

**Testimony of
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Pork Producer
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On behalf of

National Pork Producers Council

To

**United States House Committee on Agriculture
Subcommittee on Livestock, Dairy and Poultry**

**April 17, 2007
Washington, D.C.**

INTRODUCTION

The National Pork Producers Council is an association of 43 state pork producer organizations. NPPC is the voice in Washington for the nation's pork producers.

The U.S. pork industry represents a significant value-added activity in the agriculture economy and the overall U.S. economy. Nationwide, more than 67,000 pork producers marketed more than 103 million hogs in 2005, and those animals provided total gross receipts of \$15 billion. Overall, an estimated \$20.7 billion of personal income and \$34.5 billion of gross national product are supported by the U.S. hog industry. Economists Dan Otto and John Lawrence at Iowa State University estimate that the U.S. pork industry is directly responsible for the creation of 34,720 full-time equivalent jobs and generates 127,492 jobs in the rest of agriculture. It is responsible for 110,665 jobs in the manufacturing sector, mostly in the packing industry, and 65,224 jobs in professional services such as veterinarians, real estate agents and bankers. All told, the U.S. pork industry is responsible for 550,221 mostly rural jobs in the U.S.

The hog industry in the United States has seen rapid structural changes in recent years, yet total hog numbers have trended up since 1990. In 1990, inventories were 54.5 million head; data from December 2006 showed inventories over 62 million head. And in 2006 2.74 billion pounds of pork and pork variety meats were exported; U.S. consumers purchased 18.8 billion pounds of U.S.-produced pork. Domestic consumption of pork in 2006 was 3 billion pounds higher than it was in 1990; exports were 2.2 billion pounds higher than they were in 1990.

The U.S. pork industry today provides nearly 21 billion pounds of safe, wholesome and nutritious meat protein to consumers worldwide. In fact, 2006 will be the fifth consecutive year of record pork production in the United States, and all indicators point to another record in 2007.

Exports of pork also continue to grow. New technologies have been adopted and productivity has been increased to maintain the U.S. pork industry's international competitiveness. As a result, pork exports have hit new records for the past 15 years. In 2006, exports represented nearly 15 percent of production.

The U.S. pork industry has enjoyed unparalleled prosperity over the past three years. According to estimates by Iowa State University, average farrow-to-finish producers completed their 35th consecutive profitable month in December (See Figure 1) and made an average profit of \$22.17 per head over that period. New Iowa State estimates based on modern technology and production coefficients indicate that these operations have remained profitable through March of this year in spite of near-record feed costs.

Pork cutout values reached record levels in 2004, and Iowa-Minnesota cash hog prices have been near-record high on several occasions since that time. As can be seen in Figure 2, Iowa-Minnesota hog prices have broken the downtrend of the 1990s and established a new, higher trend over the past four years. This new trend was started by a surge in domestic and export demand in 2004, with domestic demand bolstered by the popularity of low-carb, high-protein diets and export demand driven by better market access for U.S. products, a weaker U.S. dollar and U.S. products better tailored for export markets.

INDUSTRY VIEWS ON MARKET STRUCTURE

It is against this backdrop of financial success that we offer our views on market structure. But first we would ask: Is legislation that would limit producers' market-access options a solution in search of a problem?

There is no doubt that the structures of the U.S. pork industry and U.S. pork and hog markets have changed, but we urge Congress to focus not on structural issues but on the more important market efficiency measures of conduct and performance as you deliberate the wisdom of government intervention. While the 1990s were a difficult time for U.S. pork producers, we urge you to make policy based on the realities of today, not the past. This industry went through a major restructuring in the '90s, changes driven by new consumer demands, new technology and rationalizations of both old-line packing and old-line production capacity. Such sweeping changes are always painful and should not be forgotten, but they must also be kept in context and not used to forever drive a desire for the "way things used to be."

CAREFULLY AND THOROUGHLY CONSIDER RECENT RESEARCH AND INQUIRIES

Congress has invested significant resources in researching the current situation in livestock markets. Much of that research is relatively new, and we have had little time to consider what it tells us. We would urge Congress to move slowly as USDA and the industry digest and consider new knowledge and apply the findings.

Foremost among these is the recently released Grain Inspection, Packers, and Stockyards Administration (GIPSA) Livestock and Meat Marketing Study. This comprehensive and complex piece of research cost U.S. taxpayers \$4.5 million. We believe that such a large investment of taxpayer dollars warrants careful and complete consideration of the study's findings and that any criticism should not be based on those findings but on the data and/or methods that were used. Let's learn from this study instead of making it a political football.

In addition, USDA's Office of the Inspector General (OIG) study of GIPSA, completed in 2005, was a significant investment of federal funds. What is the status of GIPSA's response to the OIG audit? We know that the management team at GIPSA changed just before the audit was released, and we believe that GIPSA Administrator James Link has made substantial changes in the way GIPSA goes about its prescribed duties. However, we believe Congress should know specifically what has been done and how that is going to change GIPSA's future efforts to enforce the Packers and Stockyards Act.

