producers Council as we deal with this crisis.

Mr. VOLKMER. Without objection they will be made a part of the record at this point in the record. And I want to thank the gentleman from South Dakota for his statement.

[The information appears at the conclusion of the hearing.]

Mr. VOLKMER. At this point I want to recognize the gentleman from Iowa, from a State that produces more pork than anyplace else and I am sure he has a vital interest in the subject matter.

OPENING STATEMENT OF HON. JIM NUSSLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. NUSSLE. Thank you, Mr. Chairman, and I appreciate your calling this hearing. I am not a member of the subcommittee, but I do have a vital interest in this, of course, because of Iowa's strong involvement in the pork industry, and, in particular, I would like to note that two of the witnesses here today are from Iowa, the President of the Iowa Pork Producers Association, and the President of the National Pork Producers Council. Both Glen Keppy and Tom Floy are from Iowa and I have had the honor of working with them on many issues.

And in particular to you, Mr. Chairman, and also to our colleague, Tim Johnson, who circulated the initial letter back, I believe it was late October, that really brought this to a head, I appreciate that leadership that you have provided.

The pork industry obviously plays a vital role in our Nation's economy. In Iowa alone the industry generates over $11 billion in total economic output and more than 84,000 jobs in the State are related to the pork industry. So you can see why it is such an important issue. Hog prices are at a 20-year low, as we have heard, and is very harmful to that industry.

While it appears an oversupply of pork and beef and poultry have contributed to the low prices, there may be other factors as well that we need to look into. Farmers realize that the prices for their hogs will rebound when market conditions improve, but farmers also do not want to bear the weight of poor market conditions alone during this interim period.

According to USDA, farmers in 1990 received 88 cents of the $2.21 cents that consumers paid for a pound of pork. Or, approximately 39.8 percent, about 40 percent went to farmers. This year, however, farmers are receiving 56 cents of the $1.98 that consumers are paying, or 28 percent. So a drop from 40 percent to 28 percent is what we are looking at here in just the amount that farmers are receiving as a percentage of the total that consumers are paying.

While I am not prepared to draw any final conclusions from those kinds of statistics, they are disturbing and I believe this issue must be closely examined to make sure farmers are receiving a fair market price for their product, and that is what we are here to look into and discover and I appreciate your leadership, Mr. Chairman, in calling the hearing.

Mr. VOLKMER. Thank the gentleman from Iowa.

At this time, before we call our first witness, I would like to ask unanimous consent to be included in the record a letter from two of my pork producers in my district, from Donald DeLaporte—and, actually, there are three of them, they are a partnership. The other two, Mr. Boyd L. Harris and Bryan P. Richterkessing. I would like for those to be part of the record at this point in the record.

[The information appears at the conclusion of the hearing.]

Mr. VOLKMER. At this time, I would have a statement from Mr. Pomeroy to be inserted in the record.

[The opening statement of Mr. Pomeroy appears at the conclusion of the hearing.]

Mr. VOLKMER. And at this time I will call Mr. Keith Collins, Acting Chief Economist, United States Department of Agriculture, from Washington, D.C.

Mr. Collins, your statement will be made a part of the record at this point in the record. You may either summarize or review it in full. I understand it is not a very long statement so if you wish to review it in full you may do so, Mr. Collins.

Mr. COLLINS. Thank you very much.

Mr. VOLKMER. Thank you for being here today.

STATEMENT OF KEITH COLLINS, ACTING CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE

Mr. COLLINS. Thank you, Mr. Chairman. On behalf of the Department of Agriculture, I would like to express our thanks for inviting the Department to come up and participate in this review, this oversight of the pork industry and recent price developments.

I will, with respect to my statement, go through some of the highlights. I think I would like to do that by dividing it into three parts. First, focus on market prices and some of the market forces that underlie recent developments; then I would like to say a couple of words about industry structure, which has gotten a lot of attention; and then end by going back to margins or spreads. The order is a little different than in my prepared testimony.

Beginning with prices, we all know that the American farmer operates in a very risky environment. The Nation has been amazed this year as the corn production has increased almost 60 percent to 10 billion bushels and watched as corn prices fell 25 percent. As dramatic as that price decline has been during 1994, the drop in hog prices has been even more stunning.

Since February, cash market hog prices have fallen from over $48 a hundredweight to around $27 a hundredweight in recent days. That is a very large 45 percent decline.

There are two points I would like to make about that drop. First, it is unusually large, as we all know. But even so, large swings in hog prices have occurred frequently in the past. We can go back to 1991 and in a four-month period in 1991 there was a 31 percent drop in hog prices. Likewise, there have been very sharp increases. There was a 68 percent increase in hog prices during a 13-month period in 1989 and 1990. So volatility is common to this market.

The second point I would like to make is that the swings in hog prices are the result of a very complex set of linkages that involve feed costs, pork supply and demand, as well as meat supply and demand. This year, I believe that meat supply figures prominently in the explanation. Pork production in 1994 is forecast to be up 2.7 percent. That is not an overwhelming increase, but most of the increase is occurring in the second half of the year. Fourth quarter pork production is expected to be up about 5 percent.

But the pressure on pork this year is not coming from pork production alone, it is coming from production of all meats, which are expected to be up 5 percent. Meat consumption is likely to total a record 212 pounds per person.

A look at the September 1st inventory of hogs on farms shows that there are a large number of hogs that will come to market in the fourth quarter of this year, as well as in the first quarter of 1995. In our September survey, producers also indicated plans to farrow a large number of hogs this fall, which would show up earlier in the second quarter of 1995.

Another factor bearing on the prices is storage. November cold storage stocks were record large. As a result of the current hog inventories in our recent survey of farrowing intentions, the Department is forecasting 1995 pork production to be up about 5 percent over 1994, with production not slowing down until the second half of 1995. The result of that will be steady pressure on hog prices, which are not expected to move back into the mid $30 per hundredweight range until early in 1995.

Prices at these levels will continue to keep higher cost producers under financial stress and it will increase the number of small and less efficient producers that leave production. That is going to put the lower cost, typically larger operations, at an advantage. But even many of these operations, the large efficient operations, will call a halt to expansion with prices persistently below $30 per hundredweight.

The pork production increases we are seeing right now, I believe, are the result of two forces. The first is expansion by larger operations and the second is the returns to hog production that we saw in the early 1990s. Let me comment on the expansion by the larger operations.

I put a table in the back of my testimony which shows census of agriculture data on farm size from 1982 to 1992. It shows that the number of hogs on operations having fewer than a thousand head decreased by nearly 10 million hogs over that 10-year period, while the number of hogs on operations having 5,000 or more head, the larger operations, increased by about 7 million.

A recent study indicated that hogs marketed under contract rose from 5 percent of all marketings to a fifth, 20 percent, of all marketings from 1986 to 1992. USDA has only recently started tracking contracting data and will probably start publishing that next year. There is no doubt that the contract production has been an important factor in the expansion.

One recent survey of 57 very large operations showed that contract operations expanded at twice the rate of noncontract operations during 1993 and much of the expansion in hog numbers over recent years has occurred in States where contracting is growing.

Large hog operations, whether they are contract or whether they are independent, tend to have lower production expenses. At the Economic Research Service at USDA we have looked at our most recent cost of production survey for pork for 1992 and compared contract finishing operations with independent finishing operations for the U.S. as a whole.

The contract operations tend to be larger so the comparison really shows the gains that you get from both being larger and from contracting. And what those show is the contract operations on average had lower total economic costs of about $8 per hundredweight of weight gain.

Most of the economies came from lower fixed expenses, such as overhead, lower capital costs, lower hours of unpaid labor, lower death loss.

Let me turn to the second factor behind the recent expansion, and that is the returns to production. If you go back to 1990, market hogs were selling for over $50 a hundredweight for most of that year. If you look at 1991, 1992, 1993, market hogs were averaging in the mid $40 during that period. That meant good returns, particularly for those operations that were expanding, reducing costs, getting more efficient.

We can illustrate what has happened since by looking at one of the representative farms that we track and that is a 1,600 head farrow-to-finish operation in the North Central States. Returns above total cash expenses plus capital replacement generally were $5 to over $10 a hundredweight during the 1990 to early 1994 period. But during the month of November 1994, we estimate returns have fallen to a negative $10 per hundredweight.

I would like to go to the third part of my comments, and just briefly comment on price spreads, or margins, which have gotten a lot of attention recently. The Economic Research Service at USDA is the definitive source on margins. Their work starts with an average retail price for pork products based on prices of products recorded by the Bureau of Labor Statistics.

Retail prices are available at this point only through the month of October. Nationally, they have declined very little this year. Between January and October, the average retail pork price fell from $2.01 per pound to $1.97 a pound. That is only a 4 cent drop or about 2 percent.

The comparable wholesale price, to compare that to, is the wholesale value of the amount of pork needed to make one pound of the retail products. The wholesale price has fallen about 15 cents a pound from January through October. And then if you look at the comparable farm price, the comparable farm price has fallen about 25 cents a pound from January through October.

The result has been that the farmer's share of the retail dollar is now at a record low, 26 percent. And judging from informally looking at retail prices in November, and what we know about cash-market hog prices, I think that retail share will fall further during November. The farmer's share of the wholesale dollar is also a record low at 55 percent.

Obviously, when you get pork price changes like this, margins widen. And the overall difference between the farm price and the retail price, the farm-to-retail spread, is now a record high. I think in my testimony on page 8 I indicated it was the highest since 1990. That is a mistake. It is now a record high.

Now, that farm-to-retail spread can be broken into two components. The farm-to-wholesale component, which primarily goes to processors, and the wholesale-to-retail component, which primarily goes to distributors and retailers.

The farm-to-wholesale margin is up 19 percent from the first quarter of this year, through October. The wholesale-retail margin is up 13 percent from the first quarter of this year. So you have the farm wholesale up 19 percent, the wholesale-retail up 13 percent and the farm value from the first quarter to now down 30 percent.

I would like to make three points about the increased wholesale and retail spreads. First, that rising spreads as farm prices fall are commonplace in the meat sector. The farm retail spread from the first quarter to October, this record increase I talked about, is up 14 percent. That is a large increase. But you can go back to the second half of 1991. It rose 12 percent during that period, almost as much.

The second point I would like to make is that it takes time to return the spread to more normal levels and the time to adjust takes longer when farm prices drop than it does when farm prices increase. The general reason for that is that processors and retailers tend to respond quickly to their losses by raising prices, but tend to hold on to their profits when prices decline. And it takes the forces of competition to drive them down and ultimately competition does drive down the wholesale and retail prices, but that normally takes time.

What happens is that farmers begin to cut back. They sell off sows and reduce farrowings. Hog prices begin to rise and the margin begins to reduce from both sides, both from the retail and farm levels. Retail price declines and the rising hog prices rises.

The third point I would like to make is that processors and retailers obviously increase profits as the margins increase. It is difficult to unmask corporate profit reports for any year because of accounting actions that firms take and because of the diversification of a lot of these large processing firms. They are in other enterprises besides pork. Still, several large pork processing firms have reported their net earnings for the most recent quarter and those net earnings, as a percent of value of a share, generally are up two to three times what they were for the same quarter in 1993. But annual earning statements also show that some of these firms have had little or no profits in one or more of the last three years.

I would mention that profits and expansion in processing is one of the benefits of this situation, although I realize it is hard to find benefits looking through the eyes of a producer at this point. We do know that packers are slaughtering more hogs, hiring more people, their people are working more hours, working on Sundays, and consumers ultimately get more pork at lower prices.

I will conclude, Mr. Chairman, by restating that most U.S. pork producers are in for a difficult period over the next several months. Pork supplies will remain large for the rest of 1994. They will remain large for the first half of 1995. It will be December and beyond before costs begin to better reflect the drop in corn and soybean prices that we have seen this year.

That should cause the current minus $10 per hundredweight net return that I talked about to improve over the coming months, but it probably will not be until the second quarter of 1995 before those negative returns disappear.

This is going to increase the pressure on higher cost, generally smaller producers, to expand or to exit the industry. In fact, if you look at the most recent hog slaughter data, it does show some increase in sows being slaughtered indicating some liquidation is occurring in the north central area, probably from smaller operations.

The Department has done what it can to help alleviate the situation in its limited way, through purchases for the School Lunch Program, through GSM guaranteed credit for meats and the use of the Export Enhancement Program. If you are trying to find a bright spot, exports, particularly under NAFTA, are one. Pork exports to Mexico are up 70 percent through the first nine months of 1994.

Lastly, I would mention the Uruguay Round, the highlight of today's Congressional agenda, represents another opportunity to build pork demand. Certainly not in the short run, but over the long run, the agreement would increase market access for U.S. pork in the Far East and in the European Community.

Most importantly, I think, is the income gains that would follow from the agreement, both for the United States and for the world as a whole. I think for an income-sensitive commodity like pork, that would be sure to benefit under the Uruguay Round agreement.

Also, our own protections on pork are quite low. Our base period EEP expenditures, or subsidized exports, are quite low and our tariffs are quite low so we have very little to give up in the Uruguay Round.

I thank you, Mr. Chairman. That completes my testimony and I will try to respond.

[The prepared statement of Mr. Collins appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you very much, Mr. Collins. I appreciate your testimony here today. And it has been very helpful as we analyze the problems with our hog producers.

It appears from your statement, from what I have learned earlier, that the hog prices as we see them today are not going to change significantly to our producers in the near future; is that correct?

Mr. COLLINS. I think that is probably right. I think they will start to come up during a fourth quarter. We are entering a period where seasonally we usually get lower supplies and a little higher prices in the winter months, and so we think we will see some increase in the fourth quarter. Still probably below break even for most producers, it will be into the first and second quarter of 1995 before we start to see prices in the mid $30 per hundredweight range.

Mr. VOLKMER. All right. Then meantime, I notice here at the back on your chart, that, and I want to emphasize again that the differences in the wholesale-retail spread is probably higher now except for one instance than it has been since January of 1990. We have one instance in November 1991 and it was a little higher, but other than that it is higher right now than at any other time.

Mr. COLLINS. That is correct. The farm-to-wholesale spread is a record high, and the wholesale-to-retail is near record, only exceeded in the early 1990s.

Mr. VOLKMER. All right.

Mr. COLLINS. I might say the overall spread is a record high, too.

Mr. VOLKMER. Which means to me that the consumer really has not benefitted too much yet from the lower prices that the producer is receiving.

Mr. COLLINS. That is my observation. The consumer has not and that is unfortunate for the Nation's hog producers. Because one of the things that will help is if we can see lower consumer prices and we can see a response, an increase in demand as a result of that and move some of those large stocks that we have.

Mr. VOLKMER. We have Christmas time coming and I, for one, will be anxious to see when I look at the ads in the papers, both back home in Missouri and up here, whether I see hams at traditionally the same price they were last year or whether I see them maybe a third less or 25 percent less. That will tell me a little bit about whether or not the consumer is getting any benefit.

Mr. COLLINS. The hams are an interesting story. We saw ham prices fall to, I won't say they are record lows, but certainly some of the lowest levels ever last month, and then we have seen ham prices strengthen somewhat recently. That, of course, reflects the purchases for inventories for the holiday season coming up. But we expect that ham prices will go back down later in the fall and, hopefully, we will see those types of retail price declines you are talking about.

Mr. VOLKMER. All right. I notice that the bacon I buy in the store and the pork chops and my shoulders and my pork steak back home have not changed that much so far, and I know from the letters that I have put into the record some of my pork producers have not seen those changes either. That is what basically is the concern and that is the reason for the hearing. I am sure that if we saw those drop in prices, hopefully we would see more consumption.

Mr. VOLKMER. Is that a valid conclusion?

Mr. COLLINS. I think that is right. I think that would help to work off the supplies, the stocks that we have now and the supplies that are coming. I think that is one of the ways we get the margin back to normal and one of the ways we get farm prices starting to move again.

Mr. VOLKMER. All right. Thank you very much. The gentleman from Iowa.

Mr. NUSSLE. Thank you, Mr. Chairman. That is what you are talking about when you say income-sensitive, what he was just referring to; isn't that correct? That bullet price.

Mr. COLLINS. I would call that price-sensitive. With income-sensitive, I was really referring to what economists call income elasticity; how consumption changes as income grows. For pork it turns out as you look around the world, countries in the $7,500 to $10,000 dollar annual income range are very sensitive to increases in income for meat demand. When I was referring to the Uruguay Round I was referring to that.

Mr. NUSSLE. I wanted to make sure I got those two. There are some complaining that NAFTA is the cause for this drastic drop. What is your reaction to that? Your reaction in your statement appears to be that is not the case, but the clamoring still is out there that NAFTA is causing this somehow. And I would like to know what your view is on that.

Mr. COLLINS. I would have to say that NAFTA would be irrelevant to this. It is hard to say that trade is a factor at all in this when you look at the size of imports and exports. We have typically pork production in the range of 17 to 17.5 billion pounds per year and our exports are only 500 million, our imports 700 million.

Our trade levels really do not have much effect on our domestic prices. Maybe you could argue the NAFTA effect through the feed side, but even there I would have trouble. One of the benefits we expected out of the NAFTA for feed grains was that Mexico would take more corn, but their tariff rate quota is two-and-a-half million tons, a negligible factor on corn prices. So I don't see where NAFTA has much effect on this.

Mr. NUSSLE. If that is true, why is GATT so good as a possible solution, then? Again, I think I know the answers, but I would like to get your response.

Mr. COLLINS. Well, I would say that GATT is NAFTA multiplied many times over. And as I indicated in my comments, I really do not see much of an effect in the short-term from GATT. If you look at our analyses, we really do not see that much of an effect over the implementation period. Our projections are for exports of pork to increase by 10 to 15 percent by the year 2000. That is 10 to 15 percent on a base of about a billion pounds. So maybe that is an increase of 100, 150 million pounds. That might be worth 2 to 4 percent in price by the end of the decade.

But the real potential is going to be, admittedly this is getting down the road a ways, but in the 21st Century where we really start to see the income gains that come from liberalized trade around the world start to multiply and accumulate, the compounding effect of income growth in the world.

So we would expect that world trade in meats will increase quite a bit as we go through the first decade of the next century and that is where we will really see the gains to pork.

Mr. NUSSLE. Two other recommendations that come from the National Pork Producers in the statement that Mr. Keppy, I believe, will be making. One is for more purchases of pork products within our Federal Feed and Humanitarian Assistance Programs, as well as EEP. Do you see any increases we could expect, that the administration will be pushing in that vein?

Mr. COLLINS. Well, I can't answer that for sure. I would have to say that most recently we did have an EEP initiative for the countries of the former Soviet Union. That is something that perhaps could be a short-term tool. It will not be a long-term tool.

Under the Uruguay Round agreement, our EEP for pork would be capped. It is capped at a level that is so low it is virtually negligible so it may be something that could be used in the short-term, but I cannot say that I think there is much activity in that area going on right now.

Mr. NUSSLE. Can that start?

Mr. COLLINS. Well——

Mr. NUSSLE. We do have the short-term opportunity and there is a very short-term need. There is a desperate critical need out there and certainly the administration has shown some interest in this regard. I am just wondering if there is at least any, not predisposition, but any inclination to begin that process in order to help out an extremely important industry.

Mr. COLLINS. Well, the question can be raised, and I can't say that I am familiar off the top of my head with the allocation for fiscal year 1995, but certainly we are working under an EEP appropriation that is much reduced over last year's. It is $800 million total for all commodities and certainly would have to be within that reduced package that something would have to be looked at. I can only say I can carry that message back to the Department.

