

# HEARING TO REVIEW THE STATE OF THE POULTRY INDUSTRY

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## HEARING BEFORE THE SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY OF THE COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

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# HEARING TO REVIEW THE STATE OF THE POULTRY INDUSTRY

WEDNESDAY, APRIL 13, 2011

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY,  
COMMITTEE ON AGRICULTURE,  
*Washington, D.C.*

The Subcommittee met, pursuant to call, at 2:00 p.m., in Room 1300, Longworth House Office Building, Hon. Thomas J. Rooney [Chairman of the Subcommittee] presiding.

Members present: Representatives Rooney, Goodlatte, Neugebauer, Huelskamp, DesJarlais, Cardoza, Scott, Courtney, Schrader, and Owens.

Staff present: Patricia Barr, Tamara Hinton, John Konya, Debbie Smith, Pete Thomson, Michelle Weber, Nathaniel B. Fretz, Liz Friedlander, Mary Knigge, and Jamie Mitchell.

## **OPENING STATEMENT OF HON. THOMAS J. ROONEY, A REPRESENTATIVE IN CONGRESS FROM FLORIDA**

The CHAIRMAN. The hearing of the Subcommittee on Livestock, Dairy and Poultry to review the state of the poultry industry will come to order. I would like to thank my Ranking Member, Mr. Cardoza, for working with me in preparing for today's hearing. I would also like to welcome our witnesses and thank them for taking the time out of their busy lives to be with us here today and participate in this process.

Last week's hearing was structured to provide an update on our nation's modern beef production sector. Today we will focus on poultry. Because of the nature of the poultry community, including the fact that we are examining production practices for two species, the witnesses do not fall into categories as neatly as our beef hearing. Nonetheless we have provided a range of perspectives. Today we have a fairly typical size chicken contract grower from the Shenandoah Valley; the President of a single plant chicken integrator from Georgia; and an individual from Iowa who is both a turkey integrator and grower.

According to the latest USDA agricultural projections report, poultry production is projected to rise the most among the meats over the next decade as poultry is the most efficient feed-to-meat converter. I look forward to hearing from our witnesses about the good work they are doing to officially meet the growing demand for wholesome, high-quality, nutritious, protein products.

Our witnesses have been asked to provide a description of the poultry production system from their perspective, discuss the eco-

conomic situation, as they see it today, and list some of their public policy challenges. This is the second hearing in a series that is intended to lay the foundation for the work of the Livestock, Dairy, and Poultry Subcommittee during the 112th Congress.

Last week's hearing naturally generated considerable discussion about the proposed GIPSA rule, environmental regulatory burdens and the effect of feed costs and availability issues. I want to assure my colleagues that it is our intent to thoroughly examine each of these important topics in subsequent hearings.

As we move forward with this work, I encourage my colleagues and others interested in the work of this Subcommittee to share with me their thoughts about our agenda.

Again, thank you to our witnesses. I look forward to their testimony, Members' questions and subsequent discussions.

[The prepared statement of Mr. Rooney follows:]

PREPARED STATEMENT OF HON. THOMAS J. ROONEY, A REPRESENTATIVE IN  
CONGRESS FROM FLORIDA

Once again, I would like to thank my Ranking Member, Mr. Cardoza, for working with me in preparing for this hearing today. I would also like to welcome our witnesses and thank them for taking time out of their busy lives to participate in this process.

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According to the latest USDA agricultural projections report, poultry production is projected to rise the most among the meats over the next decade, as poultry is the most efficient feed-to-meat converter. I look forward to hearing from our witnesses about the good work they are doing to efficiently meet the growing demand for wholesome, high-quality, nutritious protein products.

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The CHAIRMAN. I would now like to recognize the Ranking Member for his opening statement, Mr. Cardoza.

**OPENING STATEMENT OF HON. DENNIS A. CARDOZA, A  
REPRESENTATIVE IN CONGRESS FROM CALIFORNIA**

Mr. CARDOZA. Thank you Chairman Rooney. It is a pleasure to be with you again today.

And thanks to everyone who is attending this hearing and for the witnesses who are sharing with us their experience with regard to this current state of the poultry industry.

The poultry industry is vital to the health of our country and to my home State of California. The California poultry industry alone provides jobs to over 25,000 people, not including the tens of thousands of jobs from affiliated industries. The poultry industry employees earn more than \$250 million annually and contribute significantly to our overall economy.

That is why I am very happy that we are holding this hearing today to discuss the poultry production, its trends in the industry, and the problems this Committee should focus on as we move forward.

Although California is twelfth in the nation in broiler production and sixth for turkey production, we still face a tremendous number of challenges; among them, feed price escalation, animal disease and welfare, air quality and environmental issues and other issues that cost more every day to manage.

As a Committee, we will work to promote policies that will help the poultry industry grow and thrive. A strong poultry industry provides affordable healthy food for our nation and supplies thousands of jobs and decent wages to their workers. Nonetheless, as we work to reduce the deficit spending that we face as a country, we need to prioritize programs that are economically efficient and effective and jettison those that are not. We need to focus our resources on initiatives that best help our producers and processors as a whole, and I look forward to working with the Chairman to those ends.

The CHAIRMAN. Thank you, Mr. Cardoza.

The chair would request that other Members submit their opening statements for the record so that witnesses may begin their testimony and ensure that there is ample time for questions.

I would like to welcome our panel of witnesses to the table and to introduce Mr. King. I would like to yield to the former Chairman of this Committee, Mr. Goodlatte.

**OPENING STATEMENT OF HON. BOB GOODLATTE, A  
REPRESENTATIVE IN CONGRESS FROM VIRGINIA**

Mr. GOODLATTE. Thank you, Mr. Chairman.

It gives me great satisfaction to welcome Mr. King as our witness today. This is not the first time he has testified before the Agriculture Committee. Dan King testified before the Subcommittee in Staunton, Virginia, when we had a field hearing prior to the writing of the last farm bill. And I know some of the—in fact, many of the Members of the Committee were present for that.

He and his immediate family own and rent 550 acres near Harrisonburg, Virginia, where they raise corn, annual forages and grass hay. Like many growers in the Shenandoah Valley and in the country, I know that you are being confronted with many challenges, from rising feed costs to increased compliance costs due to regulations by the EPA. I look forward to hearing your testimony about these important issues. And I thank you for being here.

And Mr. Chairman, I thank you for yielding to me.

The CHAIRMAN. Thank you, Mr. Goodlatte.

Also joining us today is Mr. Michael Welch, President and Chief Executive Officer of Harrison Poultry, Inc., in Bethlehem, Georgia;

Mr. Paul Hill, Chairman of the Board of West Liberty Foods in Ellsworth, Iowa.

We will now go to Mr. King for his opening statement.

Mr. King, please begin when you are ready.

**STATEMENT OF DANIEL M. KING, OWNER/OPERATOR, ZENDA POULTRY LLC AND ZENDA VIEW FARM LLC, HARRISONBURG, VA; ON BEHALF OF VIRGINIA POULTRY FEDERATION**

Mr. KING. Good afternoon, Chairman Rooney, Congressman Cardoza, and Members of the Subcommittee.

I appreciate the opportunity and the invitation to be with you this afternoon and look forward to a dialogue on a subject that is dear to my heart.

As first-generation farmers my wife Janet and I have a lot at stake in the future of the poultry industry because it was this industry that primarily allowed us to achieve our dream of being farmers. I would like to state that it takes a lot of pride to realize that your farm, that our farm provides America with a safe, affordable and environmentally responsible home-grown supply of wholesome protein.

I have several topics I would just like to mention in my statement. One of those I am concerned about is the GIPSA rule and the changes that that would have to the contract that governs my farm and the settlements that we receive from our poultry enterprises. Philosophically, I feel like the government should stay out of setting financial terms of contracts between private parties, and I feel that there will be many unintended consequences as we move forward with the proposed changes.

I am a strong supporter of the tournament system. The practice would be eliminated under the new rule, and I think that that would be a detriment to the efficiency and future of our industry. This removes incentives from producers to make improvements to their houses to invest the time it takes to provide the management necessary to be successful.