Since 2000, the federal government has made major investments to improve price reporting by implementing the Livestock Mandatory Reporting Act. The express purpose of that Act and the mandatory price reporting system is to increase the transparency of livestock markets by requiring the reporting of prices by covered packers. We believe the system has accomplished that goal and that the refinements enacted in 2006 will further that cause. We await with anticipation USDA's new proposed rule on the price reporting act, which now includes several swine reporting enhancements that we advocated. Let us work to make this system better before we proceed with other actions.

All of these efforts have also involved significant investments on the part of the private sector. Producers and packers responded to lengthy, detailed GIPSA questionnaires as part of the livestock

and meat marketing study. Data on millions of transactions was provided, all of which took valuable time and manpower. We should allow these investments to come to fruition.

Congress also should answer the question: What have past congressional efforts to make markets more competitive accomplished? From our perspective, the answer is not much. The obvious follow-up is to ask whether that lack of results is due to a lack of effort or is it that markets are, in fact, quite competitive. (We believe the answer may be both.)

An example of such past efforts is the 1999 appointment of a Special Counsel to the Assistant Attorney General in charge of the Anti-Trust Division of the Department of Justice. What has this person done? What has this new position contributed to the level of competition in agricultural markets? We have seen no evidence that this Special Counsel has actually done anything to make agricultural markets more competitive or transparent. Before proceeding to add more layers of bureaucracy, why not find out what this Special Counsel has done and what changes have been made at GIPSA – and to what effect?

FOCUS ON CONDUCT AND PERFORMANCE

The focus of most debates regarding competition has been the number and market shares of the various participants. That is, many try to use industry structure to draw direct conclusions that firms behave in certain ways and that prices and quantities are moved away from their competitive optimums. Structure should not be used to measure whether there is competition; Congress should look at performance of the market.

The pork production and packing sectors are more concentrated than they once were. Some regions have only one or two packers bidding for hogs. Some producers now control substantial shares of the live hog supply. But none of those mean that market power is being exerted on hog or pork prices.

The key is whether sufficient competitive pressure exists to make the fewer packers and fewer producers behave in a manner that approaches competitive norms and yields competitive prices and quantities. This can only be measured by looking at actual transactions to determine how firms act and what the results of those actions are.

The recent GIPSA Livestock and Meat Marketing Study did just that. Instead of looking at changes in ownership and market shares over time, the study examined transactions and looked at conduct and performance. We now need to step back and consider the methods and results of that research and, perhaps, ask and answer additional questions about those results.

This type of research is costly and time-consuming and thus hasn't been done often. It has been 10 years since GIPSA's previous such effort, and that time span is, we believe, too long. We ask that Congress consider an ongoing level of trend research. We believe doing so would provide much more timely information for policy decisions and possibly reduce the long-term cost of the research and data acquisition by making both more "standard operating procedure" instead of requiring specialized actions.

One particular need is for standardized data reporting if this type of study is going to be done in the future. Companies should be free to use any kind of internal accounting they wish, but if researchers are to make sense of these markets, it would help if the data generated by those systems were at least reasonably comparable. Other government agencies, most notably the SEC, require some level of standardized financial reporting. The livestock sector already has mandatory price reporting. If this type of research is to be conducted, GIPSA should require line-of-business financial reporting by meat companies to provide accurate, usable data from which to derive meaningful results.

DO NOT USE A POLICY BROAD BRUSH FOR ALL SPECIES

One of our consistent requests has been to avoid "one-size-fits-all" approaches and to address the separate species as the unique businesses they are. There is some thought found in pending legislation that takes aim at contractual issues in other industries. If those problems exist, by all means fix them. But we do not support applying those solutions to the pork industry when these contractual issues are not readily apparent in our industry.

FULLY CONSIDER UNINTENDED CONSEQUENCES

Virtually any well-intended public-policy action has unintended consequences, and part of the art of public-policy is balancing the costs and benefits of any public-policy proposal. In the area of

competition and industry structure issues, there are a number of proposals that will have an adverse impact on pork producers.

As an example, consider the idea of requiring packers to buy at least 25 percent of their hog supplies on the spot market or through negotiated sales. First, the GIPSA Livestock and Meat Marketing Study came to the clear conclusion that such a requirement would make producers and consumers worse off and would leave packers not better off. The study shows that nobody wins from restrictions on the use of alternative marketing arrangements – non-negotiated trades.

The practical implications of such a requirement are daunting as well. Would the 25 percent be measured daily? Weekly? Would producers be required to sell 25 percent of their hogs through negotiated trades to provide the 25 percent that packers are required to buy through negotiated trades? If not, and since only 11 percent of all hogs are sold through negotiated trades now, which producers would have their contracts terminated to force their hogs into negotiated trades? And what happens when those contracts are terminated? Would the financing that was contingent on those contracts be withdrawn by risk-averse lenders?