Mr. NUSSLE. Okay. In one of the final recommendations, or their suggestions they are making, it is that with regard to the Packers and Stockyards Administration, that they are encouraging the administration to assure more accurate price monitoring and timely reporting of market information. I have to state that I am not clear exactly if there has been a problem in this area.

Do you know if there has been a problem with either accurate information or timely information; and, if so, is there anything we can do to improve that? Obviously, this is an important part of making business decisions in the marketplace.

Mr. COLLINS. Well, I think there has been a desire on the part of the Packers and Stockyards Administration as well as many other people for more information about what is going on in the meat sector with respect to the structure of the industry and pricing. I think the Packers and Stockyards Administration is working in that area to provide more information. They certainly have got a very large study under way now to collect that—in fact, they are almost done with collecting that information and they will be putting out a lot of information during, I believe, 1995, probably the latter part of 1995.

But as far as some of the price information, some of the price information comes from other agencies, such as the Agricultural Marketing Service, that collects the cash price information; or the National Agricultural Statistics Service that collects farm price information. Like with every agency in USDA, you could always do better. There have been concerns about some of our NASS pork price data, for example.

With respect to packers and stockyards, other than the fact that people want more information about concentration, that is packer concentration in the beef industry and in the pork industry and how that affects pricing, I am not aware of any other demands for information.

Mr. NUSSLE. All right. Thank you, Mr. Chairman.

Mr. VOLKMER. Thank you. The gentleman from South Dakota.

Mr. JOHNSON. Yes, thank you, Mr. Chairman.

Mr. Collins, as you know, in your testimony, that as a percentage of retail price the farmer's share of the pork dollar has fallen to an all-time record low; the margin between what the retailers and wholesalers are able to sell pork for and what the farmers, producers, receive is at its largest level ever.

You explain when pork prices go up and wholesalers and retailers obviously raise their price quickly to reflect that increased cost. When pork prices drop precipitously, as they have recently, it is logical that any business would try to hold on to that profit as long as possible until competition forces prices to come down at the retail and wholesale level.

Is there anything that the pork industry can do to accelerate that competition so that, in fact, the grocery store prices do reflect more fully the drop in pork prices to the farmer?

Mr. COLLINS. That is a good question, and I would guess that the marketing experts at the National Pork Producers Council could probably answer that better me than me, but it seems to me that they are doing what they can do.

One of the things that causes prices to go down slowly is simply the lack of information on the part of consumers, consumers getting out and seeing that pork might be cheaper at one of these discount chain stores and shopping there instead of one of the major brand name stores. Seeing that start to occur will cause the regular supermarket to start lowering its price.

So information is certainly important, and that is one of the things that I think the pork industry has done well. We saw during the month of October pork being featured, you may know, the so-called white sale, things like that, which I think bring attention.

I was surprised during the month of November how little advertising I saw for pork. That is just me speaking personally, a sort of a windshield survey of anecdotal evidence. I didn't see as much as I might have expected. But it is tough to catch the eye of the consumer because right now we have low beef prices, for example, and we are seeing a lot of advertising on beef prices, so to some extent that is getting the attention of the supermarkets.

Mr. JOHNSON. It is your assessment that any long-term strategy designed to increase profitability to pork producers needs to include passage of the GATT agreement; is that——

Mr. COLLINS. That would be my judgment, yes. I don't see how defeat of the GATT agreement helps pork producers. It seems to me the risks with defeat are quite high. I have, as an economist, as one who works in projections at the Department, would have trouble even projecting that outcome, because I don't know how the rest of the world would react to that agreement being repudiated by the largest, most productive, trader in the world. So it seems to me that the benefits are on the side of passage.

Mr. JOHNSON. Shifting gears here a bit, do you feel that the current level of vertical integration within the pork industry is at such a level that one or two players who are involved in both production and slaughter can affect the market by their own actions? Have we reached that point?

Mr. COLLINS. I would venture a guess no, and I would temper that by saying that I await the Packers and Stockyards Study which will come out in 1995 and address that very question. Their study consists of six different components. One of the six components is to look at vertical integration and vertical coordination within the pork industry and the effect on structure and performance, so I am hoping that they will answer that question.

One of the things that economists look at to try and get at a question like this is does the packing industry have sufficient concentration to have a stranglehold on producers? Well, if you look at concentration in the pork industry, the top four firms account for about 44 percent of the slaughter. That seems large, but yet it is not large compared to other meat sectors. For steers and heifers, the top four have 78 percent of the slaughter. For sheep and lambs, they have 78 percent of the slaughter. Now, pork concentration can certainly be a factor regionally, but I don't have the regional data, so I really don't know.

Occasionally you will hear about instances where there might be a region dominated by a packer that has got contractees and the question is, what opportunity do those who are not contract sellers have if the contractees are providing most of the pork for that—or most of the hogs—for that packer. I have no hard data on the pervasiveness of that situation and I think we can only wait to see what kind of study comes out of the work that is being done at the Department now, but my feeling is, as a Nation as a whole, I really don't see it as a problem.

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. VOLKMER. Thank you. I have a couple more questions. I think it was clear in your statement, but I just want to verify again that when we look at pork prices, we cannot just isolate them in the total economy and say that their production itself of pork makes a difference what the pork price is. We have to look at the total meat situation; is that correct?

Mr. COLLINS. I think that is right. Meats are highly substitutable for the consumer and that is one of the problems we see now. We have seen this tremendous increase in beef production in the first half of this year, a 7 percent increase. We saw a real break in beef prices in the middle of the summer and that coincides almost with the break in hog prices which has occurred over the last two months, so that has certainly been a factor.

Mr. VOLKMER. Right. And they also compete with poultry and——

Mr. COLLINS. Also compete with poultry.

Mr. VOLKMER. So as long as we have the increases, you know, we are going to continue to see lower prices and, as you point out, until we see a reduction in the breeding stock out there, we are going to see increased—continued increased production.

Not too long ago, and I ask this question just to get it on the record so that—because it was put in one of my local newspapers by a hog producer and he raised the question that the low pork prices were due in part to the differences in inspection requirements for poultry as compared to meat inspection.

Do you have any indication that these differences are a factor?

Mr. COLLINS. No, I do not have any indication.

Mr. VOLKMER. I mean, we have had the same type of poultry inspection for several years, haven't we, when pork prices were $50 per 100, we were inspecting poultry the same way we are doing it now.

Mr. COLLINS. That is essentially correct. I don't think there have been substantial enough changes in inspection procedures to cause enough of a difference that would explain a 45 percent drop in hog prices.

Mr. VOLKMER. Now, can we expect a change in the structure of our pork production in what I call the farmers in the industry as a result of this price situation continuing?

Mr. COLLINS. I think this price situation will accelerate the trends that are already occurring. For many years at the Department, when we have looked at a typical or representative hog operation, we have looked at an operation that grew some corn, grew some soybeans, was farrow to finish, had maybe 100 sows.

That world is changing and it is changing in the data that we can see in recent years, and prices like this are going to accelerate that change. It is going to force producers to make decisions. They are going to have to decide whether they want to leave this business or they are going to have to decide how they want to survive in this business. There are a lot of choices for them if they want to survive.

For one, they can get larger. They can make that investment if they can secure the capital. Maybe right now is not the time to do that. They can look at contracting. They can look at being a finishing operation, being a farrow-to-finish operation, being a large independent. I think that is the direction we are moving. If anything, that is the direction we have been moving over the last four or five years.

We have seen changes in the organizational structure. We have seen changes in the farm size. We have seen changes in the on-the-farm technology which have led to lower costs and better quality pork, and I think that what we are seeing in the market prices right now is simply going to accelerate those changes for future years.

Mr. VOLKMER. So I will probably continue to see what I have seen in Missouri and part of my district as expansion into pork production. I have got some out there going at 100,000 pigs a year, 50,000 a year.

Mr. COLLINS. The mega farms or super farms, I think we will see more of that. I think I would expect expansion to slow during this period right now, but I think that that is what we are going to see in the future.

Mr. VOLKMER. Now, the question that the gentleman earlier asked, I don't remember which one of them, that in talking to some of my pork producers, I think they fear what may happen as has already happened in the poultry industry, and that you will see not only hog production, and I am talking about farrowing to finish, but you are going to see the same people process—slaughtering, processing, and marketing it, and so it really won't make any difference what the price is on the markets because they are going right to retailing it, and the only price they are concerned about is the price in the store.

Mr. COLLINS. You know, that is an interesting observation. To some extent we are seeing that now. We are seeing more branded products in pork. We are seeing more high-value products, more processed products, a whole range of products that are coming from packers that want an assured supply, a steady supply so that they know when it is going to come to their door, with a quality they want that they are putting their name on. And so that is a development that we have started to see now in pork. Now, how widespread that is going to get, how far that is going to get, I don't know.

It does strike me though, from looking at some of the costs of production data, that you don't have to have 100,000 sows to be efficient, like the example you mentioned in Missouri. An independent, a finishing operation, an independent farrow-to-finish operation that might have 2,000 sows, I think can be very efficient, be very competitive on the cost side.

Mr. VOLKMER. Do you believe that we will start to see a downturn in numbers this quarter on the market, or would you say the first quarter, second quarter?

Mr. COLLINS. I think what we are going to see is year over year increases, all the way through 1995, but we would see a downturn—it is a seasonal downturn, in the nominal amount of production. The total level of production would come down in the first quarter. It would still be up about 5 percent over the quarter the previous year, but the first quarter of 1995 should be down from the fourth quarter of 1994, and that should give a little bit of price strength.

Mr. VOLKMER. Where are we as far as processing capacity, cooler capacity and consumption of existing stocks? Are we going to see a big backlog here of pork that is going to be processed and being kept in storage until we can move it?

Mr. COLLINS. I can't answer the capacity question. I do think we are already seeing that big backlog of pork. When we looked at our November cold storage report, and it was record high, and certainly what you see in these cash market prices are an attempt by packers to back up some of that pork back to the farm.

When packers are offering $27—$27.50 a hundredweight, they are not trying to encourage hogs being brought to the packing plant. So we are seeing some of that backup now, I think.

Mr. VOLKMER. That is why you are seeing the average weights go up too on the hogs?

Mr. COLLINS. I think so.

Mr. VOLKMER. I have no further questions. Does the gentleman from South Dakota have any further questions?

Mr. JOHNSON. Just in closing. In terms of long-term trends, your charts show that farms that produce 1,000 or more hogs per year are growing rapidly, but farms that produce less than 1,000 are declining in levels of production rather rapidly. And that has regional implications that the hog industry is moving rapidly into Appalachia south.

Are we going to wind up with dislocation between areas of production and areas where the packing capability exists, and what does this mean to northern plains and corn belt hog production if this trend continues?

Mr. COLLINS. That is a difficult question. I think there is certainly a fear of dislocation that people in the north central States have. You can look at a State like Iowa and look at the cow-calf operations, the beef production that used to be there and how it has moved out, and there are certainly packing facilities in Iowa that bring in hogs from other regions, bring in hogs from Canada and so on to utilize their capacity.

One of the things that we have seen that has been behind the regional pattern that we see right now has been contracting. I would have to point to the growth in North Carolina, the tremendous increase in hog numbers that we have seen there, but as I look at what is going on there, it is hard for me to see why that growth couldn't occur in the north central States.

What is it that North Carolina has that gives it its unique economic advantage import production? I think that people can explain the birth of that industry there by looking at a particular processor that wanted a certain quality of pork, had some export markets. There was also a poultry industry that was bringing in feed grains already, and so there was an infrastructure there that facilitated pork production, and they chose to expand it with large operations that were under contract. There was also less of an environmental concern, I would have to say, when the industry started there.

So these were all factors that gave North Carolina a comparative advantage to get going, to get where it is today, but when you look at the economies that they were able to exploit there, there is no reason many of those economies couldn't be exploited in other regions of the country and in particular where you are located close to the source of soybean production and corn production.

I know there are limitations imposed by environmental problems and I know there are citizen attitudes about big operations which make them more difficult to establish, but even so, if you just look at the economics of it, there is really no reason why the north central States should fear losing much of their pork production capacity in the future, in my opinion.

Mr. VOLKMER. Thank you very much, Mr. Collins. I appreciate your testimony here today and we will now proceed with our next panel.

We have Mr. Glen Keppy, president, National Pork Producers Council, he is accompanied by Mr. Steve Meyer, director of economics, from the National Pork Producers Council; Mr. Tom Floy, president, Iowa Pork Producers Association, and Mr. Robert L. Shoup, pork producer representing the National Farmers Organization, and Mr. Jens Knutson, director, Economic Research, American Meat Institute, I appreciate all you gentlemen coming to the hearing table. And your statements will be made a part of the record at the point in which you testify and you may either review the statement in full or summarize it, however you so desire. We will hear from you in the order in which you were called and we will begin with Mr. Keppy.

STATEMENT OF GLEN KEPPY, PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL

Mr. KEPPY. Thank you, Mr. Chairman, and Members of the subcommittee. My name is Glen Keppy. I run a 225 sow farrow-to-finish operation in Davenport. I also raise corn and soybeans. I am currently president of the National Pork Producers Council which represents the Nation's pork producers and draws on its strength from its grassroots throughout the 45 State affiliate organizations. We are a proactive, aggressive organization committed to producing a high quality, nutritious product, enhancing producer profitability and remain competitive in the global marketplace.

The pork industry finds itself in a somewhat uncomfortable position as we testify before you today. In my business, and as president of the National Pork Producers Council, I have always taken the long-term view of the pork industry. Part of this long-term view means all segments of the pork chain to provide the consumer with a high-quality product at a reasonable price. In contrast to the long term, my comments today are oriented at recent developments in the marketplace.

Since Labor Day, the market of live hogs has dropped significantly. Prices paid to producers have fallen 32.6 percent from roughly $40 to $26 per 100 for Iowa and southern Minnesota hogs from the week ending September 4th to the week ending November 27th. This price decrease comes in the wake of increased hog slaughter this fall. However, we believe that market forces simply responding to higher live hog slaughter numbers do not tell the entire story.

While efforts to move products indicates success, the October 1994 live-to-retail-spread is at a record 146.5 cents per pound, up 5.1 cents per pound since September and up 20.3 cents per pound from October of 1993. Producer-funded promotions have done an admirable job in keeping retail demand up as retail price was actually constant from September to October, even though pork production was up significantly.

For January through October of 1994, the average retail price is up 2.5 cents per pound, while production is up 3.6 percent. This is quite an accomplishment considering lower beef prices and the ample supply of poultry.

The price effects of the wider margins are clear. Had margins in October of 1994 been equal to the averages of the preceding three Octobers, live hog prices would have been $7.41 per 100 higher than have been paid. Of this $7.41, $4.41 is attributed to the increased farm wholesale margin, while $3 is due to the increase in the wholesale, retail margin.

The numbers are even more dramatic if you compare October 1994 to October of 1993. On a percentage basis, the farm to wholesale share of the spread increased from 16.3 percent for the preceding three-year October average to 21 percent for October of 1994. The wholesale to retail spread increased from 49 percent to 54 percent for this same time period and the producer share fell by an average—from an average of 34.7 to the 26, an all time low.

Producers understand the cyclical nature of the free-market system and they understand that packers are adversely affected by high hog prices. However, in exchange for shouldering the burden of the lowest hog prices since 1972, producers expect increased retail space, more consumer loyalty, and a gain in market share.

As we work through this cycle, it is essential that all segments of the pork chain work together to increase the long-term strength and profitability of our industry.

In the near term, the NPPC is not seeking additional Governmental regulation. However, we would encourage Congress, as we have encouraged the Packers and Stockyards Administration, to enforce existing laws which monitor competitive behavior in the marketplace. In addition, we are encouraging Packers and Stockyards Administration to assure accurate price monitoring and timely reporting of market information.

Wherever possible, we would encourage Congress to help our partners in the pork chain understand that short-term profits and serious distortions in traditional price spread relations could seriously impair a bright, global future for the industry by severely impairing producers' ability to deliver adequate quantities of high quality product to market.

Market conditions also exist which can benefit the Government in making purchases of pork products for Federal Feeding and Humanitarian Assistance Programs, which would help alleviate these burdensome supplies.

The Federal Government can also help by insuring that export markets for U.S. pork are opened and remain accessible to our industry. U.S. pork offers a tremendous opportunity for Americans to make significant gains in the emerging field of value-added exports.

We appreciate the congressional interest shown in the situation America's pork producers find themselves in today. We request your continued vigilance regarding our industry during this price cycle as we encounter significant supplies of meat and our Nation's pork producers attempt to survive the severe price pressures they are experiencing in the marketplace.

Thank you very much for your interest. I highlighted the testimony that has been presented before you. At this time or later I would be happy to answer questions and to help accompany and answer the questions is Dr. Steve Meyer, an economist and in charge of our network and the initiative at NPPC. There are some charts that are also included that we would be happy to discuss. Thank you.

[The prepared statement of Mr. Keppy appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you very much, Mr. Keppy. We will go through all the statements before we go to questions and now we will have Mr. Floy.

STATEMENT OF TOM FLOY, PRESIDENT, IOWA PORK PRODUCERS ASSOCIATION

Mr. FLOY. Thank you to the Members of the committee for your interest in our industry and the challenges that we are facing right now. We appreciate any assistance or counsel that you can offer.

My family and I farm near Thornton, in north central Iowa. I have a 100-sow herd and operate on a farrow-to-finish basis and I am currently serving as the President of the Iowa Pork Producers Association. We represent about 20,000 producers and others involved in what we think of as Iowa's most important industry.

I would like to begin by reviewing briefly a few numbers. I do this simply to illustrate how dependent our State is on revenues from pork production and why the current price situation has such a dramatic impact on Iowa's economy.

Agriculture is Iowa's biggest industry and of all the cash receipts from agriculture, more than half come from livestock production. A majority of those livestock receipts come from the sale of hogs. This makes pork production the biggest single segment of Iowa's biggest industry. If we account for all the goods and services produced as a result of our industry, total output from Iowa pork production reaches more than $12 billion.

More than 93,000 Iowans depend on pork production for their jobs. That is one in every 16 jobs in our State and most of those are off farm in the input supply or the packing and processing industries. About 48 percent of our corn crop and 57 percent of our soybean crop has value added to it by feeding it to hogs in Iowa.

Over the past decade, hog production has been profitable in Iowa. Between 1983 and 1992, an average farrow-to-finish producer in Iowa made a profit of between $9 and $10 per head. That has attracted capital into the system. A result is that slaughter of hogs on a weekly basis has recently been running from 5 to 11 percent higher than the same period a year ago.

Total pork production on a year-to-date basis is up 3 to 4 percent. Additional pressure comes from the fact that year-to-date beef production is up by 6 percent, broiler production is up more than 7 percent. We now started to observe how sow slaughter is up dramatically, meaning producers are sending breeding animals to town because of the dim prospects of profits in the next several quarters.

The good news is that the pork demand is up by 1 percent from 1993 for the January-to–October period, in spite of the pressure from competing meats. This is probably the most frustrating piece of the puzzle for producers. The product is actually moving. Money is moving from the consumer into the system. Retailer profits are up. Packer profits are dramatically higher. But the prices we producers receive on the farm are down by one-third compared to this time a year ago.

The average price paid for hogs for the week of November 19th was $27.90 per hundred pounds. By comparison, the average producer on the Iowa State University recordkeeping system has an average cost of $27.34 just for feed.

