

State of the Poultry Industry

**Hearing of the Agriculture, Energy and Trade
Subcommittee
House Committee on Small Business**

**The Honorable Scott Tipton
Subcommittee Chairman**

**Dan King
Dan & Janet King Owners/Operators
Zenda Poultry LLC and Zenda View Farm LLC
Rockingham County, Virginia**

**On behalf of the 400 poultry producers that are
members of the Virginia Poultry Federation**

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Rayburn House Office Building

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Chairman Tipton, Congressman Critz, and Members of the Subcommittee, thank you for the opportunity to share with you and the Committee my views on the state of the poultry industry on behalf of the more than 400 poultry growers that are members of the Virginia Poultry Federation. I appreciate the privilege to discuss with you at this important hearing a number of issues that are most troubling to poultry producers like me.

My name is Dan King. My wife Janet and I are first generation farmers and the owners and operators of our family farm that trades as Zenda View Farm LLC and Zenda Poultry LLC in Rockingham County, Virginia. We raise crops, beef cattle, and broiler chickens. Our operation is typical of many diversified farming operations in the Shenandoah Valley of Virginia. We have three broiler houses with a capacity for 31,000 broilers each and average seven flocks each year. So our farm raises 650,000 broilers annually under contract with George's Foods, Inc. of Springdale, Arkansas. This may sound like a lot of chickens, but we in reality are an average-sized operation in the modern U.S. poultry industry. In fact, I take pride in the fact that my farm produces enough chicken meat annually for 20,000 people to consume the 82 pounds the average American consumer partakes of in a year.

My family farm is helping to provide Americans with a safe, affordable and environmentally responsible homegrown supply of wholesome protein and contributing to nutritional needs worldwide. This would not be possible without our contract with a vertically integrated poultry processing company, such as George's Foods, Inc. The contract arrangements between my family farm and Georges Foods has provided a good, dependable income over the 24 years we have been growing broilers.

Most, if not all, companies are currently suffering significant financial loses. The cost-price squeeze between very high feed and energy costs and relatively low prices received for broilers, parts, and products has been ongoing since the fourth quarter of last year and, according to a number of economists, may continue for some time yet. Fortunately, we have been somewhat insulated from this market risk and commodity price volatility. Our flock placement schedule has been basically unaffected, with down time only slightly increased, and our contract settlements have continued as prescribed in our contract.

USDA SHOULD NOT OVER-REGULATE POULTRY CONTRACTS

Having been a poultry producer for the past 24 years I have witnessed the highs and the lows in the farm economy and the poultry industry in particularly. The

integrated production contract has provided us with a regular source of income while significantly shielding us from the adverse impact of low commodity prices in a down poultry market. In 2008 and again in recent months, the cost-price squeeze between very high feed and energy costs and relatively low prices received for broilers, parts, and products has caused most, if not all, poultry companies to operate at a loss. During these times, I have continued to be somewhat insulated from this market risk and commodity price volatility.

I am very concerned about the proposed Grain Inspection, Packers & Stockyards Administration's (GIPSA) regulation on poultry contracts. Any regulatory measures by USDA should only seek to promote transparency in contracts so that parties have a mutual and clear understanding of the terms. The government should not set the financial terms of contracts between private parties.

Unfortunately, the GIPSA regulation goes well beyond ensuring transparency. The proposal establishes an unprecedented level of government intervention in setting the financial terms of poultry contracts. I am concerned that this level of government regulation will have negative ramifications for the poultry industry in the United States, and actually hurt poultry growers. Specific concerns are the following:

- * The 2008 Farm Bill required GIPSA to address five areas concerning poultry contracts. The 2010 GIPSA rule far exceeds what was mandated in the Farm Bill.
- * Litigation – The rule is so vague in its terminology that it will most certainly result in costly litigation.
- * Tournament System – The practical effect of the rule will be elimination of better pay for better results. This removes incentives that reward growers based on performance. It removes incentives for investments in innovation necessary for the U.S. poultry industry to remain competitive in the World market.
- * Greater Integration – The rule could lead to greater integration of the poultry industry with a greater trend toward fewer and larger contract farms and more company owned farms.

GIPSA should reconsider this massive regulatory intervention into private contracts due to the harm it will cause to poultry farmers, processors, and the U.S. food supply.

Comprehensive Energy Policy Needed

One of my biggest concerns as a poultry producer is the high cost of energy. In 2002, we were paying about 65 cents per gallon for propane gas, which is one of

our biggest input costs. This winter it was about \$1.80 per gallon. Our average electricity bill has gone from \$525.00 a month to \$835.00 a month. We use about 2500 gallons of diesel fuel, which in the past 10 years has increased fourfold from \$0.80 to \$3.20 a gallon. The high cost of diesel impacts the cost of our supplies, as well. These costs are killing the American farmer and straining our entire food delivery system.

In 2008 I was meeting with a group of farms from around the country in Nashville, Tennessee. One of our speakers was from the natural gas industry. We spent ninety minutes looking at U.S. energy reserves and the leasing and permitting process. After the presentation was over our facilitator ask for questions or comments. A soft spoken farmer from the back of the room muttered what I think was, “We are being shafted”. The facilitator asks him to speak up to which he replied, “We are being shafted by our own government.” **It is critical that government get out of the way of energy production and adopt a comprehensive, forward-looking energy policy that allows U.S. companies to maximize the use of U.S. energy.** This country’s economy will never be truly strong again as long as we buy most of our energy abroad or burn our food.