It would also make it more difficult for new growers to pay for their investment of new houses because, generally, new investments are more efficient than old. Removing the tournament system would be detrimental to that new growth of the industry which ultimately, would have a negative impact on the length that this industry will be able to survive in the current economic situation.

I would like to also state that I feel that it is high time that our country develop a comprehensive energy policy. We have talked a lot about that. You know, a couple years ago, we faced some of the challenges that we face today. Unfortunately, from my seat, when I look at the current situation, I don't know that we are more prepared for this than we were the last time. With many of my energy prices doubling, increasing by four-fold, these costs are killing not only the American farmer, but they are strangling the entire food delivery system.

It is critical that the 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. In 2006, when I testified before the Agriculture Committee, I was raising concerns then about what ethanol would do to grain prices because the input cost on broilers, basically 70 percent of that comes from feed costs. I was told by a Member of the Committee then that we could have all the ethanol we wanted and corn prices would never get above \$3.50 a bushel. So our country pursued an ethanol policy, and yesterday on the Chicago Mercantile Exchange, the May contract forward settled at \$7.52. That does not make that Congressman a liar, but truly we need to reevaluate the way we approach the energy needs of this country.

I also would like to make a strong statement in support of free trade. It is essential that we have access to all the markets around the world because we raise a product that is done in such an environmentally sensitive way that it is important for the environment of the world that we access the markets that are available to us.

And finally, I would just like to make a couple comments about the environment. As a farmer, I get tired of going to meetings where the environmentalists stand up and say we want the farmer on the land, we know they are the best for the land, and then the next 2 hours, they tell us how we can't do anything that we have done in the past because we are the worst stewards that ever existed. Let us not forget that Mother Nature is not baseline zero. If all agriculture would go out of the Chesapeake Bay, the Chesapeake Bay would not be pristine. As a matter of fact, the use of most land in the Chesapeake Bay watershed is most beneficial to the environment if it stays in agricultural production.

The EPA, in my opinion, has overreached, and I would like to encourage you to support commonsense approaches, because ultimately it is our desire to be stewards of the land that will govern our decisions, not over heavy-handed government regulation. This will not be good for the Bay, and it will not be good for the security of our nation's food supply.

Mr. Chairman, Congressman Cardoza, and Members of the Subcommittee, thanks for your interest and support. It was a delight to be with you here this afternoon.

[The prepared statement of Mr. King follows:]

PREPARED STATEMENT OF DANIEL M. KING, OWNER/OPERATOR, ZENDA POULTRY LLC AND ZENDA VIEW FARM LLC, HARRISONBURG, VA; ON BEHALF OF VIRGINIA POULTRY FEDERATION

Good afternoon, Chairman Rooney, Congressman Cardoza, and Members of the Subcommittee. Chairman Rooney, thank you for the invitation and 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 George's 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 losses. 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 particular. 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¢ 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 2,500 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 "blender credit" or VEETC, which provides refiners with a 45¢ tax credit per gallon of ethanol used; and a 54¢ 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 more than \$7.00. 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 Cardoza, 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.

The CHAIRMAN. Thank you, Mr. King.  
Mr. Welch.

#### **STATEMENT OF MICHAEL A. WELCH, PRESIDENT AND CHIEF EXECUTIVE OFFICER, HARRISON POULTRY, INC., BETHLEHEM, GA; ON BEHALF OF NATIONAL CHICKEN COUNCIL**

Mr. WELCH. Good afternoon, Chairman Rooney, Congressman Cardoza, and Members of the Subcommittee.

I also thank you, Chairman Rooney, for the opportunity to participate in this important and timely hearing on the issues impacting the state of the poultry industry. On behalf of the National Chicken Council, I appreciate your invitation to provide comments and recommendations regarding a number of issues and challenges confronting the chicken industry.

U.S. chicken producer/processors will certainly need the Subcommittee's support if the chicken industry is to successfully overcome the increasingly difficult issues and challenge I will outline in my statement.

My name is Michael Welch, and I am the 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.

More than 1,000 employees work hard 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 every week for the company-owned hatch-

ery. Each week, Harrison Poultry produces 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.

Mr. 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 have however limited my statement to what the National Chicken Council considers its top priorities. Permit me to note these priorities.

First, corn-based ethanol rules should be realigned. The rules of the game for corn-based ethanol must be balanced and the playing field should be leveled to permit chicken producers and other animal agricultural producers to more fairly compete for the limited supplies of corn this year and the next few years at least. 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 just say no to government subsidies, government mandated usage and government protection from foreign competition.

Also, it is time to seriously consider a safety valve to adjust the Renewable Fuels Standard when there is a shortfall in corn supply such as the current situation. Let us pray that this fall's corn harvest is more than abundant.

In addition, USDA should implement as soon as possible a plan to allow a reasonable number of good, productive cropland acres to opt out of the Conservation Reserve Program. With this crisis on the horizon, why must we wait until it is on our doorstep.

Second, the proposed USDA GIPSA rule, the USDA Grain Inspection, Packers, and Stockyards Administration proposed rule addressing competition and contracting in the poultry and livestock industry should be withdrawn. Congress should insist that GIPSA adhere to the legislative mandates regarding the type, scope and intent of any rule that is re-proposed and implemented.

Third, is the three pending free trade agreements. 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, a result of implementing these agreements, would definitely result in more jobs in the poultry industry and more family farmers growing more poultry.

In conclusion, the National Chicken Council, its members and the many allied industries that support poultry production, processing and marketing look forward to working more closely with the Subcommittee and others in Congress, so that poultry producers have a better opportunity to successfully manage the increasingly difficult challenges and issues.

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

The number one issue in our industry that is creating the financial havoc now is the ethanol situation. Our industry has overcome

adversity, challenges, droughts, high prices, low prices, foreign embargoes, avian influenza, and we have successfully competed at all times. We are unable to compete against the U.S. Government in the triple mandate of requiring ethanol production, subsidizing its use and protecting them from foreign imports. And we really ask you to seriously consider reviewing that.

That being said, thank you Chairman Rooney, Congressman Cardoza, and Members of the Subcommittee for the opportunity to share the recommendations of the National Chicken Council. I request that both my written and oral statements be entered into the record of the hearing and I look forward to your questions.

[The prepared statement of Mr. Welch follows:]

PREPARED STATEMENT OF MICHAEL A. WELCH, PRESIDENT AND CHIEF EXECUTIVE OFFICER, HARRISON POULTRY, INC., BETHLEHEM, GA; ON BEHALF OF NATIONAL CHICKEN COUNCIL

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

My name is Michael Welch and I am President and Chief Executive Officer of Harrison Poultry in Bethlehem, Georgia. I have been President of Harrison Poultry since 1992. Harrison Poultry is a small, privately held company operating one slaughter plant producing a variety of products that are carefully and specifically tailored to our end-customer requirements. More than 1,000 employees work hard 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.

#### **Chicken Production and Increasing Feed Costs**

Over the past 5 decades, broiler production has only decreased on an annual basis three times: 2 years in the mid-1970s and in 2009. With the very steady track-record of increasing production, the industry's growth has offered increased opportunities for growers to expand their operations and build their net worth. That strong track record of growth is in very serious jeopardy because an over abundance of corn is being diverted to fuel production and thus squeezing-out corn that should be available for feed.

In 2010 almost 50 billion pounds, liveweight, of chickens were produced using more than 55 million tons of feed for broilers and the broiler breeder flocks that provide the fertile eggs for hatching. Of the 55 million tons of feed, over 36 million tons or about 1.3 billion bushels of corn or corn products were mixed into the finished feed. The average cost of chicken feed before the corn price began to rapidly escalate in mid-October 2006 was \$139.20 per ton. Last month (March 2011) the same ton of feed cost over \$300 per ton, a more than doubling of cost. The vast majority of the run-up in feed costs was the result of corn more than tripling in price since 2006. Last year the chicken industry's feed bill was almost \$13.0 billion compared with total feed costs in 2006 of less than \$7.0 billion. On a cumulative basis with

the higher feed costs, the chicken industry has had to pay over \$23 billion more for feed since October 2006.