Producers do understand that they are part of an entire production system. Over the past several years, culminating with the pork chain quality audit earlier this year, producers have really taken an honest look at themselves and their responsibility for the safety and quality of the product they raise.

Consumers expressed concern about food safety and producers responded with the Pork Quality Assurance Program. Retailers and packers sent us the message that consumers want leaner products and producers responded with large investments in leaner genetics and the housing and feeding programs these leaner animals require. Producers have worked hard to coordinate their production activities with those of the processing and retailing segments of the industry.

Producers have contributed hundreds of millions of dollars to advertise pork products being sold by the packers and retailers. We have tackled the complex task of educating doctors, dietitians and food editors about the quality of today's pork. In short, I think they have held up their end of the bargain. So you can understand why, when demand is good and money is flowing into the system, we feel badly used when our share of the pie is so small it doesn't even cover our own feed cost, much less other production costs, or any other sort of profit for the family.

The issues look more complex when we look at the structure and I know the committee has discussed somewhat on the vertical integration part of things, but individual producers who have made the commitment to be competitive, invest in modern genetics, housing and feeding and a management system still feel helpless in the face of all these developments which seem ultimately to block out the market access.

We probably have as many questions as answers for you today, but fundamentally, how do we, in a free-market economy driven by supply and demand signals, coordinate all the links in a production chain so that profits are distributed more equitably and more consistently.

I note with interest a recent action taken in Canada by the Ontario Pork Producer Marketing Board, which was reported in Feedstuffs Magazine. In Ontario, the packers and producers have agreed to negotiate prices upward because of their fear of losing hog production capacity if producers are forced to exit the industry due to low prices. This reflects a level of cooperation or coordination that we have not yet experienced in this industry in the United States.

Though the Ontario model may not be necessarily the best one for the United States, it does emphasize the fact that the producer, packer and retailer segments of the pork industry should become better coordinated so that the success in one segment doesn't come solely at the expense of other segments.

I think the Congress can help in two ways. First, Congress can shed some light on these issues by bringing the Packers and Stockyards Administration into the discussion. Specifically, we urge that the packers and stockyards engage in vigorous oversight of the industry to make sure the market access is available on an equitable basis to all producers, and that packers and stockyards specifically study and report on the availability of marketing contracts which may be used in the industry today.

The packers and stockyards have previously noted that packer ownership or operation of custom feed facilities may give rise to competitive problems in some situations. We urge their review of related situations in the pork industry.

Second, Congress can have a direct impact on the current price situation by encouraging the administration to focus on opening overseas markets for pork, like the recent export enhancement program for Russia. Additional pork purchases for the school lunch and breakfast program, the emergency food assistance program, and the food for progress program is also very beneficial in moderating the negative impact that the extremely large supplies of pork, and beef and poultry are having on producer viability.

I would also like to take this opportunity to draw your attention again to the inequity which exists between the standards for meat inspection and those for poultry inspection. A study by the American Meat Institute estimated that the differences in standards put pork producers at an economic disadvantage of $11 to $16 per head compared to poultry producers. The current low prices producers are receiving highlight the magnitude of the economic disadvantage caused by differences in inspection standards on issues like water weight gain, trimming versus washing, and mechanical separation.

To conclude, I don't overestimate the economic impact the current low hog prices are having on the vitality of rural Iowa. I am concerned that the lack of profitability in the pork sector of Iowa's economy right now may mean serious credit difficulties for many producers in the next several months. Again, I request your assistance on three fronts: Number one, to vigorously study and keep oversight of the industry price and market situations by the packers and stockyards.

Number two, stepped up the use of the pork in schoo! lunch and emergency feeding programs, and in programs like the export enhancement, and number three, resolution of the significant inequities that exist between meat and poultry inspection. I appreciate your kind attention and your remarks. Thank you very much.

[The prepared statement of Mr. Floy appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you. Mr. Shoup.

STATEMENT OF ROBERT L. SHOUP, PORK PRODUCER, REPRESENTING THE NATIONAL FARMERS ORGANIZATION

Mr. SHOUP. I am Bob Shoup from Orrville, Ohio, and we operate a 730-sow farrow-to-finish. By we, I mean my brother, two nephews and a son, all of us married, five families, and we also farm about 1,300 acres.

The thing that we have tried to do is to bring genetics on line in our operation that would give us a type of a product that we can be proud of when it gets to the dinner plate, and I think we have done that, and as many other people have. I am very conscious of the image that we need to portray to the consuming public.

We have been a participant in checking off many dollars as the rest of the fellows here at the table have to portray an image that has been effective. The people are going to the meat counter and picking up pork. What is very disturbing to me is that the farmers aren't going to the bank with that, that some of the other people in the industry who I call opportunists are going to the bank excessively with those—with some of the effort that belongs in our corner.

The Nation's hog producers are losing millions of dollars and the Nation's consumers are paying more than necessary for pork because all segments of the industry are not working together. This has been reviewed here before. This imbalance of returns is not conducive to the long-range help of the pork industry if it continues for any length of time.

Many highly efficient, independent pork producers will be forced from business. Their exodus from the pork production will in turn hurt thousands of rural communities, and from the projections that we have heard here today that I expect a major blood bath in the independent hog producers in this country in the coming year, I hope you agree there is a need for action. I request that you do what you can to assure a more equitable distribution of profit margins among all segments of the pork industry.

I want to relate to a neighbor that I have back in Ohio, a fellow by the name of Yuri Miller and his wife, Connie. Young people, aggressive in the pork business, selling feeder pigs, and when I drop in and talk to them, you can see the pain and the fear in their eyes because they don't see any way out, and I just wonder how many households across the hog belt in this country are experiencing that today, and I think it borders on being unconscionable for $20—$24 packer profits at a time like this when other people are bleeding and the product is moving.

I thank you.

[The prepared statement of Mr. Shoup appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you. Mr. Knutson.

STATEMENT OF JENS KNUTSON, DIRECTOR, ECONOMIC RESEARCH, AMERICAN MEAT INSTITUTE

Mr. KNUTSON. Good afternoon, my name is Jens Knutson and I am Director of Economic Research and Industry Relations for the American Meat Institute. The American Meat Institute is the National Trade Association representing meat packers and processors of beef, pork, lamb, veal, and turkey and their suppliers.

The American Meat Institute and its members involved in the packing and processing of pork and pork products share the concerns of this subcommittee about today's pork market. And like you, we are looking for some direction in what is occurring, as the weak wholesale prices our members are currently receiving for the products they sell show every indication of getting weaker over the next month or so.

What is happening in today's market is primarily due to the larger than expected increase in hog supplies in recent weeks, the additional tonnage those supplies have put on the market and the overall meat supply environment into which those supplies have to be sold. The pork packing sector today is running at unprecedented full capacity, and while that bodes well for operating margins, it does not come without its own unique problems associated with where and at what price we channel this increased production.

Despite successes in moving increased pork supplies through retail and export markets, record hog supplies and record slaughter levels are resulting in product backup, exacerbated by similarly dramatic increases in supplies of beef and poultry. These backups are behind both lower live and lower wholesale prices.

USDA surveys of hog producers' herd expansion intentions over the past six months had led industry to expect fourth quarter slaughter supplies this year to be up in the neighborhood of 4 to 5 percent from last year. Three years of producer profitability and herd expansion in the early 1990s had pointed to increased supplies this year and next. But on top of that, a shift now under way in the structure of the producing sector characterized by new, heavily capitalized and very efficient producing units had suggested that USDA's supply forecasts based on producer surveys might, if anything, be conservative, and indeed they were.

Actual slaughter runs have been coming in 6 to 12 percent above year earlier levels for more than two months now. Five weeks ago, slaughter of 2.055 million head was not only the highest on record, but it marked the first time ever that we slaughtered more than 2 million head for three weeks running. Since then, that level of throughput has continued. We have exceeded the 2 million head a week level for six of the past seven weeks.

In short, there is a huge supply of both live hogs in the country and pork in the retail meat case that are having to sell in a market environment where competing volumes of beef are up 6 percent and chicken up 7 percent.

These slaughter increases have resulted in the live price of hogs falling faster than the wholesale or retail price of pork. This is neither unprecedented nor unusual. It is, in fact, characteristic of the economics of agriculture and one of the first lessons that farm managers learn.

Market prices are more volatile and market changes more pronounced the closer one gets to the source of production. In this instance, the sharp decline in hog prices has translated to a very visible and disconcerting, but temporary new low in the farmer's share of the retail pork dollar. As wholesale and retail prices begin to reflect lower live prices, the farmer's share of the retail dollar will begin rising again.

Given time for the marketing system to adjust to what is occurring with supply and demand, price changes at one level of the production chain will be reflected at other levels. We are seeing this already, where the most recent weekly prices reported by USDA show the price of live hogs down 34 percent from a year ago and wholesale pork loin prices down 18 percent from last year, bellies used to make bacon, down 34 percent, hams down 35 percent and trimmings for sausage down 32 percent.

Like live hog prices, many of our wholesale pork prices are also at 20-year lows and heading lower as large increases in raw materials typically marketed in a processed or value-added form get backed up in the production pipeline due to processing capabilities inadequate to meet today's large supplies. It is, in its way, a supply and demand situation analogous to what is occurring to producers, but we are confident that these lower prices will be reflected at retail in the not-too-distant future.

Now, I say we are confident because we have been through this before with pork and with beef. Short-term supply surges and supply shortfalls are characteristic of the livestock and meat industry, as are shifting shares of the retail meat dollar, as is intersector responsiveness of prices over time, and generally not that much time, as is the long-term trend of widening marketing spreads associated with the increased consumer services we have become accustomed to and demanding of in recent years.

The subcommittee held a hearing 11 years ago on the same issue that brings us here today. Since then we have seen all sectors of this industry prosper. Not always consistently, not always at the same time, but the long-term trend has been beneficial to each sector in the pork business.

Marketing spreads have increased since your last hearing and shares of the consumer dollar have shifted. But the long-term viability and, implicitly, profitability, short-term down markets notwithstanding, the long-term viability of producers, packers and retailers are all today better than they were then. And through all of these changes, we have always seen intersector price responsiveness given an appropriate lag time.

In fact, over the past 11 years we have been through what we are going through now several times, more recently with beef earlier this year. Nothing is different now. Wholesale and retail pork prices will adjust to lower live hog prices given an appropriate lag period. We are already seeing that adjustment occurring at the wholesale level and we shortly expect consumers to see pork in their meat case priced as competitively as it has been for years.

The American Meat Institute does appreciate your interest in this subject and thanks you for the opportunity to comment on today's market. We look forward to working with you and others interested in the welfare of American pork producers and processors as opportunities to build both demand for pork and pork profitability present themselves in the future.

[The prepared statement of Mr. Knutson appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you, Mr. Knutson. I would like to start a couple questions. If you can't answer them, perhaps you can give me the answers from some of your members and get them to us in writing in the next week or two.

One of the first questions I have got, when I go up here to Safeway or out home to the Kroger or there at Super Fresh or any of the other stores, there is pork—there is fresh pork ready for me to buy. Can you give me any idea when that pork was still on the farm, the last time it was on the farm? How long ago? Week? Two weeks? Three weeks? Month? Two months?

Mr. KNUTSON. I am guessing, but I will say four to six weeks. Fresh pork, six to seven days, I am told.

Mr. VOLKMER. Six to seven days. So this pork, if I buy a loin tonight on the way home, that has been bought around 26, 27 cents a pound?

Mr. KNUTSON. That is correct. That would be correct.

Mr. VOLKMER. So all the pork that was bought back in September, October around $40 is all gone?

Mr. KNUTSON. Fresh pork?

Mr. VOLKMER. Yes. And that is the bulk of it. I mean, there is some that is processed and takes a little longer to get to market I know, like your bacons and some of those things, but even those aren't, you know, several weeks, I am sure, at the most. So you can understand the concern that some of us have, can you not?

Mr. KNUTSON. Yes, I do.

Mr. VOLKMER. I don't personally object to anybody in the food chain making a profit, but like I said earlier, you hate to see some people make a profit at the expense of somebody else, and some of us, hopefully, in the future, we will hopefully see what you say we will see. That is that the price that the consumer pays will be down and maybe they will buy a little more and maybe we will get rid of some of this surplus, and at the same time, I am sure—what I hate to see happen, Mr. Keppy, but I am sure is going to happen.

Mr. SHOUP. Six months from now, is that we are going to have fewer pork producers than we have got right now. Do you agree with that?

Mr. KEPPY. I think that has been a trend that this country has seen for a number of years. I remember a lesson that my father taught me in the 1960s and 1970s that when a neighbor went out of business for whatever reason, go in and buy his outdoor equipment. That way he can't get back in.

Times have changed and there have been many—and we are uncertain now how the new players may react, but there has, because of economic reasons, on the Iowa State record, the top third is going to be in business for a long, long time, be competitive for a long, long time. That bottom third has got to make a decision if they are going to adapt the technology, want to remain competitive. Then they can be a player. If they do not want to make the changes necessary to be a major player, they are going to have to exit the business and somebody else will pick up that pork production.

So I think that is a fair assumption. The situation, the market situation today, may push along some of those producers to make that decision faster than what maybe normal circumstances would have allowed them to do.

Mr. VOLKMER. I can remember back before—I remember 1982, I remember what happened back then, and I can remember the high price of corn back in 1983 and 1984 and what happened, but even prior to that, I can remember what we used to call the in and outers. You know, price of hogs went up a little bit so they went out and bought a sow or two, went into production. When the price went down, they took the hogs to market, the pigs, and got out. That is gone, we know that type of operation is gone.

Mr. KEPPY. The modern pork producer, because of the investment in genetics, because of environmental restrictions and because of the capital, the type of equipment and business that he has at home, we do not see the in and outers. Pork producers by and large that are producing most of the pounds of pork that are going to market are serious pork producers and are going to be in it through the long haul, and so that is why some of the uncertainty is taking place today, because we don't know how they are going to react as far as in and outers. That used to be the sure cure to a depressed hog market.

Mr. VOLKMER. Okay. Now, the thing that I see changing, though, is that regardless, even just several years ago, your operation, Mr. Shoup's operation, Floy's operation, back several years ago, that was a good size operation, but they—I have got a farmer in my district not too far from my home that is putting up six huge completely automated operations, contract. He is going to contract—not farrow-to-finish. He is taking the pigs. Feed is going to be provided and he is going to be paid on the basis of the number of pounds when they go to market.

Now, we didn't have that even five years ago. That is a completely different operation than yours and what we have seen before. He thinks he can do it a lot less than you can do it. Do you agree or disagree with that?

Mr. KEPPY. I guess as a pork producer, I think that if I—and I think any pork producer that has a desire to adopt the technologies and be as efficient as possible, he can take on anyone. There are some distinct advantages that the operation that you explained have over me. There are some advantages that I may have over them. I think the key to this whole discussion is that we have got to—and as a trade association, the National Pork Producers has tried to have producer education programs that can be beneficial to everyone no matter of size.

It is whether the producer is willing to accept that technology, and I think that we have got to make certain that size is not an issue. However, I am well aware, as producers call me with their fear and frustration that they have, they do clearly express that some of these larger units are where some real concern is.

Mr. VOLKMER. Okay. Anybody else wish to comment on that?

Mr. KEPPY. Steve, do you have any further comments?

Mr. MEYER. One thing I might add is that when you talk about size and contract operations such as you are describing, publicly attributed cost figures to some of the large contract-based farms in North Carolina, that they have costs, break-even costs in the high $30s, somewhere from $37 to $40 a hundredweight.

The best third of those producers on the Iowa State Swine Record System in 1993 had cost of production of $36. The average have cost of production of $40.50, and those were herds that only averaged about 100 sows each. So when you compare those, you have a huge number of family-sized operations in the corn belt that are very competitive with some of the most efficient farms in the country in terms of production efficiency because where they may give up some things on production efficiency, they make it up on the fact that they grow their own corn or they have family labor or a number of other things.

When we take strictly cost of production, there are many, many independent producers who are very competitive with those large organizations as long as they raise the same quality of hogs and as long as we have systems in place that give them the same access to the market, given that they have acceptable quality animals.

Mr. VOLKMER. Well, my pork producers that I have talked to, their break-even point is somewhere around $37, $38. Would that be about right?

Mr. MEYER. Those would be good pork producers at 37, 38. I mean, they are some of the better ones because there are some up in the 40s too.

Mr. VOLKMER. But they, again, raise their own feed. That helps out. Right now I guess it doesn't make much difference. The price of corn goes up to $3 and the price of beans goes up to $7, then the one that raises it is going to have an advantage over the one who buys it.

Mr. MEYER. In recent years there hasn't been a whole lot of advantage there, but still supply, you do have more control over quality when you grow your own.

Mr. VOLKMER. Mr. Keppy, what you are really interested in here today is to make sure that the consumer benefits from the downturn in the hog prices; is that correct?

Mr. KEPPY. Yes. It is several factors. Number one is awareness and I appreciate what the subcommittee has done to make sure that we make sure that that point is well understood. As I stated and as—in my testimony, I think that the Packers and Stockyards Administration, we just urge them that they are doing everything that law has them that they can do as far as maintaining a competitive behavior among the packers and processors, and then as I touched on the accurate price monitoring and the market information.

Two other points that were brought up by the previous presenter and in this panel is that any Government purchases that Congress could work with existing laws would be extremely beneficial, and then this week and every week, export markets are extremely important, and anything that your subcommittee can pass on to have a level playing field for some of the most efficient pork producers of the world to have access to the markets, we would very much appreciate.

Mr. VOLKMER. The last question is, I think it is—I think you alluded to this a little bit in your statement, too. I think we all remember because beef producers have gone through it and pork producers have always gone through it in the past. That is the upside and downside of the market. You know that some day the market is going to turn around again and it is going to go up.

Mr. KEPPY. That has been the case in the past and I anticipate that we will see the market come back again. I will share that I think it is extremely important that everybody in the pork chain sees a profit. Ideally, if it could be all at the same time and I think as we go into a global economy and pork becomes—pork from the U.S. becomes the meat of choice for the world, you know, then I think it is essential that we make sure that every player in the pork chain has the opportunity for profit and I think that ultimately in the long run it may not be beneficial if we see one particular part of the pork chain make a profit for too long. Then it may influence how the other part of the pork chain operates and there may be some imbalances.

So I think, as was alluded here, we have seen ups and downs in every segment and I guess it would be ideal for me as a pork producer if there could be more even distribution of the profits.

Mr. VOLKMER. You have seen downturns before?

Mr. KEPPY. Yes.

Mr. VOLKMER. You have seen it go up and down. But you never saw it go down this far?

Mr. KEPPY. No. In 1970 when I started farming, I bought my food sows for 17 cents and so I guess we aren't that low yet, but probably if you added inflation, we may be there.

Mr. VOLKMER. But if you figured inflation were there, I think we are past that probably.

Mr. KEPPY. Yes. This is a 22-year lull in the hog cycle.

Mr. VOLKMER. Adjusted for inflation, it is definitely the low. Anybody else wish to comment? Other than that, we are going to conclude here.

Mr. SHOUP. I would comment this way, as Mr. Keppy alluded to. If we have a level playing field, then I will take my hits. I think we all will. We would rather have it that way. But some of the concern that we have and you are apparently going to look into is with the packers and the processing falling into fewer hands so that we do have the level playing field.

