



NATIONAL CHICKEN COUNCIL

1015 FIFTEENTH STREET NW, SUITE 930
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STATEMENT REGARDING

LIVESTOCK INDUSTRY

MARKET STRUCTURE

**HEARING OF THE LIVESTOCK, DAIRY,
AND POULTRY SUBCOMMITTEE
HOUSE COMMITTEE ON AGRICULTURE**

**THE HONORABLE LEONARD L. BOSWELL
SUBCOMMITTEE CHAIRMAN**

**WILLIAM P. ROENIGK
NATIONAL CHICKEN COUNCIL
WASHINGTON, DC**

**APRIL 17, 2007
WASHINGTON, DC**

Good morning, Chairman Boswell, Congressman Hayes, and members of the Subcommittee. Thank you, Chairman Boswell, for the opportunity to participate in this important hearing regarding the issue of the market structure of the livestock industry. On behalf of the National Chicken Council, I appreciate your invitation to provide comments on the market structure of the U.S. chicken industry.

My name is Bill Roenigk and I am Senior Vice President of the National Chicken Council. Companies that produce and process about 95 percent of the young meat chickens (broilers) in the United States are members of the National Chicken Council. I am pleased to have the opportunity to share with you information about the market structure of the U.S. chicken industry. For my statement for today's hearing, I will use the term "chicken" and "broiler" somewhat interchangeably.

More than half a century ago, as farmers moved more and more away from dual purpose chickens (table eggs and meat) and moved toward specialized breeds for table eggs and for producing meatier chickens, a new industry and market structure began to emerge in poultry farming. Chicken producers did not go to strategic planning sessions or consult with business organization experts to decide they needed to adopt the concept of vertical integration to improve their livelihoods and lessen the economic ups and downs in the chicken market cycle. They sought greater stability and predictability in their incomes and for their investments. With access to only limited capital it was very important to lessen market risk by sharing those risks with others in the production process. While it may make a better report to state that various parts of the chicken business came together in a proactive manner, the actual situation for most, but not all, companies was that coordinating the various parts of a business was, in large measure, a reactive process. More specifically, feed mills providing feed for farmers growing broilers learned that the best way to assure payment for the feed at the end of a broiler growout cycle was for the feed mill to help find a processing plant to slaughter the broilers when the birds reached market weight. Because the economics of feeding broilers requires prompt movement to market when they reach market weight, the broiler grower is at a distinct disadvantage if the processing plant is working at over-capacity or the wholesale market for dressed chicken is depressed. By coordinating growing, processing, and marketing the surge and gaps in live production could be

minimized. The chicken industry, as it began to coordinate production, processing and marketing 50 years ago, was participating in just-in-time concept, but they just didn't know it until the Japanese car-makers labeled their concept decades later.

Contracts with growers offer many very important benefits. These benefits and advantages include substantially reduced market risks; quicker and more thorough understanding of production requirements; better access to capital; more reliable and predictable income flows to labor, management, and investment; and better opportunities to leverage success to expand and/or diversify farm operations.

Family farmers who contract with chicken companies have benefited in good measure over the past six decades. More than 25,000 family farms currently contract with companies to raise broilers and can do so more confidently because, to a very large degree, they are insulated from the risks of the chicken marketplace. Contract growers are basically guaranteed a fixed payment plus a bonus for above average performance. University studies have found that returns on investments for contract broiler farmers are very comparable to returns on investments for chicken companies. A young farmer starting out or a farmer with limited equity can obtain a loan to begin growing chickens because he/she can use the contract as collateral. Depending on the farmer's situation, more growout houses can be added to expand production and, in many cases, the farmer can mesh chicken growing with other aspects of the farming operation. Financial institutions tell the National Chicken Council that the default rate of contract growers is very low, perhaps, the lowest in all of agriculture.

Another measure of the successful relationship between companies and contract growers is that the majority of companies have a waiting list of growers who are requesting to add to existing growout housing capacity or farmers who wish to begin broiler growout operations. If the system was not a favorable one, would these waiting lists exist year-after-year and decade-after-decade?