Many years ago then Secretary of Agriculture Earl Butz referred to chickens as “condensed corn.” When Secretary Butz was in office in the early 1970s it took more than 2.25 pounds of feed to produce a pound of liveweight chicken. Today the feed conversion is better than 1.9 to 1.0, with many companies having conversion ratios of better than 1.8 to 1.0. Except for farm-raised catfish, no farm-raised animal is a better converter of feed to food than chicken. Nonetheless, even very efficient feed conversion cannot mitigate the high corn prices and the significant impact on the cost of producing chicken. Based on commodity futures prices that reflect essentially only a pipeline quantity of corn available as carryover stocks at the end of this current crop, it appears there will be further escalation in the corn price. Therefore, even higher feed costs are most likely for the rest of this year and beyond. Also, not only will corn prices most likely be higher, the volatility in corn prices will be much greater.

#### **Why the Future Is Different Than the Past**

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 1 year or so supply problem. But now, however, the situation is not only supply-driven but also demand driven. U.S. animal agriculture has not been here before. For example, a number of econometric models both at universities and private analytical firms that analyze the animal agriculture sector and forecast how the sector interrelates with the feed complex have been reworked and have been significantly adjusted because the previous models simply could not handle the new dynamics of current and future scenarios. Government policy for corn-based ethanol that subsidizes, mandates, and protects it from competition has changed how ethanol reacts to normal market forces. This biofuel is a relatively new dynamic that changes these econometric models. Corn used for ethanol for the 2005/06 crop year was 1.6 billion bushels or 14 percent of total usage. For 2010/11 USDA is estimating almost 5 billion bushels or about 37 percent of total corn usage. The increase in the usage of corn for ethanol over these 5 years has tripled. Also, the international demand for U.S. agricultural commodities must now 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.

Increasing demand for corn is being placed on a limited supply. USDA is predicting ending corn stocks for 2010/11 at 675 million bushels which most analysts consider to be less than minimum pipeline requirements. There is no cushion, no extra bushels in inventory to carry the needs of the users of corn through the next crop year in the event of a shortfall in this Fall’s corn harvest. To assume an adequate number of acres will be planted to corn this year and the next few years and to further assume favorable weather conditions for crops this year and the next few years are not assumptions the U.S. chicken industry is prepared to make, nor should prudent U.S. Government policymakers be willing to make.

#### **Contingency Plan for Shortfall of Corn Long Over-Due**

Since October 2008 when corn prices escalated to record high levels, it has become more and more clear that the national policy regarding corn-based ethanol has been heavily tilted toward using corn for fuel rather than for food/feed. The need to rebalance the policy is long overdue. Picking one market for corn to be the winner at the expense of the loser should not be the function of government. Mandating the use of ethanol, subsidizing its cost, and protecting ethanol from competition is triple over-kill. Greater energy independence is a worthy goal for the United States, but the negative and unintended consequences of moving too far too fast with corn-based ethanol have become overly evident. For the chicken industry, like other animal agriculture producers, fewer pounds of product have been produced and will not be produced in the foreseeable years. Consumers who have sufficient income to devote to cover the higher costs of food will reach deeper into their pocketbooks and pay the higher food prices. Consumers in this country and around the world who cannot continue to afford animal protein in their diets will have to shift to other foods. However, with land being a limiting factor in the production of food, it is most likely all foods will be higher in price, whether of animal origin or not.

Foremost is the need for a credible, equitable, and workable plan-of-action in the event of significant shortfall in the corn crop. I suggest the United States is now experiencing a significant shortfall in corn supplies. Unless there are perfect crop conditions this year to plant, grow, and harvest a record quantity of corn, animal agriculture will experience major disruptions while ethanol producers will continue to outbid non-subsidized buyers of corn. The National Chicken Council recommends a plan be implemented that would reduce the Renewable Fuels Standard when the stocks-to-use ratio for corn drops to low levels, like is now the situation.

With the weakened U.S. dollar, overseas buyers of U.S. commodities, like corn, see these commodities as being relatively more affordable than domestic buyers. Thus, it can reasonably be argued that U.S. animal agriculture is the most vulnerable corn buyer with the shortfall in corn. It is highly unlikely the current shortfall crisis will be a 1 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 3 years or more. In addition to a contingency plan that uses the ratio of corn-stocks-to-use as a trigger mechanism for the Renewable Fuels Standard, the National Chicken Council also recommends that USDA be required to implement a plan to permit non-environmentally sensitive acres to be released from the Conservation Reserve Program without penalty. More acres are needed, not just for corn, but also for soybeans, wheat, cotton, and other crops that compete with corn for acreage.

#### **Ethanol Debacle**

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

#### **Proposed GIPSA Rule**

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

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

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

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

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

The rule, as proposed, would cost the broiler industry over \$1 billion during the first 5 years, and further, would change the way companies and growers do business that has been successfully conducted for more than 5 decades. The vertically-integrated industry structure with growout contracts with family farmers is a system that has been successful and has made the U.S. chicken industry the most efficient and economically-viable in the world. The rule would put the U.S. chicken industry at a global disadvantage, as other countries would not have to face these onerous requirements. The rule would create uncertainty and cause unnecessary and costly regulatory and legal burdens in the marketplace by making it much more difficult for companies and contract growers to get competitive financing. In addition, companies would not have the incentive to use capital to improve and expand operations; rather there would be more of a financial incentive to restructure their businesses to include their own growout operations. USDA needs to withdraw the proposed rule and start over with a proposed rule that reflects the Congressional mandate and simple, logical common sense.

#### **Time for Free Trade Agreements**

President Obama in his 2010 State of the Union speech called for a doubling of U.S. exports within 5 years. An important part of his effort is to have Congress approve three pending trade agreements: Colombia (signed in November 2006), Korea (signed in June 2007), and Panama (signed in June 2007). The White House’s primary argument for passage of the free trade agreements (FTA) is that several hundred thousand jobs would be created and the U.S. economy will be stimulated.

Under the Andean Trade Preference Act, Colombia faces no tariff barriers on its agricultural exports to the United States. Approval of the agreement would not change that situation but it would add almost \$1 billion of new U.S. agricultural exports to Colombia on an annual basis. In 2010 U.S. poultry exports to Colombia were \$21.3 million compared with a 5 year (2005–2009) average of \$13.2 million. When the agreement is fully implemented, poultry exports are expected to increase four-fold from the 5 year average to reach about \$55 million.

For Korea almost \$2 billion additional U.S. agricultural exports will flow annually under the agreement. In 2010, U.S. poultry exports to Korea were \$91.9 million compared with the 5 year average (2005–2009) being \$51.0 million. Under the agreement, U.S. poultry exports are forecast to triple compared with the 5 year average to reach over \$150 million.

U.S. agricultural exports to Panama are expected on an annual basis to increase \$200 million or more upon full implementation of the agreement. Panamanian agricultural exports to the United States enter with zero import tariffs under U.S. preference programs. U.S. poultry exports to Panama in 2010 were \$14.4 million compared with the 5 year (2005–2009) average of \$9.6 million. U.S. poultry exports are forecast to more than double the 5 year average and reach about \$20 million sometime well before full implementation of the agreement.

Taken together these three markets could add over \$150 million to U.S. poultry exports, more than double the combined 5 year average. That is, U.S. poultry exports are forecast to exceed \$225 million compared with \$74 million for the 5 year average for the combined total of these three countries.

With the United States two largest poultry export markets, Russia and China, severely disrupted and curtailed from previous trade levels, it is more important than ever to expand poultry sales to other world markets. Further, Congressional approval of these FTAs will encourage the U.S. Trade Representative to seek out and secure new trade agreements with several interested countries. Passage of these trade agreements would cost taxpayers essentially nothing but would create several hundred thousand jobs in the United States while providing for a more robust general economy. The White House stated it will bring the trade agreements to Congress “at an appropriate time.” It is difficult to think of a more appropriate time than now, especially if more jobs and an improved economy are a top national priority.