Mr. VOLKMER. Okay, this is going to conclude the hearing and before I conclude it, I want to make a little statement because this is my last hearing as the Chairman of this subcommittee. In January I won't be Chairman anymore and we will have somebody else, perhaps Mr.—Congressman Gunderson from Wisconsin, and I am sure we can still work with him and will continue to look not only at pork, but also I will be concerned about beef and all the segments of agriculture and we will be continuing to monitor it and see what we can do to help out.

With that, we are going to conclude the hearing and thank you very much for being here to testify. Thank you.

[Whereupon, at 2:55 p.m., the committee was adjourned.]

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Earl Pomeroy
Congress of the United States
North Dakota

STATEMENT
OF
EARL POMEROY

Member of Congress from North Dakota

Before the
Subcommittee on Livestock

November 29, 1994

Thank you Chairman Volkmer for holding this very important hearing at this crucial time in the marketing year for livestock, hog and lamb producers. The fundamental issue is the difference in the price paid for pork, beef and lamb by the consumer at the grocery store and that received by the producer.

Without question, we have an abundant supply of meat on the market; slaughter houses, refrigerators, and storage facilities are all full, so packers have little incentive to purchase pork and beef at a prime price. However, something must be done to reverse the current market trends.

At the going rate, we will have very few hog and livestock producers in North Dakota at the end of 1995, if the low prices continue. Our producers are currently receiving $.26 per pound for hogs when the break even price is at or near $.41 per pound. Our livestock producers are receiving less than $.50 per pound on slaughter steers, which is down about 30 percent from the beginning of the year.

The retail prices for pork average about 1.60 per pound and for beef approximately $2.35 per pound. This means that somebody along the marketing chain is collecting a hefty premium at the expense of producers and consumers.

Our current marketing system is flawed if producers and consumer are picking up the tab for others taking home huge profits. Something ought to be done to establish fundamental fairness within the system. I look forward to working with the Subcommittee on Livestock to help find a solution.

TESTIMONY OF N.D. AGRICULTURE COMMISSIONER SARAH VOGEL

BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
LIVESTOCK SUBCOMMITTEE
HONORABLE HAROLD VOLKMER, CHAIRMAN

NOVEMBER 29, 1994

Thank you very much for the opportunity to submit written comments to the Livestock Subcommittee hearing on the extremely important issue of farm to retail price spreads. I wish to thank Representative Pomeroy and the other congressional leaders who requested this very important hearing. Due to time constraints, I am unable to testify in person, however, I would like these comments entered on record for this hearing.

The North Dakota Department of Agriculture has a strong interest in this issue because of the tremendous impact of low producer prices on our state's citizens, economy and rural communities. I have been involved in this issue for several years and have seen the devastating impact of low producer prices on our state.

As Commissioner of Agriculture for North Dakota, my responsiblity is to the producers in North Dakota. North Dakota livestock producers account for one-third of our total cash receipts for agricultural commodities. North Dakota agriculture ranks fourth in the nation for percentage of gross state product derived from agriculture; therefore, any lowering of producer prices substantially impacts our economy.

The current price situation is not a temporary problem, but a chronic manifestation of a adverse long-term trend for livestock producers. It is also a fact that lamb, pork, and beef producers are experiencing low producer prices while retail prices on meat are consistently stable or increasing in price.

I do not wish to affix the blame on the retail chain, rather I look toward the beef packing industry, which continues to prosper amid the economic shortfalls of producers.

The beef packing industry from May to September of this year averaged $30.00 per head higher returns than before producer prices collapsed. This amounts to $2.9 million per day for the top five packers. At the same time, USDA figures showed the retail price of beef to have fallen less than a three percent drop from 1993 figures. However, USDA may even have overestimated this three percent, because a study by the National Cattlemen's Association showed that retail prices were the same from 1993 to 1994.

This situation is the most recent example of the market power of the packing industry to continue to prosper while livestock producers' income dwindles. Because North Dakota has a limited packing industry, the majority of the income that is derived from livestock is on the producers' end, and if producers do not thrive, North Dakota does not thrive.

According to a 1993 University of Wisconsin study on concentration levels from 1971 to 1986 in the packing industry, prices paid to producers were significantly lower in regions of the country where the top 4 packing firms (CR4) percentage of cattle purchased was 60% or higher.

According to the Packers and Stockyards Administration, the national CR4 was 82% in 1993. The implications for producer prices in 1994 are obvious and scary.

We need to find an answer to this crucial problem of low producer prices and packer concentration. As in the beef packing industry, vertical integration of the lamb and hog industries has proven to be detrimental to livestock producers. The trends indicate this problem will worsen in the future unless strong and resolute anti-trust action is taken on a federal level. Failure to act now will mean the future of livestock producers and family farmers will be dismal.

I respectfully submit my written testimony to you today and would like my testimony to be entered on record. Because of the late notice on this hearing and due to the importance of this issue, I urge you to consider more hearings, including a regional hearing to allow more witnesses to testify. Livestock producers experience this situation first and foremost, therefore a local opportunity to testify is very important. I would also urge you to consider focusing the next hearing on the subject of the lack of anti-trust enforcement in this area.

Again, thank you for allowing me to submit written testimony.

STATEMENT OF KEITH COLLINS
ACTING CHIEF ECONOMIST
U.S. DEPARTMENT OF AGRICULTURE
BEFORE
THE HOUSE AGRICULTURE SUBCOMMITTEE ON LIVESTOCK

November 29, 1994

Mr. Chairman and members of the Subcommittee, I welcome the opportunity to review economic developments in the U.S. pork sector and to discuss recent trends in farm-to-retail pork prices. Cash market hog prices have fallen by over 20 cents a pound since early 1994, while retail pork prices have declined little. Consequently, the farmer's share of the retail pork dollar has declined from 38 percent in February of this year to a record-low 26 percent in October. My goal today is to provide the Subcommittee with some basic information on the pork market, discuss long-term industry trends, and evaluate recent price movements.

Current Developments in the Pork Market

This year's collapse in hog prices has been dramatic. Monthly cash prices fell 35 percent during the 8-month period of February through October. While this is a very large decline, hog prices are considered to be highly variable and steep price declines have occurred in recent years. Cash hog prices fell 22 percent over 7 months during 1990; they fell 31 percent during 4 months of 1991; and they fell 39 percent over a 16-month period of 1988 and 1989.

This year's decline in hog prices has been caused by record-large meat supplies, including record-high pork production. For all of 1994, pork production is expected to be up 2.7 percent, but the increase has been especially pronounced during the second half of the year. Fourth quarter production is expected to rise 4.7 percent. A near 5-percent increase is expected in 1995. Large beef and poultry supplies are also contributing to the pressure on hog prices. For 1994, total meat and poultry production is expected to be a record 71.5 billion pounds, up 5 percent from 1993.

USDA's Hogs and Pigs report showed larger inventories for the third straight quarter on September 1, and the rate of expansion appears to be growing. Year-over-year increases in the breeding herd reached 4 percent on September 1, following 3- and 2-percent increases for June and March, respectively. Total hog and pig inventories are the largest since 1980. However, the size of the breeding herd likely is down 20 percent from 1980 due to the increase in pigs per litter and better utilization of the herd.

The September 1 market hog inventory, at 54.2 million head, is the largest since quarterly U.S. inventories were first reported in 1988, and up 5 percent from a year earlier. Weight breakouts within the market inventory show large numbers of heavier animals available for fourth-quarter slaughter, as well as a significant increase in the number of lighter pigs that will reach slaughter weight in the January-March quarter.

Sows entering breeding herds during June-August jumped an estimated 6 percent from a year earlier, following a 3.5-percent increase last spring. These additions to the breeding herd more than offset a slight year-over-year increase in sow slaughter, pushing the inventory of breeding-age sows up 20 thousand head from June to September. A seasonal decline in pigs per litter typically occurs in September-November and could hold the pig crop near the summer quarter. But if this quarter's pigs per litter were to exceed current projections of 8.14 and approximate the record 8.22 reported for June-August, the September-November pig crop would be larger by about 200 thousand head, signaling even greater pork production in early 1995.

If producers follow through on their farrowing intentions expressed in our September survey, record pork production would occur in each quarter of 1995. Slaughter hogs are now trading in the high $20's per cwt., down from the high $40's in early 1994. If the low farm prices continue, longer term plans to expand farrowings will be scaled back or delayed.

Higher cost producers already had begun to cut back when farm prices failed to move beyond the mid- to upper $40's earlier this year. Current expansion of breeding herds is occurring predominantly in large commercial operations and in North Carolina, Missouri, and other States where contracting is more prevalent. Growth in these regions is masking unchanged or declining herds elsewhere. The recent farm price drop will only worsen financial conditions for producers who have been operating in the red since early spring, and likely increase the number of small, less efficient producers exiting the industry.

With pork supplies expected to remain near record levels for several years, prices will remain under pressure and low-cost, and typically larger, operations will continue at a distinct advantage. These operations have lower fixed costs and lower death rates per litter. USDA data indicate that the number of pigs saved per litter varies sharply by size of operation. During the summer quarter small operations with 1-99 head saved 7.3 pigs per litter, versus 8.7 pigs for operations with 2 thousand head or greater.

Even the greater efficiency of larger operations does not offset market losses from weak prices. Cash hogs trading in the high $20's to low $30's per cwt will quickly dampen expansion plans of even the largest operations. Fourth-quarter pork production currently is estimated at 4.75 billion pounds, a near 5-percent year-over-year increase. Despite seasonally stronger demand, this much pork combined with large competing meat supplies will likely keep hog prices trading in the high $20's to low $30's per cwt during the fourth quarter.

The current price drop will eventually trim supplies but the adjustment will take time. Winter quarter pork production will come primarily from the June-August pig crop, which was up 6 percent from a year earlier. If hog prices remain weak and breeding herd liquidation begins in earnest, first-quarter 1995 pork production could easily exceed the current projection for a 6-percent year-over-year increase. September-November farrowings will provide the bulk of second-quarter 1995 hog slaughter, and it appears that despite current market conditions production may still increase 5 percent. Thus, production increases are not likely to begin to slow until the second half of 1995, and even then, pork production is expected to range 3-4 percent higher.

Adding to current price weakness in the pork complex are large freezer stocks, particularly hams and bellies. Total pork in cold storage on November 1 was record large and 19 percent above last year. In early October, ham prices plummeted to the low $40's per cwt, the lowest since the early 1970's. Recently, ham prices have strengthened, reflecting the typical Christmas-season purchasing activity to build inventories, but another price decline is likely as that demand passes.

One must look beyond the farm gate to find any bright spots in the current hog market situation. The processing industry is doing well, with high margins and extra work hours. For 1995, hog slaughter is forecast at a record high 99.7 million head. Consumers will also benefit from ample supplies in the meat case and lower prices that are coming slowly. Per capita pork consumption for 1995 is forecast at 55.2 pounds, a record high.

A bright spot for producers has been exports. Pork exports during the first 9 months of 1994 were up 24 percent over last year. Mexico has returned as a strong market under NAFTA with a near-70 percent increase and Japan remains a steady growing market. Total pork exports could reach 505 million pounds for the year, compared with 435 million in 1993.

Structural Trends in Pork Production

The record increase in pork supplies occurs as the pork industry is under going rapid structural change. While a large number of small producers continue to operate, the movement has been towards fewer producers with larger operations and increased hog production capacity. Production is expanding in North Carolina, Missouri, Pennsylvania, and other states such as Oklahoma and Colorado, mainly due to growth in contracting operations.

Structural shifts have been toward large contract units, with 2,000 sows or more and annual output of over 40,000 market hogs as well as to independent, large farrow-to-finish production units. This compares with more traditional, mid-west corn/soybean/hog operations that might have 90 sows and market 1,600 hogs a year. The size of operations in North Carolina has grown rapidly since 1989, while Iowa operations have shown little size growth. From September 1989 to September 1994, the number of hogs in North Carolina rose from 2.7 million head to 6.6 million head, while in Iowa the increase was only from

14.8 to 15.3 million head. Currently, Iowa is first in the Nation in hog production and North Carolina is second, moving ahead of Illinois in 1994.

The emergence and growth of contracting is a significant change in the hog industry. One recent study indicates the share of hogs marketed under contract rose from 8 to 20 percent during 1986-1992. USDA data suggest a somewhat lower figure. Contract production allows the contractor to grow rapidly with a smaller investment in facilities and equipment. According to preliminary research conducted by USDA's Economic Research Service, contract operations spend more on complete feed mixes, while independent operators spend more on feed grains and feed mixing and handling, with feed expenses not much different between the two types of operations. However, contract operations have lower fixed cash expenses and lower costs for other items such as capital replacement and unpaid labor. Consequently, the total economic cost of finishing hogs on contract operations is about $8 lower per 100 pounds of weight gain. Most of this cost efficiency is due to lower death losses, labor costs, and depreciation.

Farm record data from the North Central region suggest variable cash expenses run about $29-31 per cwt for more efficient producers. Thus, despite the recent low price levels, more efficient producers are near breaking even on a variable cash expense basis. Average producers probably have a variable cost of $31-34, while higher cost producers probably have a variable cost of $35-37 per cwt.

Contract unit costs are probably lower than the larger farrow-to-finish independent operations. They also receive a direct marketing advantage by producing consistently to specifications and controlling scheduling of slaughter, which may be worth up to $2 per cwt or more in terms of price received.

As hog production has become more concentrated and specialized, improved genetics and management have increased meat production per litter. During 1985-1992, pork produced per litter rose 12 percent as average pigs per litter and dressed weights increased. The increase in pork per litter reduces both capital and feed costs. More meat production is possible in the same amount of building space and fewer breeders need to be kept to produce a given amount of pork.

The sharp drop in pork prices will maintain the pressure on producers either to exit the industry or invest in facilities needed to reduce production expenses and produce the quality that will command a price premium. Concentration in U.S. hog production has been going on for some time. In 1959, there were nearly 1.3 million U.S. hog farms. By 1978, that figure had fallen to 0.5 million, and the number is now about 250 thousand. As the number has declined, specialization has increased. During 1987-91, nearly 70 percent of total U.S. hog production was on farms deriving more than half of their sales from hogs. Low prices will continue to pressure small, diversified farrow-to-finish operations, and economies of scale will provide the impetus for continued expansion by large, contract feeding operations as well as large independent feeding operations.

Farm-to-Retail Price Movements

We follow retail prices by using the Bureau of Labor statistics series on the average price of retail cuts from the pork carcass. Between January and October 1994, retail pork prices declined from an average of $2.01 per pound to $1.97, a 4-cent drop. A comparable wholesale price is the "wholesale pork value" series, which represents the value of the quantity needed to produce one pound of retail. Wholesale values have fallen over the period by about 15 cents a pound. A comparable farm price is the "net farm value" series for pork, which is the value of the live animal equivalent of one pound of retail cuts, less the value of byproducts. The net farm value has fallen has fallen by almost 25 cents a pound over the same period.

With the farm value falling faster than wholesale and retail prices, margins have widened. The farm-retail spread for October 1994 was $1.47 per pound, the highest since late 1990 and up 14 percent since the January-March period. As a percent of retail price, the farmers' share of the pork dollar fell to about 26 percent, a record low. The farm-wholesale price spread in October 1994 was almost 41 cents a pound and the farmers' share of the wholesale pork dollar was 55 percent, also a record low.

As the farmers' shares of the wholesale and retail dollars have fallen, the farm-wholesale and wholesale-retail margins have increased. The farm-wholesale margin has risen from an average of about 34 cents per pound during the first quarter of 1994 to 41 cents per pound during October, a 19-percent gain for processors. The wholesale-retail margin averaged 94 cents per pound during the first quarter of 1994 and $1.06 per pound during October, a 13-percent increase.

While the current increase in the farm-retail margins are unusually pronounced, marketing margins for pork have had sharp increases in the past and have been increasing over time. For example, the farm-retail spread rose 12 percent during the second half of 1991. Regarding the long-term trend, the farmers' share of the retail pork dollar has fallen from about 55 percent in the 1970's to 35-40 percent in the early 1990's. The decline mirrors increases in marketing margins in other meats as well. Increases in farm-to-retail price spreads mainly reflect rising costs of non-farm inputs that food industry firms use. These costs include wages and salaries of workers and prices of many supplies and services that processing and marketing firms buy from other parts of the economy.

Over the short-term, farm-retail and farm-wholesale spreads vary considerably, reflecting the supply and demand conditions facing the industry at various marketing levels. Econometric analysis by the Economic Research Service indicates a lag between farm price changes and retail price changes. The lag differs depending on the direction of the farm price change. Farm price increases are estimated to be fully reflected in the retail price in several months while farm price decreases take longer to work through the pricing system. Wholesalers and retailers appear to avoid losses by moving prices up quickly, but attempt to hold onto profits until competition pushes prices down. The competitive process that pushes prices down can take time. It involves consumers acquiring information on prices in different stores, buying less from higher priced stores, buying more from lower priced sellers, and substituting other meats or products for pork. An analysis of beef markets shows similar asymmetrical price movements, but the responses are quicker.

November cash hog prices in the $27-29 per cwt range imply that slaughterers are only taking the added supply of hogs at steep discounts, widening the current marketing price spreads. This is starting to back up barrows and gilts at the farm, with those coming to market at record average weights. Thus, it appears that the current spread is consistent with its past behavior, albeit exacerbated by the large decreases in pork prices caused by the large increase in supplies of hogs and pigs.

Effects of Prices on Farm Net Returns and Profits in the Meat Processing Industry

Farrow-to-finish hog operations are now experiencing negative returns primarily because market prices have fallen and secondarily because cash expenses have increased. Today's negative returns are largely the result decisions to expand production in response to strong market prices and generally steady-to-falling cash expenses since 1990. Market hogs were over $50 per cwt for much of 1990 and ranged between the mid-$30's and mid-$40's until recently. These prices were high enough to cover total cash expenses for a representative producer in the North Central region. In addition, large scale contract production has expanded further adding to hog supplies. The result of these large supplies is current market prices below $30 per cwt.

Feed costs are the largest cost item for hog producers. These costs have fluctuated during 1992-1994 reflecting the record corn and soybean crops in 1992, the flood-reduced crops of 1993, and 1994's new record crops. However, the variability in hog prices has outweighed variability in feed prices. Using average costs for a 1,600 hog farrow-to-finish operation in the North Central region, estimated net returns (gross returns minus total cash expenses, excluding capital replacement costs) are expected to be -$10.35 per cwt in November, based on cash receipts of $27.50 and cash expenses $37.89 per cwt. Net returns were over $10.00 per cwt for most months of 1990 and 1991 and $5-$10 during 1993 and early 1994. This year's lower corn and soybean prices will begin to improve producer net returns, probably beginning in December.

The widening spread between farm and wholesale prices and farm and retail prices suggests higher than normal profits in the short term for wholesalers and retailers. It is difficult to assess how profitable the current margins are. Company profit data are dependent on a number of factors including sales from other products (most meat processing firms are diversified), costs faced by the company, and the financial structure of their holdings (many food manufacturing companies are highly leveraged).

Two financial ratios are useful in evaluating the profitability of the food industry: profit margin and return on stockholder equity. The profit margin is net income as a percentage of sales. It measures the portion of the sales dollar left after paying all expenses, including the cost of food products. Return on stockholder equity reflects the earning power of the owner's investment. An examination of 1991-93, presented in the appendix, shows that the performance of selected meat processing firms was mixed with some companies performing under the average for all food marketing firms. Profit data for the most recent quarter for some of the major pork processing firms indicates net income as a percent of sales is 2-3 times higher than a year earlier.