Vertical integration for the chicken industry has stood the test of time quite well. The chicken industry has over the past six decades provided consumers at-home and abroad with an

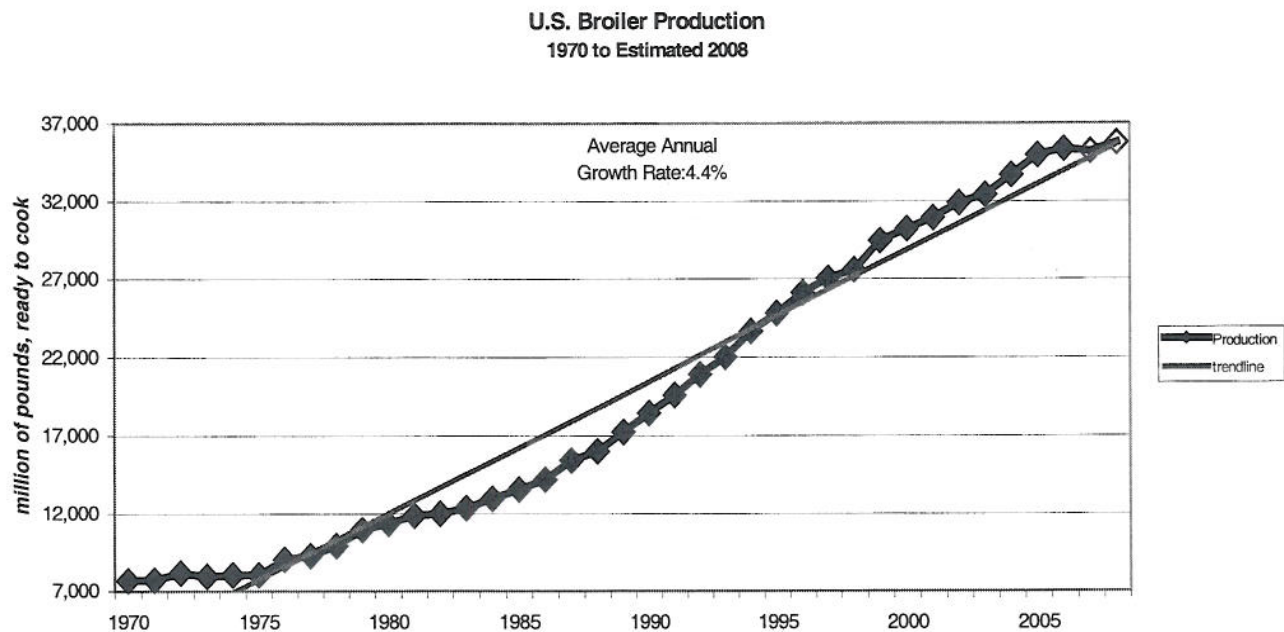
abundance of wholesome, affordable, and nutritious food. In 1955, broiler production was 2.4 billion pounds, ready-to-cook weight basis. This year (2007) broiler production will be 35.2 billion pounds or more than 14.5 times the quantity in 1955. Today, the price of chicken to consumers, adjusted for inflation, is less than one-fourth the cost of chicken 50 years ago. Another way to measure the cost of chicken to consumers is to note that in the mid-1950s, it took the average manufacturing worker 19 minutes of work time to earn enough in wages to buy a pound of chicken. Today, the same worker needs to work less than four minutes to purchase a pound of chicken.

There have been many studies conducted about the broiler industry regarding market structure, competition, and related issues. One such study is considered a landmark report. It is the *Dynamic Factors in Vertical Commodity System: A Case Study of The Broiler System* by B.W. Marion and H. B. Arthur at the Ohio Agricultural Research and Development Center (1973). This study concludes “the primary function of almost any industry can be thought of as efficient bringing together—the integrating—of the resources, products, and services needed to provide an end product that will best satisfy the needs of customers. This is certainly true of the broiler system. And the dramatic reduction in the cost per pound of broilers and concomitant increase in consumption suggest that the system has performed well in accomplishing this task.”

Although that study was done more than 30 years ago, I believe that conclusion is even more valid today. Consumption of chicken has more than doubled from 30 years and is the highest of any meat, measured on a retail-weight basis. Further, consumers today have an ever widening variety of chicken products that are more convenient, more nutritious, more affordable, and have a higher level of food safety. Vertical integration for the chicken industry very much facilitates end-market signals back through the system and is the basis for the more than 50 years of successfully serving the consumer.

Chairman Boswell, Congressman Hayes, and members of the subcommittee, I appreciate the opportunity to share the broiler industry’s story with you. You have much to deliberate with respect to various issues involved in the upcoming farm bill. I respectfully suggest that trying to improve the market structure of the chicken industry should not be a high priority for the

Subcommittee nor Congress. The National Chicken Council does not see the need for new or additional laws nor USDA regulations that would involve government further in the grower-company business relationship. Nonetheless, if you do have concerns or questions about the chicken industry with respect to this issue, the National Chicken Council would very much appreciate the opportunity to work with you to appropriately and adequately address those issues or concerns.