### **Conclusion**

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

- The rules of the game must be balanced and the playing field should be leveled to permit chicken producers and other animal agriculture producers to more fairly compete for the limited supplies of corn in the next few years. Included in this effort must be a safety-valve to adjust the Renewable Fuels Standard when there is a shortfall in corn supplies. In addition, a plan should be implemented to allow a reasonable number of good, productive cropland to opt out of the Conservation Reserve Program. This provision must be acted upon as soon as possible.
- With respect to the USDA/Grain Inspection, Packers and Stockyards Administration's proposed rule addressing competition and contracting in the poultry and livestock industries, USDA should withdraw its proposed rule and Congress should insist that GIPSA adhere to the legislative mandate regarding the type, scope, and intent of any rule that is implemented.
- Regarding the pending three free trade agreements, the National Chicken Council suggests, as have other groups, that these agreements be called U.S. job-creation agreements. Increased poultry exports as the result of implementing these agreements would definitely result in more jobs in the poultry industry and more family farmers growing poultry.

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 Subcommittee and others in Congress so that poultry producers have a better opportunity to successfully manage the increasingly difficult challenges and issues. Improving the state of the poultry industry not only helps poultry companies and poultry farmers but, perhaps, more importantly will allow consumers of poultry products to continue to enjoy an ongoing, adequate supply of animal protein at reasonable prices.

Thank you, Chairman 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.

The CHAIRMAN. Thank you, Mr. Welch.  
We will move on to Mr. Hill.  
Mr. Hill.

### **STATEMENT OF PAUL HILL, CHAIRMAN OF THE BOARD, WEST LIBERTY FOODS, ELLSWORTH, IA; ON BEHALF OF NATIONAL TURKEY FEDERATION**

Mr. HILL. Good afternoon, Chairman Rooney, Congressman Cardoza, and Members of the Subcommittee.

My name is Paul Hill, and I am Chairman of the Board of West Liberty Foods in Iowa and a past Chairman of the National Turkey Federation. Thank you for inviting me.

I have spent my entire life as a turkey farmer, raising 800,000 birds per year on my farm near Ellsworth, Iowa. And I also am a corn farmer raising about 1,800 acres. For the last 15 years, I have been the Chairman of West Liberty Foods, a meat and poultry processing co-op founded in 1996 by 47 family farmers. West Liberty Foods now processes more than 200 million pounds annually at our facility in West Liberty, and further processes more than 240 million pounds at plants in Mount Pleasant, Iowa and Tremonton, Utah. We employ more than 1,850 people and our company supplies more than 75 percent of all turkey products sold in the Subway restaurant chain.

The industry utilizes several vertical integration models. About 80 percent of the turkeys are raised on traditional production con-

tracts where processors provide turkeys, feed and medication to growers and growers provide housing and expertise and are compensated on a variety of factors. Roughly ten percent of the turkeys are raised on marketing contracts where the grower owns the turkeys and provides the feed, medicine and housing before selling the turkeys to the processor at a contracted price. And another ten percent are raised on company-owned farms.

Three factors are key to producing healthy products profitably: input costs, production discipline and consumer demand. When all three are out of kilter, the results are disastrous. This was the case when West Liberty was founded and again during 2008 and 2009, and believe you me, it remains a threat today.

Feed accounts for 70 percent of the cost of raising a turkey and corn accounts for roughly 70 percent of the feed ration. When feed costs increase dramatically and oversupply or a general recession prevents us from passing increased costs along, the industry loses money rapidly. This happened in 2008 when corn prices nearly quadrupled and feed costs reached a point where cost increases had to be passed along.

With the onset of the recession, sales of high-value products dropped significantly. It takes at least 6 months to alter production plans and the oversupply situation kept building. By late 2008, West Liberty Foods cut production 50 percent. Another cooperative shut its doors for 3 months, and a cooperative in Nebraska closed completely. Industry production dropped by 11 percent in 2 years, and it still took a \$60 million bonus purchase by USDA to buy time for those cuts to be felt in the market.

Turkey prices have increased, but no one expects major production growth in 2011 and contraction will probably happen this year. Feed costs are driving this situation; corn prices have nearly doubled in the last year. Economists give conflicting reasons why. But as a turkey grower and a corn farmer, commonsense tells me it is ethanol policy.

When the Renewable Fuels Standard was implemented, corn prices jumped from \$2.50 per bushel to \$8. Several good harvests settled corn prices for a time, but ethanol mandates force us to have record harvests every year. We just harvested the third largest corn crop ever, and the stocks-to-use ratio is near a record low.

Ethanol's share of the corn crop is almost 40 percent today. Increased corn prices cost the turkey industry more than \$1 billion in 2007 and 2008, and the current situation is almost as bad. We must quit pretending that ethanol isn't hurting farmers, ranchers and consumers. Ethanol is dividing rural America.

The corn farmer in me likes the prices, but the turkey farmer in me sees the real damage. Ethanol policy needs significant reform.

The blenders credit should go, and now is not the time for new investment in ethanol infrastructure. But what we are seeking is a safety net that reduces volatility. This isn't about cheap feed. High prices hurt, but volatility hurts a lot more and will prevent expansion in livestock and in poultry production, but we can find common ground.

A second challenge is the proposed GIPSA marketing rule, which creates long-term dangers for many family farmers. Three issues are key: the competitive injury proposal, the provision that requires

processors to guarantee recovery of capital investment, and the provision that discourages competing contracts. Together they create significant new legal and regulatory risk for the turkey processors who have production contracts with family farmers. These contracts will become less competitive. Exceptional growers will feel cheated as the new regulation forces everyone to a lower common denominator.

Processors could reduce the number of farms on which they raise turkeys or they could raise more turkeys on company-owned farms. The USDA proposed this rule without conducting an adequate economic assessment. Numerous private studies have found a significant economic impact. The department now has agreed to conduct an assessment but appears unwilling to submit the study for public comment prior to publishing the final rule.

Before closing, I must mention EPA's aggressive actions against poultry and livestock farming. The agency seeks to impose new requirements on farms in the Chesapeake Bay's watershed, yet it is using outdated models. Nutrient loadings in the Bay from ag lands decreased between 1985 and 2005, while loadings from developed lands increased 16 percent. Funding for EQIP in the next farm bill could help farmers further reduce nutrient loadings. Meanwhile, EPA has been so stubborn on this that NTF recently joined numerous other farm organizations in suing over the initiative.

I have gone a bit over, but I thank you very much for listening to me, and I would be happy to answer any questions.

[The prepared statement of Mr. Hill follows:]

PREPARED STATEMENT OF PAUL HILL, CHAIRMAN OF THE BOARD, WEST LIBERTY FOODS, ELLSWORTH, IA; ON BEHALF OF NATIONAL TURKEY FEDERATION

Good afternoon, Chairman Rooney, Ranking Member Cardoza, and Members of the Subcommittee. My name is Paul Hill, and I am Chairman of West Liberty Foods in West Liberty, Iowa, and a past Chairman of the National Turkey Federation. I want to thank the Subcommittee for inviting me to discuss the state of the U.S. turkey industry today and the challenges we will face in the years ahead.

I am excited to be offering this testimony on behalf of my company and the National Turkey Federation because I have had the opportunity to watch the development of the modern turkey industry from several different perspectives. I was raised on a turkey farm, and I have been a turkey grower my entire adult life. I also am a corn farmer, raising about 1,500 acres of corn each year. And, since 1996, I have been the Chairman of a meat and poultry processing cooperative called West Liberty Foods.

West Liberty Foods was created that year when 43 family turkey farmers joined together to purchase the Oscar Mayer/Louis Rich turkey plant in West Liberty from Kraft Foods, which had announced the plant's closing earlier that year. It took an enormous leap of faith for those 43 families to join together to purchase the plant. The turkey industry was in terrible economic shape back then. By the time we officially opened our doors in early 1997, the industry was mired in one of its worst slumps ever.

Over-production had depressed turkey prices. Grain supplies were extremely tight, forcing feed prices to levels that seemed shockingly high at the time. Not long after we began operating, the European Union closed its borders to American turkey products, depriving us of the number-one export market for turkey breast meat and further depressing turkey prices already hovering near record lows.

It took the industry—and our company—nearly 18 months to pull out of that slump. In the years that followed, West Liberty Foods was able to grow and prosper. Today, we process more than 60 million pounds annually at our facility in West Liberty, Iowa, and further process 200 millions pounds of product at the Mount Pleasant, Iowa, plant. We have built a second further processing plant in Tremonton, Utah, where we further process 165 million pounds of product. We employ more

than 1,850 associates at the three plants. And, we're very proud to say our company now supplies a majority of all the turkey products sold in Subway restaurants.