Conclusion

The large supply of hogs has depressed farm-level prices. These prices will likely remain low until excess supplies are worked off, not likely until later in 1995. Retail and wholesale pork prices have been slow in following hog prices, but they are expected to fall with the farm-retail spread likely narrowing and returning to more recent historical levels.

The movement towards more concentration and integration in hog production, while contributing to the increase in supplies, is likely not a cause of the recent increase in marketing margins. However, contract operations are generally lower cost producers, and lower cost producers are able to better withstand periods of sustained price declines.

The USDA has used its limited capacity to support hog prices and relieve pressures on producers who have been seeing red ink for several months. The Department is currently purchasing pork products utilizing funds made available under section 32 of the Act of August 24, 1935. Since August, $15 million has been spent on pork products. In addition, in September USDA announced a private sector GSM-102 credit guarantee program in connection with sales of U.S. agricultural commodities to Russia that included $4 million for pork. In October, an additional $4 million credit line was announced with respect to sales to Russia of meats, including pork. In addition, $79 million in allocations for guaranteed credit has been announced for meat, including pork, for other countries for FY 1995. On November 2, USDA announced a new EEP initiative of 20,000 tons of frozen pork for the former Soviet Union.

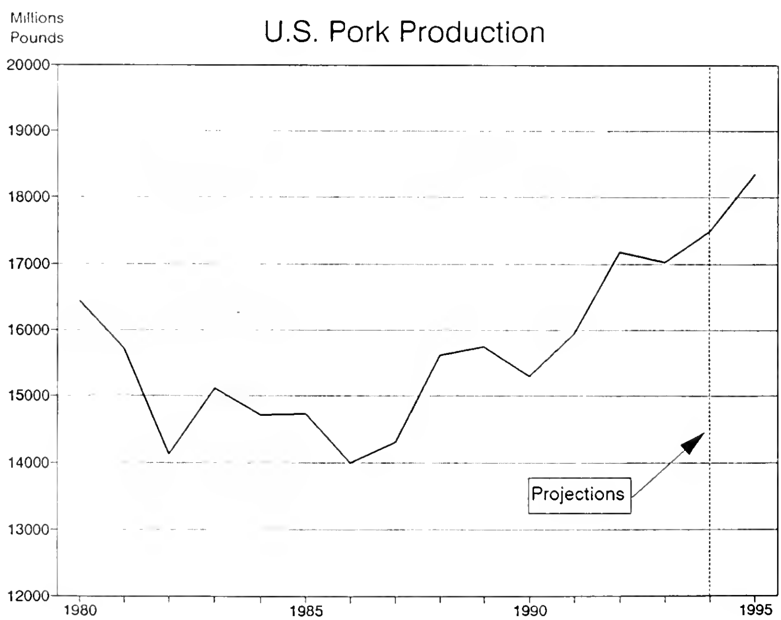
The Uruguay Round Agreement represents another opportunity to help pork demand. The Agreement increases access in protected pork markets in Asia and Western Europe. In addition, the global income gains that would accompany implementation of the Agreement will boost pork demand especially in Latin America and Asia. USDA estimates that U.S. pork exports under the Uruguay Round could increase 10-15 percent by the year 2000.

Mr. Chairman, that completes my statement. I would be pleased to address any questions you or any other members might have.

Cash Hog Prices

Iowa-So. Minn., 230-250 lbs. ($/cwt)

1980	39.49	1994			Nov 1	31.00
1981	43.74		Jan	44.26	Nov 2	30.25
1982	54.64		Feb	48.50	Nov 3	30.25
1983	47.42		Mar	44.58	Nov 4	30.75
1984	48.76		Apr	42.83	Nov 7	30.00
1985	44.54		May	42.87	Nov 8	29.00
1986	51.04		Jun	43.01	Nov 9	28.50
1987	51.62		Jul	42.93	Nov 10	29.00
1988	44.04		Sep	42.72	Nov 11	29.00
1989	44.74		Oct	32.44	Nov 14	28.75
1990	55.32				Nov 15	28.50
1991	49.69				Nov 16	27.75
1992	43.03				Nov 17	28.25
1993	46.10				Nov 18	28.50
					Nov 21	27.75
					Nov 22	27.25

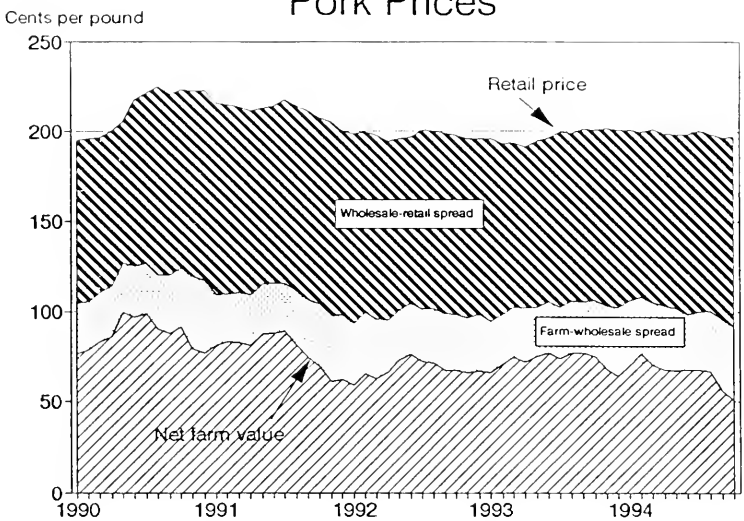


Pork Margins

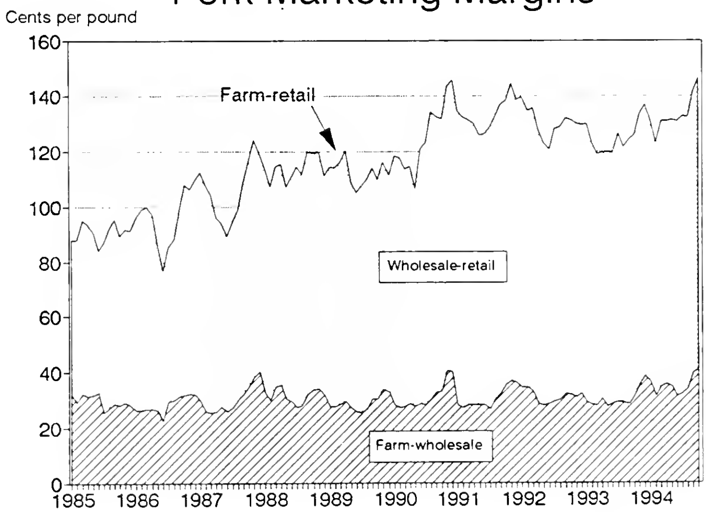
	Retail Pnce 1/ (cents/lb.)	Wholesale Pnce 2/ (cents/lb)	Net Farm Value 3/ (cents/lb)	Farmer's Share of Retail 4/	Retail-Wholesale Margin (cents/lb)	Wholesale-Farm Margin (cents/lb)
Jan-90	195 1	104 8	76 6	39%	90 3	28 2
Feb-90	196 5	105 6	78 4	40%	90.9	27 2
Mar-90	197.0	110 9	83 3	42%	86 1	27 6
Apr-90	200.9	114 8	86 1	43%	86 1	28 7
May-90	206.2	127.2	99 5	48%	79.0	27 7
Jun-90	218.1	125 6	96 9	44%	92.5	28 7
Jul-90	222.2	127.3	99 2	45%	94 9	28 1
Aug-90	224.9	120.5	90.4	40%	104.4	30 1
Sep-90	220.8	120.7	88 0	40%	100.1	32.7
Oct-90	223.2	124.4	91.2	41%	98.8	33 2
Nov-90	222.9	119.7	79.1	35%	103 2	40.6
Dec-90	223.2	117.5	77.3	35%	105.7	40 2
Jan-91	216.1	109.7	81.4	38%	106.4	28 3
Feb-91	215.5	110.1	83 1	39%	105.4	27.0
Mar-91	213.9	110.8	82 7	39%	103 1	28 1
Apr-91	211.7	109 7	81 4	38%	102 0	28 3
May-91	213 3	115.5	87 4	41%	97 8	28 1
Jun-91	214 6	116 0	87 7	41%	98 6	28 3
Jul-91	217.7	115.7	89 0	41%	102 0	26 7
Aug-91	214 2	111.5	81.2	38%	102 7	30 3
Sep-91	211.9	107.1	74 7	35%	104 8	32 4
Oct-91	207 7	104 6	69 4	33%	103 1	35 2
Nov-91	205.1	97.6	60 6	30%	107 5	37.0
Dec-91	200 9	98.3	62 1	31%	102 6	36 2
Jan-92	198.7	93 6	59 2	30%	105 1	34 4
Feb-92	199.8	99.3	64 9	32%	100.5	34 4
Mar-92	198 2	95 6	62 4	31%	102 6	33 2
Apr-92	194 2	95 2	66 4	34%	99 0	28 8
May-92	196 4	101 2	73 3	37%	95 2	27.9
Jun-92	197.1	104 8	76 1	39%	92 3	28 7
Jul-92	200 6	101 8	72 2	36%	98 8	29 6
Aug-92	200 4	101 7	71 6	36%	98 7	30 1
Sep-92	199 6	99 6	67 4	34%	100 0	32 2
Oct-92	198 4	98 8	67 1	34%	99 6	31 7
Nov-92	196 4	96.9	66 0	34%	99 5	30 9
Dec-92	196.3	98 8	66 6	34%	97.5	32 2
Jan-93	196.0	95 0	66 0	34%	101 0	29 0
Feb-93	193 9	99 0	70 8	37%	94 9	28 2
Mar-93	193 9	102 6	74 6	38%	91 3	28 0
Apr-93	191.4	102.3	71.9	38%	89 1	30 4
May-93	194.8	102 6	74 9	38%	92 2	27 7
Jun-93	196.5	105 7	77 0	39%	90 8	28 7
Jul-93	200.2	102 8	73 6	37%	97 4	29 2
Aug-93	198.7	105.8	76 9	39%	92.9	28 9
Sep-93	201.6	105.5	77.0	38%	96 1	28 5
Oct-93	201.2	106.5	75 0	37%	94 7	31 5
Nov-93	202.1	103.7	68 2	34%	98 4	35.5
Dec-93	201.1	102 7	64 1	32%	98 4	38 6
Jan-94	201.2	106 4	69 7	35%	94 8	36 7
Feb-94	199.9	108.1	76 6	38%	91 8	31.5
Mar-94	201.4	105.0	70 2	35%	96.4	34 8
Apr-94	198.7	103.3	67.6	34%	95 4	35 7
May-94	198.8	102.2	67 4	34%	96 6	34 8
Jun-94	199.0	99.1	67.8	34%	99 9	31.3
Jul-94	200.5	99 9	67 5	34%	100 6	32 4
Aug-94	199 1	100 5	66 6	33%	98 6	33.9
Sep-94	197 3	95.5	55 9	28%	101.8	39 6
Oct-94	197.3	91 6	50 7	26%	105 7	40 9

1/Estimated weighted-average of BLS pnces of retail cuts from pork carcass
2/Value of wholesale quantity equivalent of 1 lb of retail cuts
3/Market value to producer for 1.7 lb. of live animal, equivalent to 1 lb. of retail cuts
4/Percent net farm value is of retail pnce.

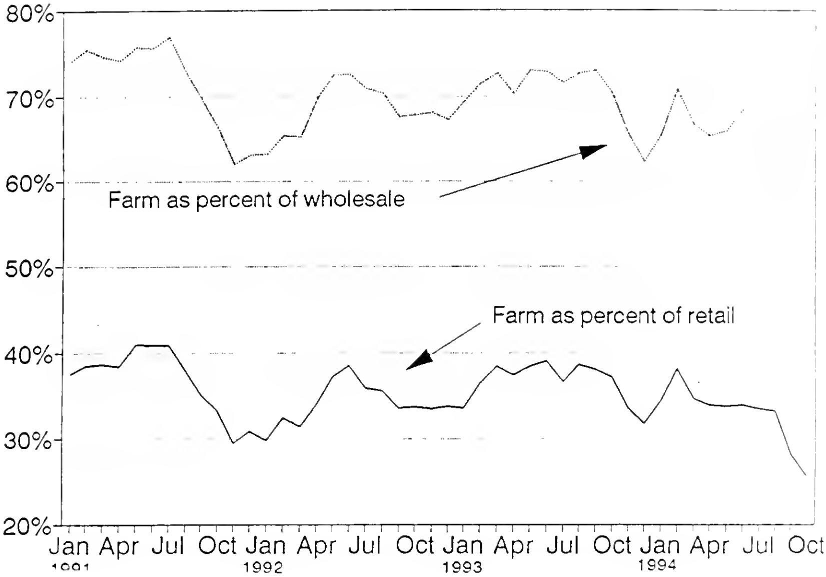
Pork Prices



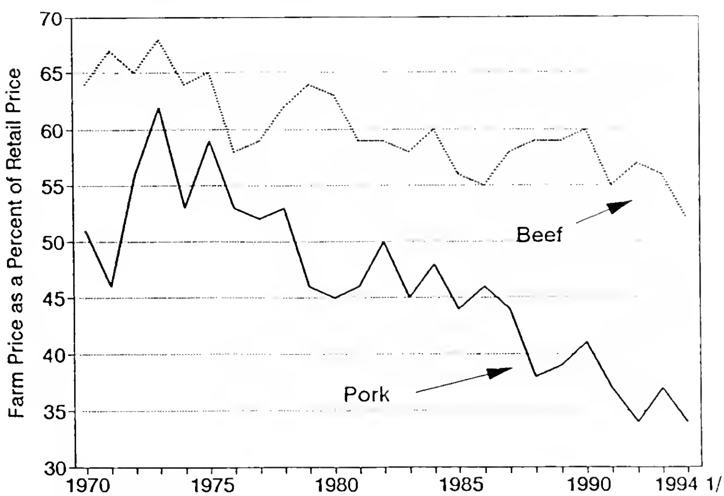
Pork Marketing Margins



Farm Share of Wholesale and Retail Pork Dollar



Farm-Retail Price Spread



1/ Through October 1994

U.S. Hog Inventory

	1982	1987	1992	Change (1982-1992)
Total Hogs	55,366,205	52,271,120	57,536,118	4%
By Size of Farm (Head):				
1-200	10,697,034	8,167,904	5,916,552	-44%
4-499	14,510,775	12,334,432	10,802,820	-26%
500-999	13,113,396	11,924,290	11,910,197	-9%
1,000-1,999	8,878,415	8,870,231	10,407,564	17%
2,000-4,999	5,432,777	6,733,228	8,761,931	61%
5,000 or more	2,733,808	4,241,035	9,764,054	257%

Regional Change in U.S. Hog Inventory, 1987-1992

	1987	1992	Change
Appalachia (KY,VA,NC,TN)	4,505	6,880	53%
Corn Belt (IA,MO,IN,IL,OH,PA)	28,559	30,354	6%
Delta (SC,MS,GA,AR)	2,045	2,387	17%
Lake States (MI,WI,MN)	6,776	7,074	4%
Northern Plains (CO,NE,SD,ND)	6,248	6,976	12%
Southern Plains and West (OK,KS,TX,CA)	2,101	2,563	22%

Profit Margins of Selected Meat Processing Firms
Compared to All Food Marketing Firms

Company	1991	1992	1993
After-tax profits as a percentage of sales:			
Food manufacturers	4.8	4.4	3.7
Retail food chains	1.1	1.0	0.8
ConAgra, Inc.	1.6	1.8	1.8
Tyson Foods	3.7	3.9	3.8
IBP, Inc.	0.0	0.8	0.8
Hormel Foods	3.0	3.4	-0.9
After-tax profits as a percentage of stockholder equity:			
Food manufacturers	17.5	15.4	13.5
Retail food chains	18.8	14.6	11.7
ConAgra, Inc.	20.0	16.7	17.1
Tyson Foods	19.4	17.1	14.9
IBP, Inc.	0.1	12.3	13.4
Hormel Foods	16.1	15.7	16.6

Source: U.S. Department of Commerce and company data.

Statement of Glenn Keppy, president, National Pork Producers Council

Mr. Chairman and Members of the Subcommittee:

My name is Glen Keppy. I run a 225-sow farrow-to-finish operation near Davenport, Iowa producing approximately 4,500 head of slaughter hogs per year. I also raise corn and soybeans. Over the years, I have served in a number of state and national positions with producer organizations. I am currently President of the National Pork Producers Council which represents the nation's pork producers, and draws its strength from its grassroots through 45 affiliated state associations. We are a pro-active, aggressive organization committed to producing a high quality, nutritious product, enhancing producer profitability and remaining competitive in the global marketplace.

The pork industry finds itself in a somewhat uncomfortable position as we testify before you today. In my business and as President of the National Pork Producers Council I have always taken the long-term view of the pork industry. Part of this long-term view means all segments of the pork chain -- pork producers, meat packers, processors and retailers -- working together to provide the consumer with a high quality product at a reasonable price. In contrast to the long-term, my comments today are oriented at recent developments in the marketplace.

Since Labor Day the market for live hogs has dropped significantly. Prices paid to producers have fallen 32.6% -- from roughly $40 to $26 for Iowa and Southern Minnesota hogs from the week ending September 4th to the week ending November 27th. This price decrease comes in the wake of increased hog slaughter this fall. However, we believe that market forces simply responding to higher live hog slaughter numbers do not tell the entire story.

Earlier this year, the National Pork Producers Council, in anticipation of larger hog slaughter, took action and invested additional promotional efforts into the marketplace. These efforts supplement core programming of NPPC's successful "Pork® The Other White Meat" promotion program which has a recall with 83% of consumers.

These additional promotional efforts, which will continue next year, have received some support from other segments of the pork chain. All promotions are targeted at helping product move through the pork chain to avoid product backing up. If significant amounts of product back up in the chain, the result would add insult to injury to current hog market prices.

Product has been moving, cold storage reports indicate only a 4.8% increase above the ten year trend in the face of 10% more production. Consumer demand for pork from January through October of this year is up nine-tenths of one percent according to Glenn Grimes, Economist with the University of Missouri. Producer funded promotional activities have been successful. We believe that pork producers have been doing their part in an attempt to move increased production to the consumer.

While efforts to move product indicate success, the October 1994 live-to-retail spread is at a record 146.5 cents per pound, up 5.1 cents per pound since September and up 20.3 cents per pound from October 1993. Producer-funded promotions have done an admirable job in keeping retail demand up as retail price was actually constant from September to October even though pork production was up significantly.

For January through October of 1994, the average retail price is up 2.5 cents per pound (1.27 percent) while production is up 3.6 percent. This is quite an accomplishment considering lower beef prices and ample supplies of poultry.

The price effects of the wider margins are clear. Had margins in October of 1994 been equal to the averages of the preceding three Octobers (1991, 1992, 1993), live hog prices would have been \$7.41 per cwt. (approximately \$18.52 per hog) higher than they have been. Of this \$7.41, \$4.41 is attributed to the increased farm-wholesale margin while \$3.00 is due to the increase in the wholesale-retail margin. The numbers are even more dramatic if you compare October 1994 to October 1993. On a percentage basis, the farm to wholesale share of the spread increased from 16.3% for the preceding three year October average to 21% for October of 1994. The wholesale to retail spread increased from 49% to 54%. For this same time period, the producer share fell from an average of 34.7 % to 26%, an all time low.