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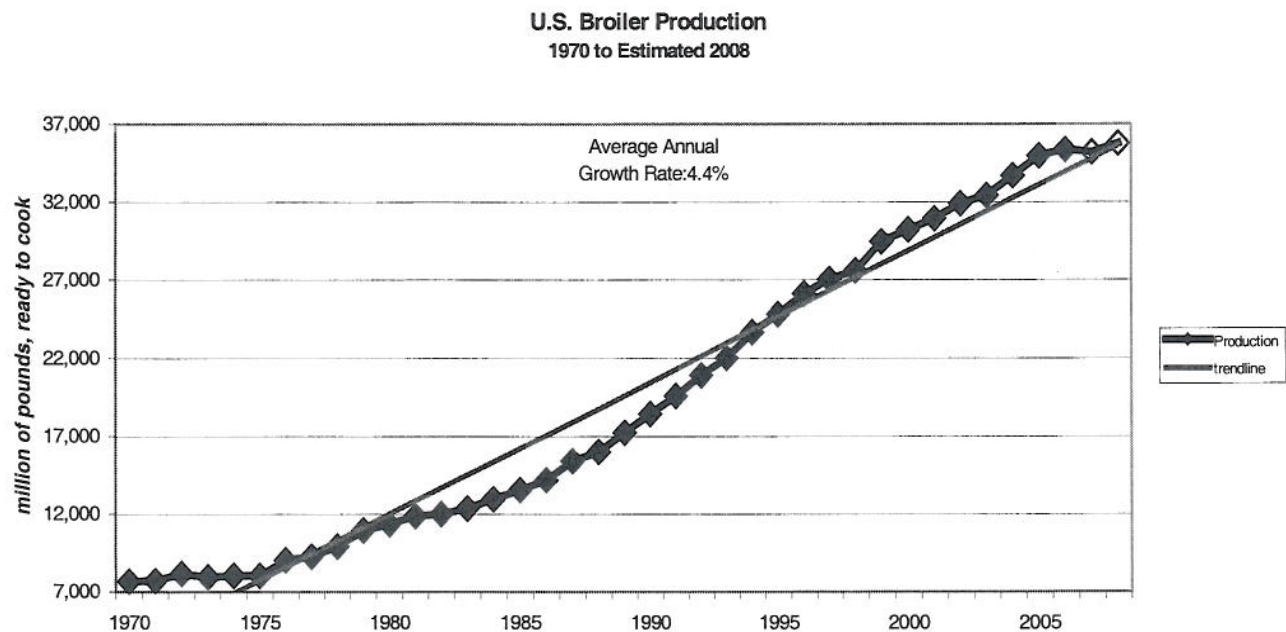
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William (Bill) P. Roenigk Senior Vice President National Chicken Council

William (Bill) P. Roenigk is Senior Vice President of the National Chicken Council, the U.S. organization representing companies that produce and process over 95 percent of the young meat chickens (broilers) in the United States. For more than a quarter of a century, his responsibilities at the Council have included economic analysis and presentation of broiler industry marketing issues and concerns, both domestic and international. Additionally, he oversees projects that involve industry and consumer market surveys. Information from these surveys provides important insights and understandings in addressing marketing, regulatory, and legislative issues. He serves on the U.S. Department of Agriculture's Agricultural Technical Advisory Committee for Trade in Animals and Animal Products. Prior to his present position of Senior Vice President, he was Director of Economic Research and Membership Services for the National Broiler Council.

Before joining the Council, Bill was Agricultural Economist with the federal government's Office of Food/Cost-of-Living Council; Agricultural Economist with the Foreign Regional Analysis Division/Economic Research Service, U.S. Department of Agriculture (USDA); and Agricultural Economist with the Dairy, Livestock and Poultry Division/Foreign Agricultural Service, USDA. Degrees include Bachelor of Science from The Pennsylvania State University and Master of Science from the University of Delaware. Both degrees are in agricultural economics. He has completed the course work for a doctorate degree at the University of Maryland.

March 2007

Committee on Agriculture
U.S. House of Representatives
Information Required From Non-governmental Witnesses

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

1. Name: William P. Roenigk
2. BusinessAddress: 1015 15th Street, NW/#930, Washington, DC 20005

3. Business Phone Number: 202-296-2622

4. Organization you represent: _____

5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:

As part of my responsibilities with the National Chicken
Council, I have served as the chief economist since 1974.

6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:

7. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:

National Chicken Council

Senior Vice President

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

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

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: William P. Roenigk

Address: 1015 15th Street, NW, Suite 930, Washington, DC 20005

Telephone: 202-296-2622

Organization you represent (if any): National Chicken Council

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: None Amount: _____

Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:

Source: None Amount: _____

Source: _____ Amount: _____

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

Signature: William P. Roenigk

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

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.