We take considerable satisfaction in our success at West Liberty Foods, and we remain committed to helping the turkey industry as a whole grow and prosper. At the same time, we never let the lessons of those first difficult months stray from our thoughts, because the industry has suffered even deeper recessions during the last 15 years and, because even in a period of relative prosperity, the threat of economic hardship remains very real.

To help understand why the industry's economic situation remains so tenuous, I need to discuss briefly the structure of the industry, how it works and the fundamental conditions necessary for economic success.

### **Structure of the Turkey Industry**

Most people would characterize the turkey industry as vertically integrated and while the assessment is relatively accurate, it fails to capture the diversity of operations that make up today's industry.

The industry is vertically integrated in the sense that the individual processors make the decision about how many turkeys will be raised and marketed, and growers raise birds in accordance with those production plans. In many cases, the vertical integration follows the classical model: the processor, or integrator, owns the turkeys throughout their lifespan. The processor provides turkeys to a grower and also supplies the feed and medication necessary to raise the bird to a mature market weight. The grower in turn provides the housing and his or her expertise in raising turkeys and is compensated by the processor based on a variety of factors, including weight gain, efficient use of feed and low mortality rates.

In other instances, turkeys are raised on a marketing contract. In this situation, the grower owns the turkeys throughout their life cycle and provides the feed and medicine, as well as the housing and production expertise. The processor then purchases the turkeys at a previously contracted price. Certain premiums may be paid based on factors outlined in the contract.

Finally, some turkeys are raised on company-owned farms. In this model, the company not only owns the turkeys throughout their life cycle and provides feed and medicine; it also provides the housing and employs growers to oversee the production.

Some companies exclusively use one model or another. At West Liberty, we offer identical marketing contracts to all our growers, regardless of whether they have an equity share in the cooperative or not. But, it also is common for companies to use multiple production models. Some will raise birds on production and marketing contracts while others will utilize a mixture of production contracts and company-owned farms.

### **Industry Profitability**

Multiple factors affect the turkey industry's ability to sell wholesome, nutritious, high-quality turkey products profitably at a reasonable price to consumers, but three stand out: input costs, production discipline and consumer demand. When all three are in line, the industry can enjoy significant profitability. When at least two of these factors are in place—production discipline and consumer demand—as is the case today, the industry will experience at least some degree of profitability. If two of the three are out of line, profitability begins to suffer. When all three factors are askew, the economic results are disastrous. This was the case when West Liberty Foods was founded in 1996, and we experienced an even greater downturn in 2008 and 2009. And, it could be the case again within the next 12 months. Let me explain why:

**Input Costs.** The road to profitability begins with production costs. Feed is the most expensive of these inputs, accounting for 70 percent of the cost of raising a turkey. Turkeys are fed a mix of corn and soybean meal, with corn accounting for roughly 70 percent of the ration. When feed costs increase dramatically, the industry's profit margins shrink accordingly. If there is an oversupply of turkey or all meat proteins, or if the general economy cannot support passing the increased feed costs to customers, then the industry begins to lose money rapidly.

This certainly was the case in 2008 and 2009. Corn prices and the resulting feed costs nearly quadrupled in a span of barely 2 years. Smart hedging strategies kept feed costs manageable for much of 2007, but by the end of that year production costs had reached a point where virtually everyone in the turkey industry—and everyone else who produced meat and poultry products—had to pass cost increases along. It was at just this moment that the other two factors both came into play.

**Production Discipline.** Economists are fond of saying about the meat and poultry industry that “nothing cures high prices like high prices.” By this they mean

that when prices rise to a certain point, livestock and poultry producers begin to increase production to take advantage of the strong prices. This increased production eventually reaches a point where the market has too much meat protein available, or too much of a certain meat protein, and prices begin to fall. This was the case in the mid-1990s when West Liberty Foods joined the turkey industry. Feed costs were high then, too, but those high costs were the result of specific global weather events and were relatively short lived. It took the turkey industry, the pork industry and, to a lesser extent, the beef and chicken industry longer to work through the oversupply issue.

The situation in 2008 was different. The industry did not lose its discipline. Real consumer demand for turkey and all meat proteins had been rising for several years. There was no reason to believe that consumers would not support another year of production increases, so most companies made plans to grow more birds. The year began with most industry observers anticipating an overall production increase of five percent or more. It was at that moment that our final factor came into play.

**Consumer Demand.** As the general economy slid into recession in 2008, it was dear by spring that the market was softening. We saw turkey breast purchases at our largest customer, Subway, begin to decline, and the reason was pretty straightforward. Turkey for years had been one of Subway's biggest sellers, so the company understandably had not felt the need to boost turkey sales further with special promotions. Other products went on Subway's "\$5 Menu," and turkey sales began to lag. Customer decisions in the collapsing economy were being driven almost entirely by price.

One of our competitors summed up the situation best when he said, "I'm putting all my breast meat in storage, and my turkey dogs are flying off the shelves."

Our most valuable product was not selling at the exact moment when our feed costs were reaching record highs. It was the perfect storm.

By the time the economy went into complete meltdown that fall, turkey companies already had begun changing their production plans. But, turning the production ship around is a lengthy process. It takes more than 4 months to raise a newly hatched poult into a full-grown turkey ready for processing. If you add in the lead time to set the eggs and hatch the poults, it takes a minimum of 6 months to fully alter a company's production plans. During those 6 months of 2008, the oversupply situation—especially for breast meat and whole turkeys—just kept building.

The only bright spot during this period was exports, which consumed more than ten percent of all turkey produced in the United States and remained strong through most of 2008. Because Mexico, by far our largest customer, continued to buy large quantities of thigh and drumstick meat, dark meat prices were relatively healthy during this period. Unfortunately, that cushioned the overall blow only slightly, and by 2009 the global recession had begun to reduce our overseas sales as well. In 2008, turkey exports were valued at \$481.9 million and by the end of 2009 the value was significantly reduced to \$394.6 million.

Once production plans were altered in the second half of 2008, the change was dramatic. At West Liberty Foods, we cut production 50 (that's five-zero) percent. Another cooperative, with whom we had a marketing agreement at the time, shut its doors for 3 full months at the beginning of 2009. A cooperative in Nebraska closed completely. We were able to take on some of those growers at West Liberty Foods, and a few found other processors to work with, but many families who had been raising turkeys for generations had to quit the business entirely.

Initially, the production cutbacks did nothing to stop collapsing breast meat prices, which according to USDA had fallen more than ten percent, from \$1.17 in 2006 to \$1.05 by the end of 2009. It took a \$60 million bonus purchase of turkey breast meat by USDA's Agricultural Marketing Service to slow the bleeding and to buy the industry enough time for the production cuts to be fully felt in the marketplace. This bipartisan effort was begun at the end of the previous Administration and completed by the current Agriculture Secretary, and it enjoyed considerable support in Congress. All of us in the turkey industry are grateful for this important effort during such a critical time.

Overall, the industry cut production by about nine percent in 2009 and by another two percent in 2010. Some individual companies may begin to increase production slightly this year, but overall no one in our industry expects any significant growth in 2011. In fact, further contraction remains an equally likely possibility.

### **Future Challenges**

The biggest reason the industry is not more optimistic in the face of strong prices is feed costs. Corn and other feed prices have begun to rise again, going from less than \$4 per bushel for corn to more than \$7 per bushel in barely a year. As both

a turkey producer and a corn farmer, I will tell you there is one reason for those cost increases—the Federal ethanol policy.

We can find a bunch of economists to give conflicting arguments as to why feed costs have gone up, and I'll quote some of their statistics in a minute, but you really only need old-fashioned common sense to understand that the ethanol policy is driving these cost increases. When the Renewable Fuels Standard (RFS) was implemented in 2006, corn prices were around \$2.50 per bushel. By the end of the first year of the RFS, prices were well above \$3 per bushel and as the RFS increased, corn prices kept rising, ultimately topping out at \$8 per bushel.

I know the arguments that speculative funds were what drove up corn prices, and they played a role. But, what attracted those funds to the corn market in the first place? The knowledge that the Federal Government had created a guaranteed market for corn-based ethanol. It's as close to a sure thing as you can get when it comes to a commodity investment.

