

Feed Availability
Effect on the Livestock and Poultry Industries

Hearing of the Livestock, Dairy, and Poultry
Subcommittee
House Committee on Agriculture

The Honorable Thomas J. Rooney
Subcommittee Chairman

Michael Welch
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Harrison Poultry
Bethlehem, Georgia

On behalf of the
National Chicken Council

Wednesday, September 14, 2011
Longworth House Office Building
Washington, DC

Good afternoon, Chairman Rooney, Congressman Cardoza, and Members of the Subcommittee. Thank you, Chairman Rooney, for the opportunity to participate in this critically important and very timely hearing on the issues of feed availability. Permit me to suggest that a more appropriate title of the hearing would be “Feed Unavailability.”

On behalf of the National Chicken Council, I appreciate your invitation to provide comments and recommendations regarding the precarious position of feed supplies confronting the chicken industry. Chicken producer/processors will certainly need the Subcommittee’s strong support and wisdom if the industry is to successfully overcome the increasingly difficult issues and challenges that I will outline in my statement. As a point of clarification, I will use the word “broiler” and “chicken” interchangeably in my statement.

My name is Michael Welch and I am President and Chief Executive Officer of Harrison Poultry in Bethlehem, Georgia. I have been President of Harrison Poultry since 1992. Harrison Poultry is a small, privately held company operating one slaughter plant producing a variety of products that are carefully and specifically tailored to our end-customer requirements. More than 1,000 dedicated employees work diligently every day to make Harrison Poultry successful. Also, over 125 family farmers contract to grow broilers and an additional 40 family farmers contract to produce hatching eggs for the company-owned hatchery. Each week Harrison Poultry processes more than 6 million pounds of broilers on a liveweight basis. Some of Harrison Poultry growers have been growing broilers since Harrison Poultry became vertically-integrated more than 40 years ago, even though the company contract is considered a flock-to-flock arrangement. Harrison Poultry and other companies in the chicken industry provide good, steady income for family farmers across the United States where broilers are produced.

Harrison Poultry is a proud member of the National Chicken Council; and I, as a former Chairman of the organization, am pleased to present this statement on behalf of the National Chicken Council. More than 95 percent

of the young meat chicken (broilers) produced and processed in the United States come from the Council's members.

Mr. Chairman, it is becoming much more difficult to secure an adequate and dependable supply of feed ingredients that can be procured at a cost that is both manageable and predictable. The more than 40 vertically-integrated chicken companies that comprise the broiler industry have financially struggled for the past four calendar quarters. Broiler companies have increasingly been squeezed throughout the past corn crop year between rising feed costs and declining prices for chicken products. A number of companies have succumbed to the severe cost/price squeeze by ceasing operations or having to sell their assets at fire-sale values.

National Chicken Council's Feed Security Priorities

Shortly after USDA reported in October last year that there would be a significant shortfall in the corn crop, the National Chicken Council formed a "Feed Security Task Force". This group of top broiler executives identified actionable policy and program changes to better address the precarious situation for feed. Needed actions identified by the Task Force are as follows:

- Elimination of the Volumetric Ethanol Excise Tax Credit (VEETC) and import duty on ethanol
- Have a partial or full waiver of the Renewable Fuels Standard (RFS) by filing a legal challenge with the Environmental Protection Agency or have legislation passed to permit individual states to opt-out of the federal ethanol mandate and/or legislation mandating a stocks-to-use trigger mechanism for the RFS
- Minimize or prohibit further government subsidies and federal grants funding the building and expansion of infrastructure that encourages the manufacturing, distribution, and selling of corn-based ethanol
- Remove without penalty non-environmentally sensitive cropland from USDA's Conservation Reserve Program (CRP).

As you will note, the actions or priorities include efforts impacting the demand and supply for corn. To achieve success for the Task Force's plan it will be necessary to convince USDA, other appropriate Departments of the Administration, and Congress that current policies and programs must now be thoroughly re-evaluated and significantly changed. Continuing to pursue these outdated policies and programs are devastating the poultry, livestock, and other sectors of animal agriculture. The facts evidenced by the situation since 2006 should be enough to convince policy-makers that it is time to change the policies and programs. We are not naive, however. We understand and realize that the facts and hard evidence are not enough to elicit change. Putting additional, artificial demand on corn at a time when there is not an adequate and assured supply of corn is simply the wrong policy, especially when there is no viable relief valve available for the artificial demand. At the same time, new policies and programs are needed that recognize there is not an over-abundance of basic agricultural commodities, but rather there will be an ongoing continued tight supply of grain and oilseeds, not just in the United States but also globally. Encouraging productive American agriculture to produce to its capacity must be one of the primary threads that weave the new fabric of policies and programs.

