Five Minute Oral Presentation Version

State of Livestock in America

Hearing of the Senate Committee on Agriculture Nutrition & Forestry

The Honorable Deborah A. Stabenow
Chairman

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On behalf of National Chicken Council

June 28, 2011

Dirksen Senate Office Building
G50

Washington, DC

Good afternoon, Chairman Stabenow, Senator Roberts and Members of the Committee. Thank you, Chairman Stabenow, for the opportunity to participate in this important and timely hearing on the issues impacting the state of livestock and poultry on behalf of the National Chicken Council.

My name is Michael Welch and I am President and Chief Executive Officer of Harrison Poultry in Bethlehem, Georgia. I have been President of Harrison Poultry since 1992. Harrison Poultry is a small, privately held company operating one slaughter plant producing a variety of products and more than 1,000 outstanding workers. Over 125 family farmers contract to grow broilers and an additional 40 family farmers contract to produce hatching eggs for the company-owned hatchery. Each week Harrison Poultry processes more than 6 million pounds of broilers on a liveweight basis. Some of Harrison Poultry growers have been growing broilers since Harrison Poultry became vertically-integrated more than 40 years ago, even though the company contract is considered a flock-to-flock arrangement.

Madam Chairman and Committee Members, as you can appreciate there are many issues impacting the state of the chicken industry as I speak to you today. I, however, have limited my statement to what the National Chicken Council considers to be the top priorities. Permit me to note these priorities:

Corn-Based Ethanol Policies and Rules Need Re-Alignment

The policies and rules of the game for corn-based ethanol must be re-balanced and the playing field must be leveled to permit chicken producers and other animal agriculture producers to more fairly compete for the very limited supplies of corn this year and most likely for the next few years. For more than 30 years the ethanol industry has had an opportunity to learn how to compete in the marketplace. It is now time, actually well beyond a reasonable time, for ethanol manufacturers to move beyond government subsidies, federally-mandated usage, and market protection from foreign competition. Broiler companies, since last October when the sudden, unexpectedly run-up in corn and other feed ingredient costs occurred, have tried to weather the storm of very high, very volatile corn prices. But, now, companies can no longer withstand the storm. Companies are trimming their production plans which means growers will receive fewer chicks to grow to market-ready broilers and processing plant work shifts are being reduced or even eliminated. With less work time, more and more workers are being laid-off. A broiler company in Georgia just announced 300 workers will no longer be needed. Also, this month a fourth-generation family broiler company in Delaware filed for bankruptcy protection while it works to secure another owner for its assets. Further, another company in Arkansas last week announced plans to consolidate two processing plant operations into one location and similarly will combine two hatcheries into a single facility. This consolidation will result in 223 jobs being eliminated. The company in its announcement indicated that eliminating these jobs will give it a better chance to survive. Earlier this year, a third-generation broiler company with a complex in North Carolina and another complex in Arkansas succumbed to the financial stress of high feed costs. The result in this case is that its complex in North Carolina is now owned by a foreign company and the Arkansas complex is now owned by another broiler company that not only had the borrowing capacity to purchase the assets but the reserves that will undoubtedly be necessary to carry financial loses until the broiler market improves to at least a breakeven position.

Banks and other lending institutions are telling these companies, "enough is enough," meaning sell your assets and repay your outstanding debt. I receive inquiries weekly, if not more often, from the financial firms, broiler companies, and others inquiring about my company's interest in acquiring troubled assets in the broiler industry. What some analysts say about the broiler industry of "ten companies in ten years" may become a reality, and perhaps, sooner than in a decade.

Although the Volumetric Ethanol Excise Tax Credit (VEETC) for corn-based ethanol is scheduled to sunset at the end of this calendar year along with the import duty on ethanol, a sunset not so far on the horizon would be prudent. An Iowa State University study determined that the VEETC results in four percent more ethanol or 500 million gallons this year. That means the VEETC costs about $11 per gallon of ethanol. The provision of the Energy Independence and Security Act of 2007 that generates the real demand for corn-based ethanol is the Renewable Fuels Standard (RFS). The RFS is essentially an immovable object even when there is an irresistible force. That is, when there is a shortfall in corn supplies, as is the current situation, the

RFS, continues to be immune to the crisis in poultry and livestock. A more realistic trigger mechanism is needed to adjust the RFS.

In addition, USDA should implement, as soon as possible, a plan to allow a reasonable number of good, productive, non-environmentally sensitive acres to opt out of the Conservation Reserve Program without penalty. Carryover corn stocks at the end of this crop year and next year are barely minimum pipeline quantities. Where is the larder to provide the reserve if weather and crop conditions are not favorable this year, next year, and beyond? Assuming or hoping that an adequate supply of grains and oilseeds will be harvested is not an assumption U.S. chicken companies are willing to make, nor should prudent U.S. government policymakers be willing to continue to make.

Proposed USDA/GIPSA Rule Should be Withdrawn

USDA/Grain Inspection, Packers and Stockyards Administration's proposed rule addressing competition and contracting in the poultry and livestock industries should be withdrawn, as many in Congress have so indicated to Secretary of Agriculture Vilsack. The proposed rule, if implemented, would devastate the broiler industry by imposing over $1 billion in costs during the first five years of the new rules. The most reasonable step at this time is to call a "time out" and start the game over.

Three Pending Free Trade Agreements Need Approval

Three free trade agreements are pending and have been pending for far too long. The National Chicken Council suggests, as have other groups, that these agreements be called U.S. job-creation agreements. Increased poultry exports as the result of implementing these agreements would definitely result in more jobs in the poultry industry and more family farmers growing more poultry. With the unemployment rate stuck at an unacceptably high level, it is very unfortunate that certain special interests will not allow Congress to vote on the three trade agreements.

Conclusion

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

Thank you.