Ultimately, farmers responded by planting more corn, and we enjoyed several years of very good harvests. Corn prices settled back a bit, though they operate at a permanently higher plateau where around \$3.50 per bushel now is the "low end" of the price range. But, there is a major problem with this new dynamic. The market can only absorb the ever-increasing demand for ethanol if we have ever-increasing corn harvests. If the harvest is off only slightly, as was the case with the crop just harvested, prices begin to soar. Think about it: we just harvested the third-largest corn crop in U.S. history, and that hasn't been sufficient to prevent a stocks-to-use ratio that is at or near its record low.

There is one reason and one reason only for that: ethanol. As a percentage of the total crop, feed usage is down considerably. Exports and food consumption are in line with historical levels. But, ethanol's share of the corn crop has increased from less than ten percent at the beginning of the previous decade to almost 40 percent today.

The 2006 to 2008 run up in corn prices cost the turkey industry more than \$1 billion. See, I promised you some economist's statistics. The current run-up in corn prices will have a significant price tag as well. The ethanol debate has aroused a lot of emotion on all sides, and I would like to cut through that and get to the essence of the issue:

First, we must quit pretending that ethanol hasn't had an impact on livestock and poultry farmers as well as end consumers. It has and it will continue to have one as long as our current policies are in place.

Second, the turkey industry isn't seeking to abolish all Federal support for ethanol, and I think you will find the same is true for others in the livestock and poultry industry. Some ethanol supports clearly can be abolished. It's hard to understand why we need both an RFS and a "blender's" tax credit. The RFS did more for ethanol production in 30 days than the blender's credit did in 30 years. It's time to let the blenders' credit expire. I think the livestock and poultry industry would have grave concerns about a significant new Federal investment in "infrastructure" for ethanol. Food security is as important as fuel security, and our industry receives no infrastructure subsidy from the Federal Government. With a guaranteed market for their product, it would seem reasonable that the ethanol industry should be profitable enough to begin developing its own infrastructure.

What the turkey industry is looking for is reform of the existing ethanol policy, a safety net that ensures that corn prices and availability will be less volatile in the future.

This goes hand-in-hand with our third point. This isn't about cheap feed. Yes, high prices hurt us, but the volatility hurts us worse. More importantly, volatility hinders growth in the poultry and livestock industry. I heard an economist say recently that high corn prices won't hurt our industry as much this time around because we're better prepared for it. That's true—up to a point. We're better prepared because we've drastically cut production (even at a time when corn prices were dropping), and production will not ramp back up in a significant way as long as the specter of enormous feed cost swings exists.

Finally, we have to recognize that ethanol is beginning to divide rural America. Each side likes to portray this as a battle of family farmers on their side against corporate interests on the other side. The reality is that it is not just pitting large food companies against large ethanol companies. It's pitting family farmers who raise corn against family farmers who raise livestock and poultry. I see it in my own community. I see it in my own operation. The corn farmer in me likes the prices I've been getting in recent years, but the turkey farmer in me sees the real economic damage being caused by huge production cutbacks. We have to drop the "us-or-them" mentality and find common ground. The turkey industry has been willing to seek compromise since the RFS first was being debated. We put concrete proposals

on the table. We have never received a single proposal for compromise from either corn farmers or the ethanol industry.

A second major challenge is the marketing rule proposed last summer by USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA). Agency officials say the rule is designed to give family farmers a level playing field when negotiating production and marketing contracts. That may have been the intent but the rule as proposed creates long-term dangers for many of the family farmers who raise turkeys under contract.

Many of you all are familiar with this rule, so I will not address it on a point-by-point basis, but I will call your attention to three aspects of the rule that, taken together, create enormous potential problems for all segments of the industry.

The first is the competitive injury provision that will make it easier to sue or bring regulatory action against poultry processors. The second is the provision that requires processors to virtually guarantee growers they can recoup 80 percent of their capital investments. The third is a series of provisions that would discourage competitive contracts in which growers can receive premiums or deductions based on the performance of the turkeys in their care.

Taken together these provisions create significant new legal and regulatory risk for the poultry processors who raise about 80 percent of all turkeys via a production contract with family farmers. The first and most obvious outcome is that contracts will be less competitive and compensation will become more uniform among growers. For some growers this might be good news, but for those who were doing an outstanding job and receiving premiums will justifiably feel cheated as a new regulation forces everyone down to a lower common denominator. As I mentioned earlier, West Liberty Foods is part of the ten percent of the industry that raises turkeys through a uniform marketing contract, but I spent many, many years as a contract grower, and I wanted the opportunity to compete with other growers and to earn premiums for top performance.

The bigger impact will come in the long term, though. The rule creates greater economic and regulatory risk for the processors who raise turkeys under production contracts. These processors will have to find ways to minimize that risk, and since 80 percent of all turkeys are raised under these contracts, how that risk is managed will have an enormous impact on the industry. One conceivable option for processors could include reducing over time the number of farms on which they raise turkeys. It could prove safer to expand operations on those farms with the best track record, and that poses a threat for growers whose performance is far from poor but who may not meet the rigid criteria necessary for processors to operate in a higher-risk world. Another realistic option would be for more processors to raise turkeys on company-owned farms. Right now such farms make up only ten percent of turkey production, but it is easy to envision a scenario in which the percentage is much higher a decade from now.

What is especially frustrating is that USDA promulgated this rule without conducting an adequate economic assessment of its impact. A study funded in part by the National Turkey Federation found an impact of at least \$361.6 million on the turkey industry alone. Other studies found the impact might be even higher. Another study released by the National Chicken Council concluded that the rule would cost the broiler industry more than \$1 billion over the next 5 years. Finally, a study conducted by John Dunham and Associates showed job losses to the meat and poultry industry at 104,000 and would reduce the national Gross Domestic Product (GDP) by \$14 billion.

USDA now has agreed to conduct an assessment, and that is a positive development. However, no one at the department has committed to submitting the study for public comment before finalizing the rule. This is an essential step if there is to be any level of confidence that the final rule truly has the interests of family farmers—as opposed to the interests of lawyers who might try to sue on their behalf—at heart.

No summary of challenges would be complete without mentioning the Environmental Protection Agency's aggressive new stance against poultry and livestock farming. The Chesapeake Bay Initiative is a prime example. The Agency seeks to impose new Total Maximum Daily Load requirements on farms that operate in the Bay's watershed, yet they are doing so based on outdated and incorrect models. Put in plain language, EPA doesn't know what's actually happening in the watershed, but it's going to prescribe a solution anyway.

A poultry industry representative earlier this year told a House Agriculture Subcommittee that EPA should recognize the industry's tools and programs that are improving water quality in the Chesapeake Bay watershed and across the nation. The results of the industry's action in this watershed are reflected in EPA's estimates

that between 1985 and 2005 nutrient loads from agriculture decreased to the Chesapeake Bay, while nutrient loadings from developed lands increased by 16 percent.

Imposing burdensome mandates based on questionable data only imposes more costs, paperwork and burdens on family farmers, while achieving few real benefits for water quality.

EPA has proven so intransigent on this issue that NTF has recently joined the American Farm Bureau Federation, the National Chicken Council, U.S. Poultry and Egg Association, National Pork Producers Council, National Corn Growers Association and many others in suing the Agency over the initiative. This was not an easy decision for us. Turkey farmers and processors are committed to being good environmental stewards, as evidenced by our success in the Chesapeake Bay watershed itself. This lawsuit was necessary not just to stop the Agency's current action but to ensure that this wrong-headed approach is not exported to other watersheds across the nation.

#### **How Government Can Help**

Though most people in the turkey industry prefer minimal government involvement, there are ways Congress and the Executive Branch have been helping and can continue to help ensure the continued economic viability of the turkey industry.

A prime example would be in the work USDA's Natural Resources Conservation Service had done with regard to the Chesapeake Bay. Their research has demonstrated the significant flaws in EPA's modeling for the Bay and could serve as the basis for a more balanced regulatory approach that truly enhances the Bay.