“What’s Driving Food Prices In 2011?” Report

The National Chicken Council was most pleased to see that a recent, well-done and well-documented study supports our call for change. This issue report, “What’s Driving Food Prices in 2011?”, was conducted by the Farm Foundation and confirms the National Chicken Council Task Force’s thinking and plans.

Permit me to quote from the report, “U.S. agricultural policy has primarily been a ‘policy of abundance’, designed to reduce supply, restrict land use and increase demand to help increase and stabilize farm incomes. That policy was developed because the United States has generally been blessed with the

ability to produce more than could be consumed at profitable prices for producers. A shift to a “policy of shortage” would emphasize programs that stimulate supply and do not subsidize demand with taxpayer funds or political mandates.” I ask this Committee to support this well-reasoned conclusion of the report.

Economic Difficulties Confront the Broiler Industry

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. Companies, however, 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 this summer announced 300 workers will no longer be needed. Also, this summer, a fourth-generation family broiler company in Delaware filed for bankruptcy and its assets have been purchased by a foreign company. Further, another company in Arkansas has consolidated two processing plant operations into one location and similarly has combined 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 in 2011 this same company eliminated about 300 jobs in an attempt to stay in operation. In May 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 losses until the broiler market improves to at least a breakeven position. Ironically, the foreign company that purchased the North Carolina is ceasing operations at the end of this month with apparently no opportunity to allow for alternative ownership. As a result, not only will hundreds of workers lose their jobs, contract growers

are in jeopardy of losing their poultry farming income which they use to repay mortgages on their growout houses. Undoubtedly, banks and other lending institutions will move to foreclose on these farms. A third-generation company in Mississippi closed its doors earlier this year as the corn cost/chicken price squeeze became intolerable. Jobs have been and are being lost. Family farms who have contracted to grow broilers for decades now find it very difficult, if not impossible, to sign-on with another company, since essentially all companies are in a re-trenching mode.

I would like to tell this Committee that the above noted situations are the end of the broiler industry's financial problems. I cannot tell you that conclusion because there are a number of other companies on the financial bubble. Banks and other lending institutions are telling these companies, "enough is enough," meaning sell your assets and repay your outstanding debt. What some analysts say about the broiler industry survivors being only "ten companies in ten years" may become a reality, and perhaps, sooner than in a decade.

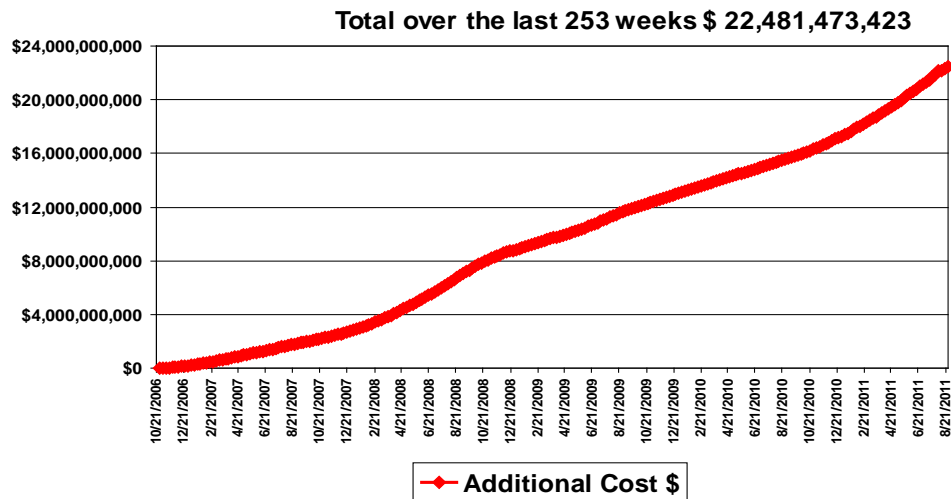
Track Record of Increasing Production Is History