Producers realize that packers and retailers always enjoy higher margins when supplies are abundant. We expect that and can live with it for a short time. USDA economic research indicates that as large numbers of hogs enter the pork chain it typically takes four weeks for lower priced pork to appear at the wholesale level. It has been eleven weeks since the severe decline in hog prices began and just now lower prices are beginning to appear at the wholesale level.

Producer concern is also greatly heightened over loss of markets for hogs. We have had a net loss in slaughter capacity in the industry since 1992. The last time we had slaughter above 1.9 million head per week was in the fall of 1992. However in the fall of 1992, there were five more slaughter plants operating than now. These five plants had a total capacity of 20,000-25,000 head per day.

As I mentioned earlier, since September, live prices paid to pork producers for their hogs have declined severely. Pork producers normally encounter some variation in the price for their product but our frustration is running very high with: 1) packing plants apparently operating at capacity; 2) a market decline that has seen 22 year lows in the live hog market according to USDA, and; 3) the producers share of the consumer's dollar in October having reached an all-time low of 26 percent. We operate in an atmosphere that has seen 46.7% of the producers leave the business since 1983. This exodus was due in part to efficiency, but the current landscape threatens even the most efficient pork producer.

We feel the magnitude and longevity of these differences will, in the long-term, be detrimental to American consumers, pork producers, and rural America. Ultimately, other segments of the pork chain will pay a high price for the implications of the current supply and demand situation.

Producers understand the cyclical nature of the free market system and they understand packers are often adversely affected by high hog prices. However, in exchange for shouldering the burden of the lowest hog prices since 1972, producers expect increased retail space, more consumer loyalty and a gain in market share. As we work through this cycle, it is essential that all segments of the pork chain work together to increase the long-term strength and profitability of the industry.

Over the long-term we believe our industry is poised for tremendous growth. We see a growing need for hogs in the future to supply the global consumer's desire for high quality protein. Pork is the most popular meat in the world, and U.S. pork producers are the most efficient producers of pork. But the growing need for hogs in the future may not be fully met due to implications of today's structure. Ultimately, American and global consumers may suffer. This is why our industry is setting into motion several efforts to enhance the opportunities for producers to gain greater access to the consumer. These efforts include a feasibility study of smaller scale packing plants oriented at filling niche markets. Other approaches are in development and will be discussed at our Board meeting next week.

In the near term, the NPPC is not seeking additional governmental regulation. However, we would encourage Congress, as we have encouraged the Packers and Stockyards Administration (P&SA) to vigilantly enforce existing laws which monitor competitive behavior in the marketplace. In addition, we are encouraging P&SA to assure accurate price monitoring and the timely reporting of market information.

Wherever possible we would encourage Congress to help our partners in the pork chain understand that short term profits and serious distortions in traditional price spread relationships could seriously impair a bright global future for the industry by severely impairing producers' ability to deliver adequate quantities of high quality product to market.

Market conditions also exist which can benefit the government in making purchases of pork products for federal feeding and humanitarian assistance programs, which would help alleviate these burdensome supplies.

The federal government can also help by insuring that export markets for U.S. pork are opened and remain accessible to our industry. U.S. pork offers a tremendous opportunity for America to make significant gains in the emerging field of value-added exports.

We appreciate the congressional interest shown in the situation America's pork producers find themselves in today. We request your continued vigilance regarding our industry during this price cycle as we encounter significant supplies of meat and our nation's pork producers attempt to survive the severe price pressure they are experiencing in the marketplace.

Mr. Chairman, we have attached some historic price spread data that you and the subcommittee may find of interest. The source of the information is USDA.

Thank you for your interest. I would be willing to answer any questions you might have.

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PORK PRICE SPREADS

MONTHLY, 1994

Month	Farm Share		Farm-Wholesale Share		Wholesale-Retail Share		Retail Price	
	Cents/lb.	Pct.	Cents/lb.	Pct.	Cents/lb.	Pct.	Cents/lb.	Pct.
Jan-94	69.7	34.6	36.7	18.2	94.6	47.0	201.2	100.0
Feb-94	76.6	38.3	31.5	15.8	91.6	45.8	199.9	100.0
Mar-94	70.2	34.9	34.6	17.2	96.4	47.9	201.4	100.0
Apr-94	67.6	34.0	35.7	18.0	95.4	48.0	198.7	100.0
May-94	67.4	33.9	34.6	17.4	96.6	48.6	198.8	100.0
Jun-94	67.6	34.0	31.3	15.7	99.9	50.2	199.0	100.0
Jul-94	67.5	33.7	32.4	16.2	100.6	50.2	200.5	100.0
Aug-94	66.6	33.5	33.9	17.0	98.6	49.5	199.1	100.0
Sep-94	55.9	28.3	39.6	20.1	101.8	51.6	197.3	100.0
Oct-94	50.8	25.7	40.9	20.7	105.7	53.6	197.3	100.0

OCTOBER, ALL YEARS

Year	Farm Share		Farm-Wholesale Share		Wholesale-Retail Share		Retail Price	
	Cents/lb.	Pct.	Cents/lb.	Pct.	Cents/lb.	Pct.	Cents/lb.	Pct.
1989	75.6	40.7	30.5	16.4	79.7	42.9	185.8	100.0
1990	91.2	40.9	33.2	14.9	98.8	44.3	223.2	100.0
1991	69.4	33.4	35.2	16.9	103.1	49.6	207.7	100.0
1992	67.1	33.8	31.7	16.0	99.6	50.2	198.4	100.0
1993	75.0	37.3	31.5	15.7	94.7	47.1	201.2	100.0
1994	50.8	25.7	40.9	20.7	105.7	53.6	197.3	100.0

JANUARY-OCTOBER AVERAGE

Year	Farm Share		Farm-Wholesale Share		Wholesale-Retail Share		Retail Price	
	Cents/lb.	Pct.	Cents/lb.	Pct.	Cents/lb.	Pct.	Cents/lb.	Pct.
1989	69.2	38.2	27.9	15.4	84.2	46.4	181.3	100.0
1990	89.0	42.3	29.2	13.9	92.3	43.9	210.5	100.0
1991	81.8	38.3	29.3	13.7	102.6	48.0	213.7	100.0
1992	68.1	34.3	31.1	15.7	99.2	50.0	198.3	100.0
1993	73.8	37.5	29.0	14.7	94.0	47.8	196.8	100.0
1994	66.0	33.1	35.1	17.6	98.1	49.2	199.3	100.0

Notes:

1. The farm share for October, in both cents/lb. and percent of retail price, are the lowest since January 1974
2. The packer spread for January-October 1994 is 6.39 cents/lb larger than in 1993
3. The retailer spread for January-October 1994 is 4.15 cents/lb. larger than in 1993 but still less than in the similar period in 1991 or 1992

11/23/94 Source: USDA-Economics Research Service

HOG SLAUGHTER AND PRICES
1994 vs. 1993

Week Ending	FI Hog Slaughter			IA-S. Minn. Hog Price		
	1993	1994	Change	1993	1994	Change
4-Sep	1742.7	1818.9	4.37%	49.90	39.90	-20.04%
11-Sep	1577.3	1636.1	3.85%	49.50	36.88	-25.49%
18-Sep	1845.8	1973.0	6.89%	49 20	36.60	-25.61%
25-Sep	1834.2	1949 0	6.26%	48.80	35.20	-27.87%
2-Oct	1852.9	1970.0	6.32%	47.75	35.20	-26 28%
9-Oct	1861.1	1961.0	5.37%	49.30	32.90	-33.27%
16-Oct	1877.2	1983.6	5.67%	48.55	33.60	-30.79%
23-Oct	1843.4	2037.0	10.50%	47.05	31.30	-33.48%
30-Oct	1821.9	2026.0	11.20%	46.05	31.50	-31.60%
6-Nov	1873.7	2053.0	9.57%	45.55	30.20	-33.70%
13-Nov	1825.2	1970.0	7.93%	44.25	28.60	-35.37%
20-Nov	1935.7	2042.0	5.49%	42.50	27.90	-34.35%
27-Nov	1605.8	1720.0	7.11%	42.50	26.90	-36.71%

11/28/94 [FIHOGS.XLW]FIHOGS.XLS Source: USDA

LIVE PRICE EFFECTS

The tables below show how much different live hog prices would have been in each period if price spreads had been equal to the prior period. The difference is then divided between packers and retailers.

Month	Farm-Wholesale Share	Wholesale-Retail Share	Total
Mar-94	1.82	2.82	4.65
Apr-94	0.65	-0.59	0.06
May-94	-0.65	0.71	0.06
Jun-94	-1.94	1.94	0.00
Jul-94	0.65	0.41	1.06
Aug-94	0.88	-1.18	-0.29
Sep-94	3.35	1.88	5.24
Oct-94	0.76	2.29	3.06

October of:	Farm-Wholesale Share	Wholesale-Retail Share	Total
1990	1.59	11.24	12.82
1991	1.18	2.53	3.71
1992	-2.06	-2.06	-4.12
1993	-0.12	-2.88	-3.00
1994	5.53	6.47	12.00

January thru October	Farm-Wholesale Share	Wholesale-Retail Share	Total
1990	0.79	4.75	5.54
1991	0.03	6.05	6.08
1992	1.08	-2.01	-0.93
1993	-1.23	-3.02	-4.25
1994	3.59	2.40	5.99

11/23/94

Source: USDA-Economics Research Service

Statement of Tom Floy, president, Iowa Pork Producers Association

Thank you, members of the Committee, for your interest in our industry and the challenges we're facing right now. We appreciate any assistance or counsel you can offer.

My family and I farm near Thornton, in north-central Iowa. I have a 100 sow herd and operate on a farrow-to-finish basis. I'm currently serving as president of the Iowa Pork Producers Association. We represent about 20,000 producers and others involved in what we think of as Iowa's most important industry.

I'd like to begin by reviewing briefly a few numbers. I do this simply to illustrate how dependent our state is on revenues from pork production, and why the current price situation has such a dramatic impact on Iowa's economy.

Agriculture is Iowa's biggest industry, and of all the cash receipts from agriculture, more than half come from livestock production. A majority of those livestock receipts come from the sale of hogs. This makes pork production the biggest single segment of Iowa's biggest industry. If we account for all the goods and services produced as a result of our industry, total output from Iowa pork production reaches more than $12 billion. More than 93,000 Iowans depend on pork production for their jobs. That's one in every sixteen jobs in our state and most of those are off the farm, in the input supply or packing and processing industries. About 48 percent of our corn crop and 57 percent of our soybean crop has value added to it by feeding it to hogs in Iowa.

Over the past decade, hog production has been profitable in Iowa. Between 1983 and 1992, an average farrow-to-finish producer in Iowa has made a profit of between nine and ten dollars per head. That has attracted capital into the system. The result is that slaughter of hogs, on a weekly basis, has recently been running from five to eleven percent higher than the same period a year ago. Total pork production, on a year to date basis, is up three to four percent. Additional pressure comes from the fact that year-to-date beef production is up about six percent, and broiler production is up more than seven percent. We've now started to observe that sow slaughter is up dramatically, meaning producers are sending breeding animals to town because of the dim prospects for profits for the next several quarters.

The good news is that pork demand is up about one percent from 1993 for the January to October period, in spite of the pressure from competing meats. This is probably the most frustrating piece of the puzzle for producers. The product is actually moving. Money is moving from the consumer into the system. Retailer profits are up. Packer profits are dramatically higher. But the prices we producers receive on the farm are down by one-third compared to this time last year. The average price paid for hogs for the week of November 19 was $27.90 per hundred pounds. By comparison, the average hog producer on the Iowa State University recordkeeping system has an average cost of $27.34 just for feed.

Producers do understand that they are part of a entire production system. Over the past several years, culminating with the Pork Chain Quality Audit earlier this year, pork producers have really taken an honest look at themselves, and their responsibility for the safety and quality of product they raise. Consumers expressed concern about food safety, and producers responded with the Pork Quality Assurance program. Retailers and packers sent us the message that consumers want leaner products, and producers responded with large investments in leaner genetics and the housing and feeding programs those leaner animals require. Producers have worked hard to coordinate their production activities with those of the processing and retailing segments of the industry. Producers have contributed hundreds of millions of dollars to advertise pork products being sold by packers and retailers. We've tackled the complex task of educating doctors, dietitians, and food editors about the qualities of today's pork. In short, producers think they've held up their end of the bargain. So, you can understand why, when demand is good and money is flowing into the system, producers feel badly used when their share of the pie is so small it doesn't even cover their cost of feed, much less other production costs, or any sort of profit for the family.

The issues become more complex when considered in light of the structural changes occurring in the industry. In the last several years, we've seen the development of very large producers. For the most part, they're experiencing losses just like we smaller producers. However, some of the larger players in the industry now are entirely vertically integrated. In other cases, some producers question whether some packers are offering marketing contracts with certain players which are not available to all producers. Individual producers who have made the commitment to be competitive and invest in modern genetics, housing, feeding and management programs, still feel helpless in the face of these developments which seem ultimately to block out market access.

We probably have as many questions as answers for you today. Fundamentally, how do we, in a free market economy driven by supply and demand signals, coordinate all the links in a production chain so that profits are distributed more equitably and more consistently? I note with interest a recent action taken in Canada by the Ontario Pork Producer Marketing Board which was reported in *Feedstuffs* magazine. In Ontario, packers and producers have agreed to negotiate prices upward because of the fear of losing hog production capacity if producers are forced to exit the industry due to low prices. This reflects a level of cooperation or coordination we have not yet experienced in the industry in the United States. Though the Ontario model may not necessarily the best one for the United States, it does emphasize the fact that the producer, packer and retailer segments in the pork industry should become better coordinated so that success in one segment doesn't come solely at the expense of another segment.

I think Congress can help in two ways. First, Congress can shed some light on these issues by bringing the Packers and Stockyards Administration into the discussion. Specifically, we urge that:

•Packers and Stockyards engage in vigorous oversight of the industry to make sure market access is available on an equitable basis to all producers, and that

•Packers and Stockyards specifically study and report on the availability of marketing contracts which may be used in the industry today. The Packers and Stockyards has previously noted that packer ownership or operation of custom feeding facilities may give rise to competitive problems in some situations. We urge their review of related situations in the pork industry.

Second, Congress can have a direct impact on the current price situation by encouraging the Administration to focus on opening overseas markets for pork, like the recent Export Enhancement Program authorization announced for pork shipments to Russia. Additional pork purchases for the School Lunch and Breakfast Program, the Emergency Food Assistance Program, and the Food for Progress program would be very beneficial in moderating the negative impact that the extremely large supplies of pork, beef, and poultry are having on producer viability.

I would also take this opportunity to draw your attention again to the inequity which exists between standards for meat inspection and those for poultry inspection. A study by the American Meat Institute estimated that the differences in standards put pork producers at an economic disadvantage of $11 to $16 per head compared to poultry producers. The current low prices producers are receiving highlight the magnitude of the economic disadvantage caused by the differences in inspection standards on issues like water weight gain, trimming versus washing, and mechanical separation.

To conclude, I can't overestimate the economic impact the current low hog prices are having on the vitality of rural Iowa. I am concerned that the lack of profitability in the pork sector of Iowa's economy right now will mean serious credit difficulties for many producers in the next several months. I request your assistance on three fronts:

1) vigorous study and oversight of the industry price and market situation by the Packers and Stockyards Administration;

2) stepped up use of pork in school lunch and emergency feeding programs, and in market-opening programs like the EEP; and

3) resolution of the significant inequities that exist between meat and poultry inspection.

I appreciate your kind attention to my remarks. I would be pleased to respond to any questions at the appropriate time. Thank you.

November 28, 1994

The Honorable Harold L. Volkmer
United States House of Representatives
House Committee on Agriculture
Subcommittee on Livestock
Washington, DC 20505

Dear Representative Volkmer:

I am Robert Shoup, a farrow-to-finish hog producer from Orrville, Ohio. Today's low hog prices, if they should persist, will become very detrimental to the survival of tens of thousands of independent hog producers.

The hog marketing today is about twelve dollars per hundredweight below the cost of production for the average hog producer. There is not enough money to meet operating expenses, not to mention debt retirement and household expenses for food and clothing.

Small businesses in rural towns will also feel the pinch. Packer profits have increased from approximately four dollars per head one year ago to twenty-four dollars per head today. Today a handful of firms slaughter a majority of the hogs.

The farm-to-retail price spread is excessive. Financial relief is essential if the independent hog producers are to remain in business.

Respectfully,

Robert Shoup

Robert Shoup

RS/fg

Denying Our Love for Meat

by Dr. Neil D. Hamilton
Director, Agricultural Law Center
Drake University
Des Moines, Iowa

The American diet is built on our passion of consuming meat. In recent decades meat consumption has shifted in response to health concerns over fat and cholesterol, increasing demand for fish and poultry.

But red meat producers have fought for markets by altering livestock genetics, production techniques and marketing. Promoting pork as "the other white meat," is a good example of efforts to provide consumers leaner healthier cuts. But, while the reality is we are and will probably remain a nation of meat eaters, increasing undercurrents in society, such as the animal rights movement and environrnental concerns, challenge the very notion of meat consumption and production.

Society's answer is two-fold. First, we embrace some themes of the animal rights movement, such as anti-fur campaigns, but continue to eat meat. Second, we conveniently avoid thinking about either how or why meat animals are raised. We delude ourselves by thinking the conveniently packaged steaks in the meat counter were produced in a factory like boxes of cereal.

But by ignoring the reality of meat production, made easier by society's increasing separation from its agrarian roots, we give comfort to animal rights activists whose goal is to end all livestock production. In so doing we help threaten the existence of the farmers who raise the steers and pigs we love to consume. It is also ironic that while many of us clamor to focus on such "issues" as farm animal welfare, we ignore more significant social ills. Hunger has not been eradicated in our nation of plenty and its existence should be a national shame. The social and economic welfare of the millions of rural residents, including the over 25% of children who live in poverty, receives little attention or public concern.

(Note: The above opinion was excerpted from White Paper 94-1. An essay entitled: Agriculture Without Farmers? Is Industrialization Restructuring American Food Production and Threatening the Future of Sustainable Agriculture? Feb, 1994)

NATIONAL FARMERS ORGANIZATION
2505 Elwood Drive, Ames, IA 50010-2000

NEWS RELEASE

Contact:
Thayne Cozart, Communications Director, Ph. (515) 292-2000, Ext. 270

For Immediate Release (October 25, 1994)

In letter to food industry leaders, National Farmers president cites disparity of profit margins within the pork industry

AMES, IOWA, Oct. 25, 1995 – The National Farmers Organization is deeply concerned about the current depressed hog market and the effect that low hog prices are having on independent pork producers and rural communities.

The organization believes profit margins within the pork complex are not being equitably distributed among all segments of the industry. The organization feels pork producers, in particular, are feeling the brunt of the low prices.

In an effort to bring attention of the problem to leaders in the pork packing industry, the retail grocery associations, and other food industry groups, Steve Halloran, National Farmers Organization President, sent the following letter to them on October 21, 1994:

"We've got a major problem in the pork industry. Current live hog prices, at $29-$30/cwt, are at a 14-year low. Not since 1980 have the nation's pork producers suffered such low live hog prices way below their cost of production.

"An examination of the relationships between the cash market, total hog slaughter, hog packer margins, and the retail price of pork brings to light a story that needs to be told – that needs full understanding by everyone in the pork industry from producer to consumer.