AMS programs like the School Lunch Program and the 2009 bonus purchase I referenced earlier are vital. The School Lunch Program and other government feeding programs help provide school children and the underprivileged with healthy, nutritious meals. The bonus purchase program provides a mechanism for the government to purchase commodities for those feeding programs at bargain prices while providing support for an industry when it is struggling economically.

And, our partnership with the Federal Government on food safety is vital for consumer confidence in our food supply. While industry and the regulators don't always see eye-to-eye, the government's growing commitment to working cooperatively with processors on a science-based, risk-based inspection system has helped enhance the microbial profile of our food supply, reduce foodborne illness and maintain consumer confidence in what remains the world's safest food supply.

Thank you again for the opportunity to discuss the state of the turkey industry. I will be happy to answer any questions you may have.

The CHAIRMAN. Thank you, Mr. Hill.

I will now move into questions. We will be called to vote probably shortly, but we will try to get as far as we can and then reconvene.

The chair would like to remind Members that they will be recognized for questioning in order of seniority for Members who were here at the start of the hearing. After that, Members will be recognized in order of their arrival. I appreciate Members' understanding.

I will begin questioning if I could with Mr. Hill, and then if the other two witnesses want to weigh in, please feel free to do so.

Mr. Hill, your testimony mentioned how our export markets drive demand for products for which domestic demand is not as high, such as dark meat. I understand it—as I understand it, overseas consumers are willing to pay a premium for a lot of livestock and poultry products that are not as valuable domestically. Could you please talk about this for a moment, and particularly how this situation fits with our pending trade agreements? Then if the other gentlemen want to talk about trade generally in their opinion, I would appreciate that as well.

Mr. HILL. I was on a mission to Mexico with the National Turkey Federation, a trade mission, a number of years ago, about 3 years ago or so, and we sell a lot of dark meat to Mexico. That is what we do with a lot of our dark meat. And we had processors, Mexican processors in the room that were saying, your price is too high,

your price is too high, you got to get it down, you got to get it down.

One of our guys stood up and he says, the Russians will give me 10¢ more than you guys will.

The next day dark meat went up and Mexico started buying.

Now, you take Russia out of the equation, he couldn't say that and they could beat us over the head.

I mean, competition, competition makes sense. The governments in South America, the eastern governments in Asian countries, they all eat more dark meat. We eat more white meat in this country. Europe eats more white meat. We hated it years ago when we lost our market in the European Union. That would be a lovely market.

Are trade agreements important to us? Absolutely. And there is a two-way street here, and it is simply because of the difference in the peoples. But by the same token, white meat is cheaper in Mexico, and in Chile, for example, because they like the dark meat. So we have to figure out how to trade this stuff around a bit, and we have to have competition.

The CHAIRMAN. Thank you. Any other witnesses want to weigh in on it?

Mr. WELCH. Yes, I would.

As Mr. Hill said, Russia is the big dog in the equation. And got a lot of grief at the end of last year and early this year about the disagreement over the treating of microorganisms and their restricting chlorine, which is a perfect antimicrobial, and so on. But we got all through that, and many U.S. processors have switched to other products that perform well.

I guess what got overlooked in the big picture was that since 2001, when the quota for U.S. product was like 900,000 metric tons, it ended up this year a total of 350,000 metric tons, non-country specific as it used to be. And so with their attempting to enter the WTO and so forth, we should insist that the quotas and the free trade exist between our countries, and the benefit to the U.S. industry is tremendous. And as Mr. Hill said, with the preferences for different parts of the chicken, South America, because of lower labor costs, can produce product cheaper than the United States, but they can't sell it cheaper because they have no preference for white meat there. So, their products tend to sell similar in price regardless of whether it is the front half or back half of the chicken. So America's dark meat is extremely competitive in the worldwide marketplace, and we must insist on fair trade between the groups.

The CHAIRMAN. Thank you.

And now turn to the Ranking Member, Mr. Cardoza.

Mr. CARDOZA. Thank you very much, Chairman Rooney.

I want to start by indicating my support on two positions that you have all indicated that are a problem, and that is the GIPSA rule and EPA. The committee here in full Committee a few weeks ago had Administrator Jackson of the EPA here. And I got to tell you, as I told her that day, that it was a bipartisan thrashing that I had never seen before in Congress because her agency is just in my opinion out of control. I think it was a unanimous feeling by all the Members of the Committee that that was the case. I have never seen anyone who came before a committee that got just abso-

lutely uniform criticism for the way their agency was conducting their operations.

I think the GIPSA rule is another example about how government is not working for the industry or for consumers, and we are going to have to take a tough look at that. And I am hopeful that the Agriculture Department will in fact come to some different conclusions as we move forward. The questions I have, you all have indicated, and so have my farmers at home, both beef and poultry, have indicated that high grain prices affect them adversely. I had some folks yesterday come by—and there is no question that it has. I am very sympathetic to those changes.

I believe that there were fluctuations in the grain market, however, before we had ethanol, and so I want to really get to the root cause, and I want to ask a couple of questions that have been on my mind. There were some folks from an ethanol plant came by my office yesterday and indicated to me that most of their product is being used as—the grain is being used as byproduct for cow feed and other things. If that in fact is being done, do we have a shortage of corn in the country generally, or is it the ethanol, because if you are using the byproduct again in feed and you are taking the starch out, but you are using the by-product for the protein and other aspects, is it really the corn and the ethanol production?

Mr. HILL. We can't use as much byproduct in poultry as you could in your beef operation because the difference in the stomach of the animal.

Mr. CARDOZA. Right. And I understand that.

Mr. HILL. You understand that.

The other thing that you have to understand is we have tremendous amounts of exports of the byproduct. And so the byproduct from a cost standpoint doesn't work any better than corn. In fact, right now, it is the other way, you might have to use corn when you look at the cost of your ration. But in poultry, we have to have corn. Corn is king. And you can use some byproduct but very little.

Mr. CARDOZA. I understand. I guess the point that I am trying to make, and I am just trying to elicit—I am not trying to make a point; I am trying to get information from you all. And that is you just told me something else that is very interesting, that the byproduct isn't all being used in feed; it is being exported to different countries.

Mr. HILL. Yes, huge amounts are being exported.

Mr. CARDOZA. So is it that we are feeding the rest of the world, that is what is driving up corn prices, or if all the byproduct were used here for cattle feed, for example, would that offset what would otherwise be done? There is a zero-sum game here, is what I am trying to say. And if you are using the byproduct for corn feed—or for cattle feed, then you are not buying corn on the market for that same feed. And so I am just trying to understand if it is really the ethanol that is causing it, or if it is a convenient place to be critical?

I personally believe that it is time to take off the subsidies on ethanol myself, but I am just trying to get to the facts of what really is happening in the real world.

Mr. WELCH. Even if all of the DDGs, it is called, dry distillers grain, is the byproduct, I am not in that business, but 100 pounds

of corn,  $\frac{1}{3}$  of the volume goes into ethanol and  $\frac{1}{3}$  of it into the byproduct and  $\frac{1}{3}$  of it flashes off as  $\text{CO}_2$ . And so you have only—you have reduced the amount of volume by  $\frac{2}{3}$  in the byproduct. And then the nutritional element in the byproduct, for instance, a pound of corn will have somewhere between 1,400 and 1,500 calories; a pound of DDGs will only have about 1,200 calories. So what happens? You have to—if you use the byproduct, you have to supplement it with the best source of energy: calories as fat, animal fat that is rendered, chicken fat or other fat. So even though you try to bring the price down, fat is at record prices high. Why? Because fat could be used as fuel also just like ethanol. It is pulling the price back up.

And as Mr. Hill said, we—like in chickens, it doesn't formulate for us anymore, meaning that the price they are getting for it, because of exports, it throws it out of the diet, and you are better off buying outrageously priced corn. You are still better off.

Mr. KING. Congressman Cardoza, I just add as a beef producer as well, what happens with the commodity market, it is priced off of the distillers and the corn glutens and all of the byproducts are priced off of corn prices, soybean prices, or whatever, and so there are no bargains to be found in feeding any kind of livestock in today's commodity prices.

Mr. CARDOZA. There is no question in my mind, and my time is up. I just am still trying to figure out if it is a chicken or an egg kind of situation. Is it the situation that ethanol is driving this or that we have demand, and we are using a lot more corn and other products, and it is hurting you all. No question your industry is under a lot of pressure.