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

In 2010 almost 50 billion pounds, liveweight, of chickens were produced using more than 55 million tons of feed for broilers and the broiler breeder flocks that provide the fertile eggs for hatching. Of the 55 million tons of feed, over 36 million tons or about 1.3 billion bushels of corn or corn products were mixed into the finished feed. The average cost of chicken feed before the corn price began to rapidly escalate in mid-October, 2006 was

\$139.20 per ton. This month (September 2011) the same ton of feed is costing over \$325 per ton, a more than doubling of cost since the second Renewable Fuels Standard became mandatory. The vast majority of the run-up in feed costs was the result of corn more than tripling in price since 2006. Last year (2010) the chicken industry's feed bill was almost \$13.0 billion compared with total feed costs in 2006 of less than \$7.0 billion. On a cumulative basis with the higher feed costs, the chicken industry has had to pay about \$22.5 billion more for feed since October 2006.

Cumulative additional cost to the broiler industry in broiler feed ingredient expense since October 2006



Do DDGs Help?

Some supporters of ethanol point to dried distillers grains with solubles (DDGs) as a feed ingredient that can provide relief from high corn prices. The facts are, however, that the majority of the feed energy has been removed by the ethanol manufacturing process. The co-product (DDGs) is low in energy and high in fiber. It does have reasonable protein value and competes in the feed ration more with soybean meal than with corn. The broiler

industry does use some DDGs but it is not a preferred ingredient due to the nature of its composition. Inclusion of DDGs in a broiler feed ration is usually limited to 5 percent of the total ration.

USDA in its *World Agricultural Supply and Demand Estimate* report does footnote in the corn supply and use data table that the Department's World Agricultural Outlook Board's estimate for corn allocated for ethanol also includes ethanol's by-products. Statistically, such a footnote is correct, but at the same time, provides little, if any, solace to traditional uses of corn who find DDGs prices essentially the same as corn when adjusted for the feed value while adding to the complications of running a feed mill.

Corn-Based Ethanol Exports: Why?

During 2011 it is estimated that over one billion gallons of corn-based ethanol will be exported by the United States to a number of foreign countries, including such markets as Brazil, European Union, and other destinations. The one billion gallon is the equivalent of over 350 million bushels of corn. The National Chicken Council questions whether it was the intent of Congress when it passed The Energy Independence and Security Act of 2007 to annually have 350 million bushels of corn indirectly exported in the form of ethanol. If this law's intent is for the United States to move toward greater energy independence, why is energy being exported?

Just Cope: We Have Been Here Before

In the '70s it took more than 2.25 pounds of feed to produce a pound of liveweight chicken. Today the feed conversion is better than 1.9 to 1.0, with many companies having conversion ratios of better than 1.8 to 1.0. Even very efficient feed conversion rates cannot mitigate the high corn prices and the significant impact on the cost of producing chicken. Based on commodity futures prices that reflect essentially only, at best, a pipeline quantity of corn available as carryover stocks at the end of this current crop year, it appears there will be further escalation in corn prices. Higher feed costs are most likely for the rest of this year and the year beyond. Also, not

only will corn prices most likely be higher, the volatility in corn prices will be much greater.

If corn prices increase to double digit dollars per bushel, as a number of agricultural commodity analysts have predicted, and if other companion feed ingredient cost escalate in tandem with corn, the cost to produce chicken will increase more than 25 percent. This higher cost will have to be passed on to consumers at some point so that broiler companies can stop losing money and begin to at least break even.

Certain analysts have suggested that “we have been here before.” That is, animal agriculture, including the broiler industry, has weathered high prices for feedgrains/oilseeds in years past and, for the most part, has survived. It is true that there have been high feed costs before now and, at certain times, the quick run-up in prices have come upon the market unexpectedly. In the past, the problem has been a one year or so supply problem. But now, however, the situation is not only supply-driven but also demand driven. U.S. animal agriculture has not been here before. Government policy for corn-based ethanol that subsidizes, mandates, and protects it from competition has significantly changed how the demand for corn for ethanol reacts to normal market forces and how it is put to the head of the line when competing for corn. Corn used for ethanol for the 2005/06-crop year was 1.6 billion bushels or 14 percent of total usage. For 2011/12 USDA is estimating 5 billion bushels or a share approaching 40 percent of total corn usage and, for the first time in history, the ethanol usage will exceed that quantity used for feed. The increase in the usage of corn for ethanol over these six years has more than tripled.