Corn Ethanol Policy

As you know, the Federal Government has adopted mandates, incentives, and trade barriers to prop up the U.S. ethanol industry, which now diverts some 40 percent of the U.S. corn crop away from traditional food uses to our gas tanks. These policies include the Renewable Fuels Standard (RFS), which specifies the annual amount of corn-based ethanol refiners must blend into gasoline; the so-called “blenders credit” or VEETC, which provides refiners with a 45-cent tax credit per gallon of ethanol used; and a 54-cent-per-gallon tariff on foreign ethanol imports into the United States

Additionally, EPA recently approved a petition from the ethanol industry to increase the allowable ethanol-gasoline blend from 10 percent to 15 percent in newer-model cars and light trucks, and the ethanol industry has begun to press Congress for an expansion of the RFS and additional new supports.

Feed is the poultry industry’s largest input cost, at roughly 70 percent of total live costs. Industry feed costs have increased by billions of dollars since the RFS began to ramp up in 2006. In 2008, corn prices temporarily spiked to nearly \$8 per bushel, having been consistently in the \$3 per bushel range for years. Deflationary influences of the recession caused corn prices to moderate, but they have remained artificially inflated above historical market prices. Unable immediately to pass

high feed costs along to consumers due to free market supply-demand dynamics, the meat industry lost billions of dollars and suffered significant job losses until production cuts finally led to higher prices. Now per capita meat supplies are as low as they have been since the 1980s and it is inevitable that consumers will feel the pinch of higher food prices.

Just as the meat industry painfully adjusted to corn prices of nearly \$4 per bushel and regained profitability, and was poised for growth, the October 2010 USDA crop report signified a short 2010 corn crop. Corn prices quickly spiked to more than \$5.50 per bushel and are now in many places more than \$7.00 per bushel on a delivered basis. This along with the usual uncertainty about the new year's crop make high corn prices a near certainty for months to come. The “stocks-to-use ratio” – an indicator of grain availability – is at historically low levels.

These higher prices, exacerbated by ethanol policy, threaten the ongoing recovery in the meat and poultry sector. While processors must initially eat the higher costs, federal policies give the ethanol industry an incentive to produce more ethanol when the market is rationing a tight corn supply. This along with speculator investment will inflate feed costs for the foreseeable future and jeopardize poultry industry profitability and jobs, not to mention the impact of food inflation on consumers during these difficult economic times.

Federal ethanol supports cost taxpayers billions of dollars while causing economic harm to poultry and livestock industries that support tens of thousands of Virginia jobs. The volume of oil replaced by corn ethanol is low. The costs do not justify the benefits. Please support adopted legislation to restrict or eliminate federal support for ethanol, and oppose any bills that further prop up the industry through federal funding or other supports.

Free Trade Agreements

You might not think that international trade matters much to an individual farmer like me, but it is vitally important to my industry and, ultimately, to my success as a farmer. Export markets have played an ever larger role in U.S. poultry production. As recently as 1990, the U.S. exported only five percent of chicken production. Today, the U.S. exports close to 20 percent of our chicken production. Access to foreign markets is critical to the poultry industry. Let me just say that in order to be competitive in the world marketplace, I encourage Congress to take swift action on the various free trade agreements that have been successfully negotiated. Let's not lose the opportunities for prosperity that comes with trade and suffer the consequences of lost international market-share.

Environmental Protection Agency Needs to Take a Time-Out

The final, but certainly not the least important, topic I'd like to address is the environment. It has been said that farmers are the original environmentalists and as a conservationist I know I care more about and do more for the environment than most outspoken environmentalists. We live where we work and we work where we live. My farm has operated with a nutrient management plan since 1991. Over the years, we have installed many conservation practices on our farm, at considerable expense. Like most farmers, we are motivated more by a natural, inborn desire to take care of our land and the streams running through it than by heavy-handed government regulations. My family and I take pride in being the best stewards we can be.

The Chesapeake Bay is a tremendous natural resource that deserves our stewardship – but not in the heavy-handed regulatory manner proposed by EPA through the recently adopted Chesapeake Bay Total Maximum Daily Load (TMDL). Virginia's poultry industry has already spent millions of dollars on voluntary initiatives and compliance with existing regulations. The industry will continue to be a responsible environmental steward. However, more burdensome government regulations will be counterproductive by jeopardizing agricultural operations and accelerating conversion of well-managed farmland to other, less environmentally beneficial land uses.

The poultry industry questions EPA's authority for its mandates; has concerns about the accuracy of Chesapeake Bay computerized pollution loading models; is concerned about the lack of cost-benefit and economic impact analysis; and criticized the agency for allowing only 45 days for public comment and not fully documenting the basis for the decisions made in the proposed TMDL. EPA should reconsider its present course and allow states to chart a path forward that balances a widely shared desire to improve the condition of the Bay while preserving state prerogatives and avoiding detriment to agriculture and Virginia's economy.

Farmers are willing to do more, but we are producing food for this nation on thin margins and this TMDL could impose regulatory costs that drive farmers out of business. That's not good for the Bay and it's not good for the security of our nation's food supply.

Conclusion

Mr. Chairman, your interest and support for the poultry is most appreciated. On behalf of the Virginia Poultry Federation, poultry farmers look forward to working

with you, Congressman Critz, and the Members of the Subcommittee to improve the environment for poultry production. And, not just for land, water, and air, but also the economic environment.