The CHAIRMAN. Thank you, Mr. Cardoza.

Mr. Goodlatte.

Mr. GOODLATTE. Thank you, Mr. Chairman.

I would like to follow up on the gentleman from California's questions about feed costs and feed availability.

Mr. Welch, you mentioned in your testimony the possibility of adjusting the Renewable Fuels Standard and Conservation Reserve Program as options for addressing the feed availability challenge.

I would like to hear the rest of the panel's thoughts on this subject. Mr. King, you hear a lot about that in the Shenandoah Valley like I do. What impact do you think these competing programs for your feed, or reducing the acreage available for feed as in the case of the Conservation Reserve Program, are doing to feed prices and availability.

Mr. KING. As a conservationist, there is obviously some ground that we don't want to go back into corn production. But there is some ground that could go even if it was for a 1 year exemption just to get the carry-over stocks back up. But as I look at the solution to this, most of the solution to this problem, other than the fact that I have a philosophical problem with burning food, most of the solution is going to come through technology. And one of the biggest concerns I have, and part of it is because of the location of my operation, is that we are seeing the environmental community think that building soil fertility is evil.

And yet we have technology in corn that will give us at this point year over year 10 to 15 percent increase in yields. But when you

have environmental regulations that won't allow you to put the nutrients on the soil to produce that crop, you are not going to get those yields out of thin air.

Illinois just did a research study where they found that the triple stack corn that is available and most farmers are planting increased yields by 15 percent an acre. It takes about 13 percent more nitrogen but 22 percent more phosphorus to get that yield. And yet when we continue to make it impossible to build our soil fertility so we can produce those kind of crops, it is a Catch-22 that we have to get around.

Mr. GOODLATTE. Okay. You just answered my next question.

Mr. KING. I am sorry.

Mr. GOODLATTE. That is okay.

I was going to get to that question, too. But if you could comment on what your thoughts are on the incentives and the mandates and the tariff barriers that the government imposes that create a competitive advantage for the use of some of those grains for energy as opposed to feed.

Mr. KING. I have a hard time pitting one sector of the ag economy against the other.

Mr. GOODLATTE. I did not ask you to do that. I support ethanol, too, as long as it is on a competitive playing field.

Mr. KING. But philosophically, I think markets work better than government subsidies. And, as an environmentalist, I want the crop, the best crop going to ethanol. And quite frankly, it is probably cane out of Brazil instead of corn out of Iowa. And so I would suggest that we remove those barriers and that we get the best alternatives possible.

I acknowledge that some ethanol is needed to get blends of gasoline and that kind of thing, but we don't need to push this to the level where we can't provide the world with the food and fiber it needs as well.

Mr. GOODLATTE. Thank you.

Mr. Hill, do you want to comment on that.

Mr. HILL. Oh, absolutely. What we need—we don't want to pit food against fuel. And I went to all of our Iowa Congressmen and Senators and cried wolf at the very beginning because I said, you people have not put a safety net around this. What happens if we have a super short crop, what happens if we don't have enough, and you are subsidizing ethanol and you have a mandate? Okay, so I can get along okay with the subsidies; I can't get along with the mandate if there isn't enough to go around. So I told them, I said, there is an easy fix, and that is when the stocks-to-use ratio or whatever gets below a billion bushels, you got to start cutting the ethanol mandate, because you get down to 550 million bushels and that is it, that is pipeline. So once you go below a billion, you got a problem. And I said, if you would do that, there would be none of this food-fuel stuff, because we all know we have to eat.

Mr. GOODLATTE. Thank you.

Just in my few seconds remaining, Mr. King, would you want to comment on the situation you find yourself in right now with regard to the EPA's TMDL, Total Maximum Daily Load requirement and what impact it is having on operations like yours or will have in the future?

Mr. KING. I happen to have a farm that is located in the Smith Creek watershed, which is one of the EPA's three showcase watersheds for the Chesapeake Bay, and so I am getting up close and personal with a whole lot of what you have just been talking about. Quite honestly I was really struck the other day when we were working with information from Virginia Tech that did a program to try to get a handle on cost-benefit analysis.

In the Smith Creek watershed, 75 percent agriculture, 25 forestry is a fair breakdown. The nitrogen load that comes off of our forestland equals the nitrogen load that comes off of our hay land, which is basically equal acres. So why don't we put buffers around the National Forest and get off the farmers back? I mean, this idea that somehow agriculture is the problem is not backed up by reality. And I have already done a lot of things on my farm, and I will continue to do what makes sense.

I think that the TMDL model is flawed to begin with. And I don't say that because I want it to say something else. I just say that because as someone that has worked in environmental issues and a former DEQ employee in the Commonwealth of Virginia, I see major problems, and no one seems to want to be open to it. And the final thing I would say on that is that we have reduced what happens in our soil to a simple chemical formula of NPK—Nitrogen, Phosphorous, and Potash. It is an ecosystem where carbon interacts with it, where micronutrients interact with it, and we have written regulations that will make it impossible for us to meet the food needs of this country if we don't wake up and see that there is more at play than just NPK in our soils.

Mr. GOODLATTE. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Scott.

Mr. SCOTT. Yes, very quickly. We are having very solid debates here on the budget and cuts and so forth. I would like to get each of your impressions on the impact of research, your use of research, and the value of research from some of our universities. What in your estimation would be the effect of cuts in the USDA's research budget on your operations? How valuable is research from our universities to y'all's operations?

Mr. HILL. Well, I can speak for the turkey industry; research is huge, because we do a lot of research on diseases. Avian influenza would be one. I mean this is paramount. We learned this just a few years ago with the outbreak that they had over in Southeast Asia and some of the stuff that has happened in this country. It is a big deal. We have to have research, and the government gives us some good stuff. The government is not all bad. We have to figure out how to work together. And the EPA, we work with, we can work with them, but it is an attitude that you have that what we are doing is bad and we aren't. We are here to save this country, and they have to develop a different attitude.

Mr. SCOTT. Anyone else on that.

Mr. WELCH. Yes, Mr. Scott.

We rely heavily in Georgia on the University of Georgia. The poultry science department is crucial to the activities of especially disease and research. Additionally, in Georgia, other Federal programs, the southeastern USDA lab in Athens and the PDRC, Poultry Disease Research Center, are extremely crucial to the science

of our business. And Georgia is not just the only one, University of Arkansas, the Auburn University, are tremendous, tremendous factors in animal agriculture.

Mr. SCOTT. I am very concerned about helping with the research and keeping that very important and kind of minimizing these cuts. It would be very interesting if you feel that, particularly with poultry, do you think it would have a positive or negative effect on your ability to remain competitive in the global market? How does our research and our universities assist in making sure our poultry industry remains top of the line in terms of competitive in the international market?

Mr. HILL. We have the safest food in the world. Go through the plants in the European Union, go through them in Russia, go through them in Chile, go to them in Mexico. This is it. We are the safest there is. We didn't happen by accident. We do research, and we compete and we challenge each other, but we also share. Food safety is paramount with what we do in poultry.

Mr. SCOTT. I know we have to go vote, but I want to make sure we have on the record that you all, each of you three feel very strongly that if there are any reductions or cuts in our university research, that it would be very, very minimum.

Mr. KING. I would just add to that, Congressman, that the government definitely has a role in research, but there is a lot of good research out there that is done in the private sector as well. And I would be naïve to think I could sit here and say, don't cut what is important to me but find someone else to cut. As an American, I would simply say it is imperative that we get our budget situation under control, and if we are going to have to take some lumps along with everyone else I don't think we should cry too loud. Research is a wonderful thing. I am not boo-hooing over research. But we can't continue down the path we are going and have a sustainable economy.

Mr. SCOTT. Thank you, sir.

The CHAIRMAN. I want to thank the witnesses. As you may know, we have been called to vote, and the other Members will not be able to return, so we are going to adjourn. But I want to thank you all for participating in this discussion on the state of the industry for poultry. And with that, under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any question posed by a Member.

This hearing on the Subcommittee on Livestock, Dairy, and Poultry is adjourned.

[Whereupon, at 2:45 p.m., the Subcommittee was adjourned.]