Also, the international demand for U.S. agricultural commodities must now more seriously and fully take into account the China factor. Chinese government trade policy is often difficult to predict. Nonetheless, China’s rapidly growing need for more agricultural imports seems somewhat evident. Many, if not most agricultural commodity analysts, believe China is poised to become a large net importer of corn on a consistent going-forward basis.

An ever increasing demand for corn is being placed on a limited supply of corn, at least for the foreseeable future. Corn stocks will likely in the next few years continue to hover around minimum pipeline requirements. There is no cushion, no extra bushels in inventory to carry the needs of the users of corn through to the next harvest in 2012. To assume that an adequate number of acres will be planted to corn next year and the next few years and to further assume favorable weather conditions for crops next year and for the next few years are not assumptions the U.S. chicken industry is prepared to make, nor should prudent U.S. government policymakers be willing to make.

Time to Stop Picking Winners and Losers

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

New Plan-of-Action Needed

Foremost is the need for a credible, equitable, and workable plan-of-action to adroitly address the significant shortfalls in the back-to-back corn crops and the great likelihood there will be an ongoing tightness in grain and oilseed supplies. Unless there are near-perfect crop conditions next year and the years beyond to plant, grow, and harvest a record quantity of corn and other feed crops, animal agriculture will continue to experience major disruptions while ethanol producers will continue to outbid non-subsidized buyers of corn.

With the weakened U.S. dollar, overseas buyers of U.S. commodities, like corn, see these commodities as being relatively more affordable than domestic U.S. buyers. Thus, it can reasonably be argued that U.S. animal agriculture is the most vulnerable corn buyer the supply of corn has a shortfall. It is highly unlikely the current shortfall crisis will be a two-year problem. The essentially non-existent stocks of corn means more and more acres of corn will be required as will higher and higher corn yields for the next few years or more. More acres are needed, not just for corn, but also for soybeans, wheat, cotton, and other crops that compete with corn for acreage.

While there are many critical issues impacting the viability of the chicken industry, I suggest no issue is more critical than having an adequate supply of grain and oilseeds at reasonable costs.

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

food or fuel. We are now at the point where, annually, there is not enough corn for both uses.

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 viability of the poultry industry not only helps poultry companies and poultry farmers but, perhaps, more importantly will allow consumers of poultry products to continue to enjoy an ongoing, adequate supply of animal protein at reasonable prices.

I have outlined several critical problems, but none is more paramount than the very unfortunate situation being forced on the family farms who have or are now losing their contracts to grow broilers. Disrupting or ceasing the financial flow generated by the contract payments results in not just the broiler operations being jeopardized, but in many cases results in the entire family farm being put in jeopardy. I suggest that if you ask these family farmers if current ethanol policy is good policy you would not be able to find a supporter of the program.

Thank you, Chairman Rooney, Congressman Cardoza, and Members of the Subcommittee, for the opportunity to share the thoughts, comments, and recommendations of the National Chicken Council. I request that my statement be entered into the record of the hearing and I look forward to your questions and comments.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2008.

Name: Michael A. Welch

Organization you represent (if any): NATIONAL CHICKEN COUNCIL / HARRISON POULTRY

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2008, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: N/A Amount: _____

Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2008, as well as the source and the amount of each grant or contract:

Source: N/A Amount: _____

Source: _____ Amount: _____

Please check here if this form is NOT applicable to you:

Signature: _____

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

Committee on Agriculture
U.S. House of Representatives
Information Required From Nongovernmental Witnesses

House rules require nongovernmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: MICHAEL A. WELCH
2. Organization you represent: NATIONAL CHICKEN COUNCIL/HARRISON POULTRY
3. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:
19 YRS PRES/CEO HARRISON POULTRY
43 YRS INDUSTRY EXPERIENCE
4. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:
PREVIOUS CHAIRMAN NATIONAL CHICKEN COUNCIL
5. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:
ASSOCIATION MEMBER

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.