"The statistics below reveal those relationships. They compare the pork situation in 1994 to the pork situation in 1993. They also reveal what's happened in the past seven weeks.

	8-26-94	8/25/93
Iowa/S. Minnesota Cash Market	$41.00-$42.50	$49.50-51.00
Slaughter Year-To-Date (head)	58,587,000	58,527,000
Estimated Packer Margin	+3.40/head	-.89/head
Retail Meat Prices	$1.47/lb	$1.54/lb
	10-14-94	10-15-93
Iowa/S. Minnesota Cash Market	$32.00-33.00	$46.50-47.50
Slaughter Year-To-Date (head)	71,948/000	70,075,000
Estimated Packer Margin	$11.24/head	-2.85/head
Retail Meat Prices	$1.51/lb	$1.55/lb
	10-18-94	
Iowa/S. Minnesota Cash Market	$29.00-30.50	
Estimated Packer Margin	$19.53/head	

more

"Let's review what's happened in the past seven weeks:

"•Over the seven week period, slaughter is up 6.1% over last year, yet slaughter year-to-date is up only 1.2%:

"•The cash market is down $12.00/cwt in seven weeks.

"•The packer margins are actually up $16.13/head in seven weeks.

"•The retail pork price is actually up $0.04/lb.

"Clearly, the nation's pork producers are losing millions of dollars and the nation's consumers are paying more than necessary for pork because: (1) all segments of the industry are not working together to help us eat our way out the current oversupply, and (2) some segments of the industry are taking advantage of the oversupply to enjoy substantial profits at the expense of producers and consumers.

"This imbalance of returns is not conducive to the long-range health of the pork industry. If it continues for any length of time, many highly efficient independent pork producers will be forced from business. Their exodus from pork production will in turn hurt thousands of rural communities.

"The solution? If retail pork is moving in adequate volumes and not meeting consumer resistance at current retail prices, then both retailers and packers should shave back their margins and let a substantially larger portion of their current margins flow back to producers in the form of higher live hog prices.

"However, if retail pork is not moving in adequate volumes at current retail prices, then the nation's pork retailers need to substantially reduce the price of pork in the supermarket to equitably reflect the $12/cwt drop in the live hog market. The nation's pork packers need to satisfy themselves with smaller margins per head and allow a portion of their current margins to flow back to the producers in the form of higher live hog prices.

"I hope you agree there's a need for action. I request that you do what you can to assure a more equitable distribution of profit margins among all segments of the pork industry."

National Farmers continues monitoring pork industry status: packer margins increase to $21.99/head; retail pork stays steady

AMES, IOWA, Nov. 23, 1995 - The National Farmers Organization continues to expose the deep inequities within the current hog market.

"We've had more than two weeks of Iowa/Minnesota live hog prices below $30/cwt," says National Farmers President Steve Halloran. "Such below cost-of-production hog prices are putting independent pork producers through a needless economic wringer, hurting rural communities, and threatening the time-tested system in this country of producing pork on independent family farms."

The organization continues showing evidence that profit margins within the pork complex are not being equitably distributed among all segments of the industry. The organization feels pork producers, in particular, are feeling the brunt of the low prices.

"We keep examining the current relationships between the cash market, total hog slaughter, hog packer margins, and the retail price of pork. What we keep finding is an ugly example of opportunistic profiteering," Halloran notes.

The statistics below reveal those relationships. They compare the pork situation in 1994 to the pork situation in 1993. They also reveal what's happened in October and November.

	10-14-94	**10-15-93**
Iowa/S. Minnesota Cash Market	$32.00-$33.00	$46.50-$47.50
Slaughter Year-To-Date (head)	71,948,000 (+2.7%)	70,075,000
Estimated Packer Margin	$11.24/head	-2.85/head
Retail Meat Prices	$1.51/lb	$1.55/lb

	11-18-94	**11-19-93**
Iowa/S. Minnesota Cash Market	$27.00-28.00	$40.50-41.50
Slaughter Year-To-Date (head)	82,072,000 (+2.1%)	80,374,000
Estimated Packer Margin	$21.99/head	+3.75/head
Retail Meat Prices	$1.51/lb	$1.55/lb

The numbers just kept getting worse between 10-14-94 and 11-18-94:

- The Iowa/S. Minnesota cash market dropped another $5 cwt.
- Packer margins increased another $6.60/head.
- Retail pork prices remained unchanged.

Halloran notes that some Corn Belt pork retailers have lowered their pork prices to consumers. However, the weekly scanning of pork retailers in larger metropolitan areas shows no change in pork prices in the last four weeks.

Can pork producers help themselves? Halloran suggests no quick fix is available. "However, producers can help to reduce pork tonnage by selling hogs at lower weights," he says. "Our hog negotiators recommend that producers who are selling hogs above 260 pounds start marketing their hogs at 240 pounds."

The Iowa/Southern Minnesota slaughter weight for the week ending 11/12/94 was 254.8 pounds, up 2.8 pounds from a year ago. "Those extra pounds per hog just extend this miserable low-price cycle longer than it needs to be. Even lowering slaughter weights five pounds would put a big dent in the pork supply," Halloran points out. "The only part of the pork chain that profits from heavy hogs is the packer. And the statistics show the packer is not rewarding the producer for feeding hogs to heavier weights."

Halloran emphasizes "this imbalance of returns is not conducive to the long-range health of the pork industry. That's not good for the nation. It's time for all segments of the industry to profit together."

-30-

Good afternoon. My name is Jens Knutson and I am Director of Economic Research and Industry Relations for the American Meat Institute. The American Meat Institute is the national trade association representing meat packers and processors of beef, pork, lamb, veal and turkey and their suppliers.

The American Meat Institute and its members involved in the packing and processing of pork and pork products share the concerns of this subcommittee about today's pork market. And, like you, we are looking for some direction in what is occurring, as the weak wholesale prices our members are currently receiving for the products they sell show every indication of getting weaker over the next month or so.

What is happening in today's market is primarily due to the larger-than-expected increase in hog supplies in recent weeks, the additional tonnage those supplies have put on the market and the overall meat supply environment into which these supplies must be sold. The pork packing sector is today running at an unprecedented full capacity, and while that bodes well for operating margins it does not come without its own unique problems associated with where and at what price we channel this increased production. Despite successes in moving increased pork supplies through retail and export markets, record hog supplies and slaughter levels are resulting in product back-up, exacerbated by similarly dramatic increases in supplies of beef and poultry. These back-ups are behind both lower live and lower wholesale prices.

USDA surveys of hog producers' herd expansion intentions over the past six months had led industry to expect fourth quarter 1994 slaughter supplies to be up 4 to 5 percent from last year. Three years of producer profitability and herd expansion in the early 1990s had pointed to increased supplies this year and next. On top of that, a shift now underway in the structure of the producing sector characterized by new, heavily capitalized and very efficient producing units had suggested that supply forecasts based on USDA's producer surveys might, if anything, be conservative. And indeed they were: actual slaughter runs have been coming in 6 to 12 percent above year-earlier levels for more than two months now. Five weeks ago, slaughter of 2.055 million head was not only the highest on record, but marked the first time ever that we had slaughtered more than 2 million head a week for three weeks running. Since then, that level of throughput has continued: we've exceeded the 2 million head a week level for 6 of the past 7 weeks.

In short, there is a huge supply of both live hogs in the country and pork in the retail meat case that are having to sell in a market environment where competing volumes of beef are up 6 percent and chicken up 7 percent.

These slaughter increases have resulted in the live price of hogs falling faster than the wholesale or retail price of pork. This is neither unprecedented nor unusual. It is, in fact, characteristic of the economics of agriculture and one of the first lessons farm managers learn: market prices are more volatile and market changes more pronounced the closer one gets to the source of production. In this instance, the sharp decline in hog prices has translated to a very visible and disconcerting, but temporary, new low in the farmer's share of the retail pork dollar. As wholesale and retail prices begin to reflect lower live prices, the farmer's share of the retail dollar will begin rising again.

Given time for the marketing system to adjust to what's occurring with supply and demand, price changes at one level of the production chain will be reflected at other levels. We are seeing that already, where the most recent weekly prices reported by USDA show the price of live hogs down 34% from a year ago, and wholesale pork loin prices down 18% from last year, bellies used to make bacon down 34%, hams down 35% and trimmings for sausage down 32%. Like live hog prices, many of our wholesale pork prices are also at 20-year lows and heading lower as large increases in raw materials typically marketed in a processed or value-added form get backed up in the production pipeline due to processing capabilities inadequate to meet today's large supplies. It is, in its way, a supply and demand situation analogous to what's occurring to producers, but we are confident these lower prices will be reflected at retail in the not-too-distant future.

We're confident because we've been through this before, with pork and with beef. Short-term supply surges and supply shortfalls are characteristic of the livestock and meat industry, as are shifting shares of the retail meat dollar, as is inter-sector responsiveness of prices over time -- and generally not that much time -- as is the long-term trend of widening marketing spreads associated with the increased consumer services we've become accustomed to and demanding of in recent years.

Your subcommittee held a hearing eleven years ago on the same issue that brings us here today. Since then, we have seen all sectors of this industry prosper. Not always consistently and not always at the same time, but the long-term trend has been beneficial to each sector in the pork business. Marketing spreads have increased since your last hearing, and shares of the consumer dollar have shifted, but the long-term viability (and implicitly, profitability, short-term "down" markets notwithstanding) of producers, packers and retailers are all today better than they were then. And through all of those changes, we have always seen inter-sector price responsiveness given an appropriate lag time. In fact, over the past eleven years we've been through what we're going through now several times, most recently with beef earlier this year. Nothing is different now. Wholesale and retail pork prices will adjust to lower live hog prices given an appropriate lag period. We are already seeing that adjustment occurring at the wholesale level and shortly expect consumers to see pork in their meat case priced as competitively as it has been for years.

The American Meat Institute appreciates your interest in this subject and thanks you for the opportunity to comment on today's pork market. We also look forward to working with you and others interested in the welfare of American pork producers and processors as opportunities to build both demand for pork and pork profitability present themselves in the future.

Rt. 2, Box 61
Monroe City, MO 63456
November 21, 1994

Hon. Harold L. Volkmer
Chairman, Subcommittee on Livestock
House Agriculture Committee
1336 LHOB
Washington, D.C. 20515-6003

Dear Mr. Chairman:

It is my understanding you will chair a hearing on the subject of pork pricing on November 29th. Thank you for your interest as this is a matter which needs to be looked at now.

I am a pork producer from Ralls County, Missouri. I normally sell on the average of 350 head of slaughter hogs every year. I've raised hogs for 15 years and am very aware that in order to stay in business as a farmer and pork producer, I have to ride out the highs and lows in the market. I accept that. If I didn't, I would simply have to sell out and get a "paying" job.

I am greatly troubled, however, about the trend in pork pricing. Pork prices rose earlier this year to a level of $48.50 a hundred weight. They have drastically fallen since then. My last load of hogs was sold on November 10th. That load consisted of 31 head at an average weight of 251 pounds. Those hogs sold for $26.50 a hundred weight. A week before that the same size and type of hog sold for $27.50 a hundred. Nine months ago, those same hogs would have brought $48.50 a hundred. Even as late as August 9th, I sold 30 head averaging 233 pounds which brought $42.25 a hundred.

My real concern is the fact that while I am getting 26.5 cents a pound for my hogs, grocery stores are still charging a tremendous amount for pork products. While the store prices have dropped a small amount, they are still within a few cents of the prices charged during the market high earlier this year.

The National Food Store in Hannibal, Missouri, (a fair sized chain store) was charging the following prices on Monday, November 14th. Presumably some of my 26.5 cent hogs could have been in the store by that day. You should also know that pork was a featured item in the ad that week. As a featured item, it was a discounted item and I assume that some of my pork check-off monies helped to pay the supermarket for any money it "lost" due to this special promotion.

Butt Ham portions, $1.39
"Club Pack" Country Ribs, $2.39 (5 lbs or more)
"Club Pack" Pork Steak, $1.59 (5 lbs or more)
"Club Pack" Cubed Pork Cutlets, $1.99 (4 lbs or more)
Boneless Chops, $4.79
Pork Rib Eye, $3.98
Pork Quarter Sliced Loin, $2.49
Whole Boneless Loin (cry-o-vac pkg), $2.99
Loin Rib Chops, $3.59
Shoulder Blade Pork Steak, $1.98

I know that it costs to "finish" those live, squealing hogs into hygienically wrapped, conveniently cut-up pieces of pork for the American consumer. I know there are lots of hands involved in the process. I also know that as the producer of that hog, I am getting short changed so far as prices go. It costs quite a lot to produce that pound of pork and while grain prices have fallen (and so the cost of grain involved in feeding my hogs), other production costs have stayed the same or risen. The mintrate that must be purchased from the feed store to be ground with grain for hog feed* cost $256 a ton the last time I bought it. Pellets for baby pigs run $22 for a 50 pound bag. Believe me, hogs eat a lot. Necessary veterinary supplies such as iron shots for baby pigs, antibiotics, etc., for any that are ill have skyrocketed. I would like to see an accounting of the difference between my 26.5 cents a pound for a live hog and the price a consumer pays in the store.

Thank you for listening.

Sincerely yours,

Donald E DeLaporte

Donald E. DeLaporte
314/735-4223

*Hog feed - 40% protein mintrate costs $256 a ton (contracted for 3 months at a time) - requires 4 ton a month. This is mixed with milo I grow (or buy when I've used up my stock on hand) to make the appropriate feed ration for my hogs.

DON DELAPORTE
R R 2, BOX 61
MONROE CITY MO 63456

REC DATE: 10/26/94 SLAUGHTER DATE: 10/27/94
MONROE CITY, MO PERRY, IOWA
HEAD RECEIVED : 16
LIVE PRICE : 29.25
TOTAL LIVE WGT : 3905 LBS / AVG 244
TATTOO NUMBER : 6113

PRODUCER: 0289605
FARM NO :

IBP PORK SUPREME LEAN
LIVE HOG MERIT PROGRAM

BUYER: 853 STEVE DEGRAVE

CARCASS * HOT WGT RANGES	HEAD	RULER #	AVG BACK FAT THICKNESS	GRADE	CARCASS GRADE PREMIUM	CARCASS SORT	CARCASS WGT
147-155	1	3	.90	03	.00	4.05-	153
164-171	2	3		02	1.50	.67-	335
164-171	1	4		03	.00	.67-	170
164-171	1	6	1.10	05	2.50-	.67-	171
172-178	3	3		02	2.00	.00	524
172-178	2	4		03	.00	.00	355
172-178	2	5	1.07	04	2.50-	.00	352
179-186	1	3		02	2.00	.00	181
179-186 *	1	4	1.00	03	.00	.00	178
187-194	1	2		01	5.00	.00	187
187-194	1	5	1.00	04	3.00-	.00	187
AVG	16	4	1.05	2.8	.35	.38-	175
TOTAL	16						2793

THE FOLLOWING COMPARISON DATA IS USING LOTS OF THE SAME AVERAGE LIVE WEIGHT FOR THE WEEK OF : 10/23/94

CURRENT LOT COMPARATIVE CARCASS INFO:

	THIS LOT	TOP 25%	MIDDLE 25%	MIDDLE 25%	LOWER 25%
# OF HEAD	: 16				
YIELD	: 71.52			X	
BACKFAT	: 1.05		X		
GRADE PREMIUM	: .35		X		
SORT	: .38-		X		

YTD COMPARATIVE CARCASS INFO: AVG LIVE WGT: 241

	YTD	TOP 25%	MIDDLE 25%	MIDDLE 25%	LOWER 25%
# OF HEAD	: 326				
YIELD	: 72.54			X	
BACKFAT	: 1.11			X	
GRADE PREMIUM	: .09-			X	
SORT	: .62-			X	

GRADE	SL	1	2	3	4	5
HEAD	0	1	6	5	3	1
%	0%	6%	38%	31%	19%	6%
YTD	7	29	55	130	84	21
YTD %	2%	9%	17%	40%	26%	6%

RULER #	1	2	3	4	5	6	7	8
HEAD	0	1	7	4	3	1	0	0
LOT %	0%	6%	44%	25%	19%	6%	0%	0%
YTD	4	31	55	122	91	23	0	0
YTD %	1%	10%	17%	37%	28%	7%	0%	0%

CURRENT LOT LOST OPPORTUNITY DOLLAR COMPARISON

	COMPARED TO TOP 25%	$/HD	MAX. POTENTIAL (TOP 5%)	$/HD
YIELD :	$31	$1.94	$63	$3.94
GRADE PREM. :	$25	$1.56	$64	$4.00
SORT :	$2	$0.13	$8	$0.50
	$58	$3.63	$135	$8.44

YTD LOST OPPORTUNITY DOLLAR COMPARISON

	COMPARED TO TOP 25%	$/HD	MAX. POTENTIAL (TOP 5%)	$/HD
YIELD :	$661	$2.03	$1,436	$4.40
GRADE PREM. :	$822	$2.52	$1,565	$4.80
SORT :	$224	$0.69	$373	$1.14
	$1,707	$5.24	$3,374	$10.35

	SETS	DOLLARS		HEAD	DOLLARS
THIS LOT VISCERA LOSS:	0	$0.00	THIS LOT HEAD LOSS:	0	$0.00
YTD VISCERA LOSS:	2	$10	YTD HEAD LOSS:	0	$0

TRIM AREA	HEAD				
BOTH HAMS & LOINS	0.0 :	HAM	0.0 :	BUTT	0.0
BOTH LOINS & BELLIES	0.0 :	LOIN	0.0 :	PICNIC	0.0
BOTH BUT,PIC & JOWL	0.0 :	BELLY	1.0 :	JOWL	0.0

* DENOTES TRIM LOSS

RULER #	1	2	3	4	5	6	7	8
BACKFAT	0.6/DN	0.6/0.8	0.8/1.0	1.0/1.2	1.2/1.4	1.4/1.6	1.6/1.8	1.8/UP

THANK YOU FOR YOUR PATRONAGE.

NOV 21 '94 10:14 VOELKNER [illegible]

ibp. IBP, Inc.

629086

33 50 7141

	PRODUCER DATE	DELIVERY DATE	DELIVERY LOCATION	BUYER NO.	PAYMENT METHOD LIVE	PAYMENT METHOD AUD	SCALER
	11-2-94		8853 883		X		SRS

	BUTCH	SOW	SHIP	SUBJECT	TATTOO NO	AVG. WT	WEIGHT	PRICE PER CWT	GROSS AMOUNT
A	13				6132	257	3350	27.50	921.25
B									
TOTAL									

Lean to ibp for top returns

PAYMENT

GROSS AMOUNT	921.25	PRODUCER NO.
FREIGHT		NAME: [illegible]
INSURANCE		ADDRESS:
NPB	3.22	[illegible] City, Mo
ADJUSTMENT		COMMENTS
NET AMOUNT	918.03	LIEN SEARCH

ibp.

DETACH AND RETAIN THIS STATEMENT 3183737

3183737

INVOICE DATE	INVOICE NUMBER	DESCRIPTION	WEIGHT	AVERAGE WEIGHT	PER CWT	TOTAL AMOUNT
11/02/94	13 BUT	6132	3350	257	27.50	921.25

DEDUCTIONS	
INSURANCE	
PORK CHECK OFF	3.22
TRUCKING	
NET AMOUNT	918.03

SCL TKT: 339006

THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED ABOVE
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY. NO RECEIPT DESIRED

ibp

KILL DATE 11/10/94

TATTOO 2112

SCL TKT: 629155

SHIPPER

DON DELAPORTE
R R 2, BOX 61
MONROE CITY MO 634560000

No 3213034

NO.	AVG. WEIGHT	KIND	NET WEIGHT	PRICE CWT	GROSS AMOUNT
31	251	BUTCHERS	7790	26.50	2064.35

DEDUCTIONS	RATE	
TRUCKING	.3500	5.63
NATIONAL PORK BOARD		
INSURANCE PER HEAD		
OTHER CHECKS GROSS		399.55
TOTAL DEDUCTIONS		405.38
NET AMOUNT		1658.97

3213034

No 3213035

WEIGHT	KIND	NET WEIGHT	PRICE CWT	GROSS AMOUNT
	PARTIAL PAYMENT WITH 3213034			399.55

DEDUCTIONS	RATE	
TRUCKING	.3500	1.40
NATIONAL PORK BOARD		
INSURANCE PER HEAD		
TOTAL DEDUCTIONS		1.40
NET AMOUNT		398.15

3213035

ibp IBP, Inc.

Lead to ibp for top returns

4160
3630
629155

	BUTCH	SOW	SHIP	SUBJECT	TATTOO NO.	AVG. WT	WEIGHT	PRICE PER CWT.	GROSS AMOUNT
A					6112				
B							3630		
TOTAL						251		26.50	2064.35

PAYMENT	
GROSS AMOUNT	
FREIGHT	< >
INSURANCE	< >
NPB	< >
ADJUSTMENT	< >
NET AMOUNT	

PRODUCER NO. 38605

NAME Don DeLaporte

ADDRESS: Monroe City Mo

COMMENTS

LIEN SEARCH SS

** TOTAL PAGE.07 **

DON DELAPORTE
R R 2, BOX 61
MONROE CITY MO 63456

REC DATE: 11/02/94 SLAUGHTER DATE: 11/02/94
MONROE CITY, MO COLUMBUS JUNCTION, IOWA
HEAD RECEIVED : 13
LIVE PRICE : 27.50
TOTAL LIVE WGT : 3350 LBS / AVG 257
TATTOO NUMBER : 6132

PRODUCER: 0289605
FARM NO :

IBP PORK SUPREME LEAN
LIVE HOG MERIT PROGRAM

BUYER: 853 STEVE DEGRAVE

CARCASS HOT WGT RANGES	HEAD	RULER #	AVG BACK FAT THICKNESS	GRADE	CARCASS GRADE PREMIUM	CARCASS SORT	CARCASS WGT
164-171	1	5	1.30	04	2.00-	.67-	165
172-178	1	4	1.10	03	.00	.00	173
179-186	1	4		03	.00	.00	180
179-186	1	5		04	2.50-	.00	186
179-186	1	6	1.30	05	4.00-	.00	180
187-194	1	5		04	3.00-	.00	188
187-194	1	7	1.50	05	5.00-	.00	194
195-202	1	5		03	.00	.67-	200
195-202	1	6		04	3.00-	.67-	199
195-202	2	7	1.55	05	5.00-	.67-	402
203-209	1	4		02	3.00	1.34-	208
203-209	1	7	1.40	05	5.00-	1.34-	207
AVG	13	6	1.41	4.0	2.44-	.48-	191
TOTAL	13						2482

THE FOLLOWING COMPARISON DATA IS USING LOTS OF THE SAME AVERAGE LIVE WEIGHT FOR THE WEEK OF : 10/23/94

CURRENT LOT COMPARATIVE CARCASS INFO:

	THIS LOT	TOP 25%	25%	MIDDLE 25%	LOWER 25%
# OF HEAD	13				
YIELD	74.09	X			
BACKFAT	1.41				X
GRADE PREMIUM	2.44-				X
SORT	.48-		X		

YTD COMPARATIVE CARCASS INFO: AVG LIVE WGT: 241

	YTD	TOP 25%	25%	MIDDLE 25%	LOWER 25%
# OF HEAD	326				
YIELD	72.54			X	
BACKFAT	1.11			X	
GRADE PREMIUM	.09-			X	
SORT	.62-			X	

GRADE

	SL	1	2	3	4	5
HEAD	0	0	1	3	4	5
%	0%	0%	8%	23%	31%	39%
YTD	7	29	55	130	84	21
YTD %	2%	9%	17%	40%	26%	6%

RULER #

	1	2	3	4	5	6	7	8
HEAD	0	0	0	3	4	2	4	0
LOT %	0%	0%	0%	23%	31%	15%	31%	0%
YTD	4	31	55	122	91	23	0	0
YTD %	1%	10%	17%	37%	28%	7%	0%	0%

CURRENT LOT LOST OPPORTUNITY DOLLAR COMPARISON

	COMPARED TO TOP 25%	$/HD	MAX. POTENTIAL (TOP 5%)	$/HD
YIELD	$0	$0.00	$14	$1.08
GRADE PREM.	$101	$7.77	$141	$10.85
SORT	$2	$0.15	$8	$0.62
	$103	$7.92	$163	$12.55

YTD LOST OPPORTUNITY DOLLAR COMPARISON

	COMPARED TO TOP 25%	$/HD	MAX. POTENTIAL (TOP 5%)	$/HD
YIELD	$661	$2.03	$1,436	$4.40
GRADE PREM.	$822	$2.52	$1,565	$4.80
SORT	$224	$0.69	$373	$1.14
	$1,707	$5.24	$3,374	$10.35

	SETS	DOLLARS		HEAD	DOLLARS
THIS LOT : VISCERA LOSS:	0	$0.00	THIS LOT : HEAD LOSS:	0	$0.00
YTD : VISCERA LOSS:	2	$10	YTD : HEAD LOSS:	0	$0

TRIM AREA	HEAD				
BOTH HAMS & LOINS	0.0	HAM	0.0	BUTT	0.0
BOTH LOINS & BELLIES	0.0	LOIN	0.0	PICNIC	0.0
BOTH BUT,PIC & JOWL	0.0	BELLY	0.0	JOWL	0.0

RULER #	1	2	3	4	5	6	7	8
BACKFAT	0.6/DN	0.6/0.8	0.8/1.0	1.0/1.2	1.2/1.4	1.4/1.6	1.6/1.8	1.8/UP

THANK YOU FOR YOUR PATRONAGE.

NOV 2 8 1994

November 25, 1994

The Honorable Harold L. Volkmer
U.S. Congressman
912 East Walnut
Columbia, MO. 65201

Congressman Volkmer,

We are writing to you regarding your upcoming hearings in Washington D.C. on November 29, 1994 regarding the current situation in the pork industry, particularly, the producer price/retail price disparity.

On November 1, 1993, my partner and I formed Richterkessing and Harris Farms of Paris, Mo. and purchased a 93 acre tract of land southwest of Paris. This is an improved farm with a 140 sow farrow to finish hog operation, all in confinement. Additionally, we purchased all of the inventory so that we basically walked into an ongoing operation. We made this purchase after nearly a year of projections and analysis in trying to make sure that we were making a prudent move. We both wanted to farm, and with the help of a good local ag bank, backed by an FmHA Guaranteed Loan, we were able to put a deal together.

Through the end of 1993 and into the spring of 1994, we were selling hogs on a cash market of $45-48.00/cwt. In the spring we started selling hogs on a grade and yield basis, with the priced based on the packer's meat price. Through the spring and summer of 1994, this priced ranged from $57-61.00/cwt, and we were paid a percentage of this based on the carcass yield of the hogs we were selling, which with the quality premiums, translated back into an upper $40's cash price. Through the summer, on this price structure, we were able to pay all of our operating expenses, pay the feed bill (we have to buy a considerable amount of grain), pay our long term debts, and have a balance to carry forward to the next month.

In late August, the meat price softened a little into the mid- $50's. In September, the meat price weakened again and over the next 10-12 weeks slid from the mid to upper $50s and finally nose-dived to its current level. We sold hogs this past Monday, November 21, and the meat price was $38.00/cwt. which would pay us a live value of approximately $28.50/cwt. Our breakeven cost is about $40-42.00/cwt. Based on the experience of the past summer, at the price levels we had then, we know our operation will work and pay its way, even if we aren't as large as all of the integrator's hog farms.

The unfortunate part of all of this is that even though we hog producers are taking a major loss on the price of our product, the consumer has yet to see any lower pork prices in the meat case. This can only mean that given the difference in price, somebody in the middle is making lots of money at our expense. On Friday, the 18th, farm broadcaster Derry Brownfield reported that the average retail price of sausage was 9 cents higher than the previous week, this in a week when it took a 700#+ sow to bring $.20/# and most sows were only bringing $.15-.16 per pound. In our local grocery store this week, pork steaks were $1.44+/pound, pork chops were over $3.00/pound, ham slices were $3.49/#, and sausage was $2.00-2.20/pound. We try to watch the retail pork price from time to time, just from point of interest as producers, and these prices have changes very little from what we saw back in the summer when we were being paid nearly $20.00/cwt more for our hogs.

While we realize that you, or Congress in general, can not force the consumer to eat more of our product, we feel there may be some steps that could possibly help. One of the most important may be to put all of the meat industry on the same inspection table and not allow the poultry processors to get by with less stringent inspection and sanitation than the red meat processors have to abide by. One of the most common statements we hear from non-agricultural people is that the day of the small hog producer is over and that all of the corporate and vertically intergrated pork producers will take over all of the production and the pork business will go the way of the poultry industry. This may not be the best idea, at least not for us, and it may not be the best idea for the consumer. While grocery shopping in Moberly in September, we were looking at the pork steaks in the cooler, noting how thick and scrappy they looked. We inquired of the meat cutter where the meat came from and he told us two things: 1) the boxed product to cut into steaks came from Tyson Foods at Marshall, MO., a vertically integrated producer and one of the 'Top 30' hog farms; and 2) he was not the least bit pleased with the quality and was tired of his customers complaining about the quality of a product he was locked into selling through his warehouse's contract. The point is, no matter what they tell us, all of the Top 30's hogs may not cut into the pork product that the consumer wants. As individual producers, we have access to the same genetics and nutrition that they use, and we are quite capable of producing a good lean product if we are given the opportunity.

Bryan and I are 24 and 30 years old, respectively, were raised on farms, and have a strong desire to remain an active part of American agriculture. With the help of a good ag lender, and a good FmHA guarantee program, we have the opportunity to try to achieve our goals. We have allied ourselves with good genetics, quality nutritionists and feed suppliers, animal health experts, and, as much as possible, a good marketing program, all of which are strategies the experts tell us we have to do to survive. We are young enough to realize there has to be some inter-dependence in the individual hog producers, we just don't want to be stomped out in our first year.

We appreciate your time to consider our letter and look forward to hearing the result of your upcoming hearings. The bottom line may be if we have to sell a cheap product, the consumer may be entitled to a more reasonable retail product.

Feel free to contact us if you have questions.

Sincerely,

Boyd L. Harris

Bryan P. Richterkessing

Richterkessing and Harris Farms
Route 2 Box 80
Paris, MO. 65275

U.S. House of Representatives
Committee on Agriculture
Washington, D.C. 20515

November 1, 1994

The Honorable Harold Volkmer
Chairman, Livestock Subcommittee
House Committee on Agriculture
1301 Longworth
Washington, DC 20515

Dear Harold:

We are writing to ask you to hold a hearing on the farm to retail price spread in the current pork and beef markets when the Congress reconvenes later this year.

As you are no doubt aware, beef, pork, and lamb prices are all in down-trends and pork prices hit a twenty year low recently. We are dealing with a so-called "mountain of meat," but it appears that farmers and ranchers are the only points in the chain that are feeling the effect of this surplus. Recent data from the Department of Agriculture indicates that in the pork sector, packers and retailers are actually seeing a greater return while livestock producers have seen their share go down dramatically over the last six months.

In addition to livestock producers, consumers are also losing out in this situation, with record low livestock prices not being translated into decreases at the grocery store or restaurant. We feel it would be useful to allow all segments of the meat industry to share their thoughts on the current situation.

Thank you for your consideration of our request. We look forward to working with you on this issue which is of great importance to a number of our constituents.

Sincerely,

Tim Johnson

Earl Pomeroy

Jack Kingston

Pat Williams

Tim Johnson | Earl Pomeroy

Jack Kingston | Pat Williams

Page two
Volkmer letter

Sanford Bishop

Frank Lucas

Larry Combest

David Minge

Collin Peterson

RUSH 4 MORE
delicious nutritious
PORK

South Dakota Pork Producers Council

P.O. Box 326 - 113 South Egan Avenue
Madison, South Dakota 57042-0326
(605) 256-4501 - 800-830-PORK
FAX (605) 256-2516

October 26, 1994

The Honorable Tim Johnson
United States Congress
Washington, D.C. 20510

Dear Congressman Johnson:

As President of the South Dakota Pork Producers Council I am writing to request your assistance and immediate action concerning the current farm to retail price spread on pork. I have received numerous phone calls from producers in our state that are asking why the retail price of pork that consumers are purchasing is so high when the price we as producers are receiving for our hogs is at a 22 year low.

Evidence from U.S.D.A. on the pork price spreads clearly indicates that the farmers share is at the lowest on record at 28 percent while the packer share is 20 percent and the retail share is 52 percent. I certainly do not object and understand the need for the packer and retailer to make a fair profit but this recent information clearly shows that the margins are out of an acceptable range. Economists from our national office indicate that if the farm to retail price spread was equal to last years spread it would mean an additional $9.88 to the live hog price.

Another point that I would make is that total pork production for 1994 is up only 1.6 percent from last years production numbers, yet the farm to retail margins are much wider. Your investigation into this matter would send a message to the retail and packing industry that producers are aware of this and simply want to know why these margins have to be so wide.

I am confident that you can ask the right questions of the right people in Washington to respond to our members concerns. I can survive a low hog market for a period of time and I understand the cycles our industry goes through but I would sincerely like your help in addressing this issue and responding to our members concerns.

Sincerely,

Randy Odegaard

Randy Odegaard
President

United States Senate

WASHINGTON, DC 20510

October 26, 1994

Mr. Timothy Hammonds
President
Food Marketing Institute
800 Connecticut Ave., N.W., #500
Washington, D.C. 20006

Dear Mr. Hammonds:

Over the past few months, we have received a significant number of comments and complaints from constituents regarding pork prices. Initially, the concerns were related to the extremely low live hog prices. Recently, however, they have focused on the relationship between the price farmers receive for live hogs and the retail price that consumers pay for pork products. We are writing this letter to a number of different industry and retail organizations to gather information on these price disparities.

As you know, live hog prices have been declining steadily since the first of this year and recently hit a twenty year low. The steep price drop has been primarily attributed to an oversupply of pork, beef and poultry. Livestock producers understand the relationship between supply and demand, and are willing to make sacrifices and modifications in their operations to help realign the market. However, they do not feel it is fair or economically justifiable for them to bear the full brunt of bringing supply back in line with demand.

Both consumers and farmers are concerned by the apparent non-responsiveness of retail prices to prices received on the farm. They point out that when prices increase at the farm, prices increase almost immediately at the retail level; yet when the opposite is true and farm prices drop as they have recently, corresponding price decreases at the retail level take a long time to materialize, if they occur at all.

The distorted relationship of pork price spreads among farmers, packers and retailers lends credibility to this concern. According to USDA data, there has been an unusual shift in the percentages received by each over the last six months. Farmers are receiving less, packers slightly more and retailers considerably more. The farmer's share of the consumer's pork dollar has dropped to an all-time record low of 28%, a decrease of approximately 20%, while packers' and retailers' percentages of the pork dollar have increased over 10% since the first of this year

Compared to six months ago, farmers are receiving *13.8 cents less* per pound of retail product, while, in stark contrast, packers are receiving *2.9 cents per pound more* and retailers are receiving *7.2 cents per pound more*. If farmers were receiving the same percentage of pork dollars today as they were one year ago, they would be receiving almost $10 per hundredweight more, a significant amount that would certainly be the difference between a profit and a loss. In light of these figures, our constituents question whether the dramatic declines in hog prices are being passed on to consumers.

11/29/94 11:03 ☎ 004

Mr. Timothy Hammonds
October 26, 1994
Page Two

We would be interested in your views on the precipitous drop in live hog prices, the apparent delay in corresponding decreases at the retail level and the unusual shifts in traditional farm to retail price spread relationships for pork. Your detailed response will be very helpful to our effort to ensure that our constituents and consumers fully understand what is happening in the pork market.

Thank you for your consideration of this request. We look forward to your timely response

Sincerely,

Tom Daschle

Tom Daschle
United States Senate

Tom Harkin

Tom Harkin
United States Senate

Bob Kerrey

Bob Kerrey
United States Senate

Chuck Grassley

Charles Grassley
United States Senate

11/28/94 11:03 ☎ 005

United States Senate

WASHINGTON, DC 20510

October 26, 1994

Mr. Keith Collins
Chief Economist
U.S. Department of Agriculture
14th and Independence Ave., S.W
Washington, D.C. 20250

Dear Mr. Collins:

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11/29/94 11:03 ☎ 006

Mr. Keith Collins
October 26, 1994
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Tom Harkin
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United States Senate

Bob Kerrey
United States Senate

Chuck Grassley
Charles Grassley
United States Senate

11/29/94 11:04 ☎ 007

United States Senate

WASHINGTON, DC 20510

October 26, 1994

Mr. C. Manly Molpus
President
Grocery Manufacturers of America
1010 Wisconson Ave., N.W., #900
Washington, D.C. 20007

Dear Mr. Molpus:

Over the past few months, we have received a significant number of comments and complaints from constituents regarding pork prices. Initially, the concerns were related to the extremely low live hog prices. Recently, however, they have focused on the relationship between the price farmers receive for live hogs and the retail price that consumers pay for pork products. We are writing this letter to a number of different industry and retail organizations to gather information on these price disparities.

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11/29/94 11:04 ☎ 008

Mr. C Manly Molpus
October 26, 1994
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United States Senate

Bob Kerrey

Bob Kerrey
United States Senate

Chuck Grassley

Charles Grassley
United States Senate

United States Senate

WASHINGTON, DC 20510

October 26, 1994

Mr. John Block
President
National American Wholesale Grocery Association
201 Park Washington Court
Falls Church, VA 22046

Dear Mr. Block:

Over the past few months, we have received a significant number of comments and complaints from constituents regarding pork prices. Initially, the concerns were related to the extremely low live hog prices. Recently, however, they have focused on the relationship between the price farmers receive for live hogs and the retail price that consumers pay for pork products. We are writing this letter to a number of different industry and retail organizations to gather information on these price disparities.

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Mr John Block
October 26, 1994
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Bob Kerrey

Bob Kerrey
United States Senate

Chuck Grassley

Charles Grassley
United States Senate

United States Senate

WASHINGTON, DC 20510

October 26, 1994

Mr. J. Patrick Boyle
President
American Meat Institute
1700 N. Moore Street, #1600
Arlington, VA 22209

Dear Mr Boyle:

Over the past few months, we have received a significant number of comments and complaints from constituents regarding pork prices. Initially, the concerns were related to the extremely low live hog prices. Recently, however, they have focused on the relationship between the price farmers receive for live hogs and the retail price that consumers pay for pork products. We are writing this letter to a number of different industry and retail organizations to gather information on these price disparities.

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11/28/94 11:06 ☎ 012

Mr. J. Patrick Boyle
October 26, 1994
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