While it is probably never possible to consider all unintended consequences, it would be foolish to ignore those that can be readily identified. We ask Congress take time to identify and consider them.

RECOGNIZE THAT OUR INDUSTRY STILL FACES GREAT CHALLENGES

The U.S. pork industry does not need more to worry about at the present time. Our producers and packers have been profitable in a very competitive meat sector. Domestic pork sales are good, and our export business is growing rapidly, and given trends in world populations and economic performance, we believe this growth will continue.

But we face many challenges. Corn prices driven by subsidized ethanol production are the most immediate threat to the economic viability of pork producers. Production costs have increased by roughly \$10 per hundred pounds since just last fall. The impending mandatory country of origin labeling law promises more costs, especially for producers who import feeder pigs from Canada. The specter of animal rights-driven legislation dictating on-farm production practices hangs over us all. Not

only does it threaten to add another layer of costs, but it will most assuredly drive some livestock production from U.S. soil. Finally, environmental regulations are increasingly stringent and impose costs that are almost universally better-handled by large operations thus putting our smaller members at a competitive disadvantage.

Anything that Congress does must be beneficial to this industry as a whole. Punitive actions against packers do not necessarily benefit pork producers in the long run unless the packer in question is very clearly in the wrong. We have seen no evidence of that kind of behavior at this point, and Congress must proceed with caution, weighing the costs and benefits of such important public-policy decisions.

The entire pork industry chain must work together for us to remain competitive in the global marketplace – and this means producers, packers and retailers.

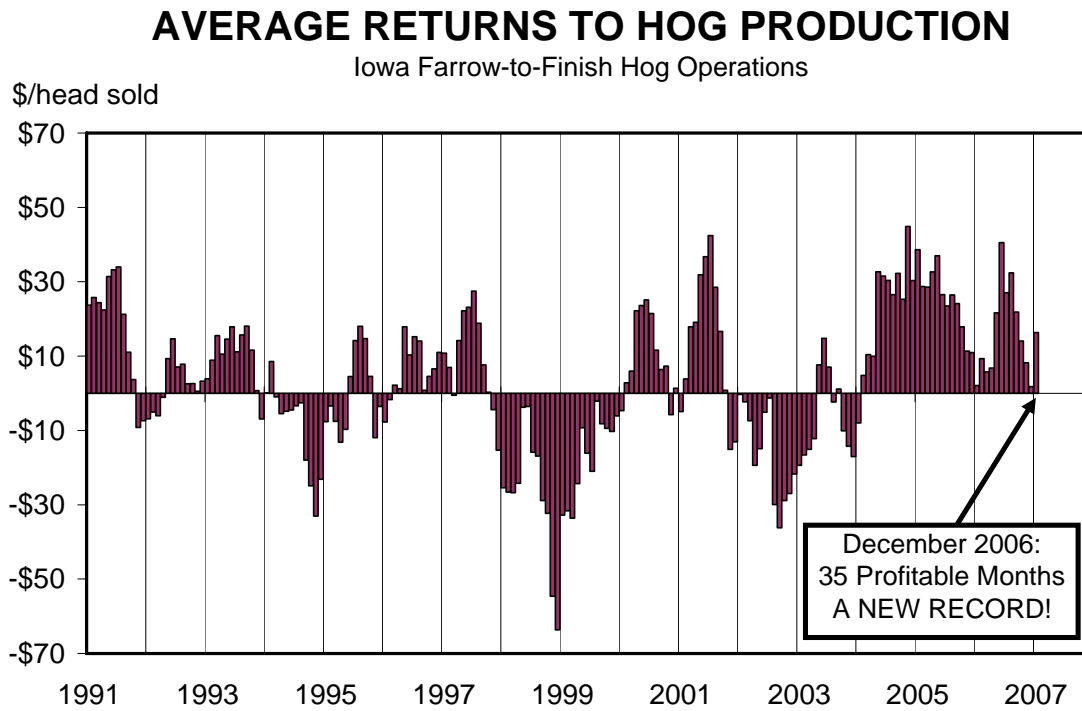
CONCLUSION

We hear a few pork producers and several lawmakers frequently claim that “the system is broken and the market is not working!” When we ask what aspect of the market is not working or how the system is broken, though, we get vague answers. It is as though we respond “Why?” to a concern and receive an exasperated “Because!” in reply. Such an answer provides no help to us in solving the problem. It doesn’t even clearly identify the problem.

In this regard, we are reminded of Alice in Wonderland and the Cheshire Cat. When Alice asks “Which road do I take?” the cat wisely replies, “That depends a good deal on where you want to get to.” Alice’s response of “I don’t much care where” elicits an even wiser response from the smiling cat: “Then I guess it really doesn’t matter ... which road you take.”

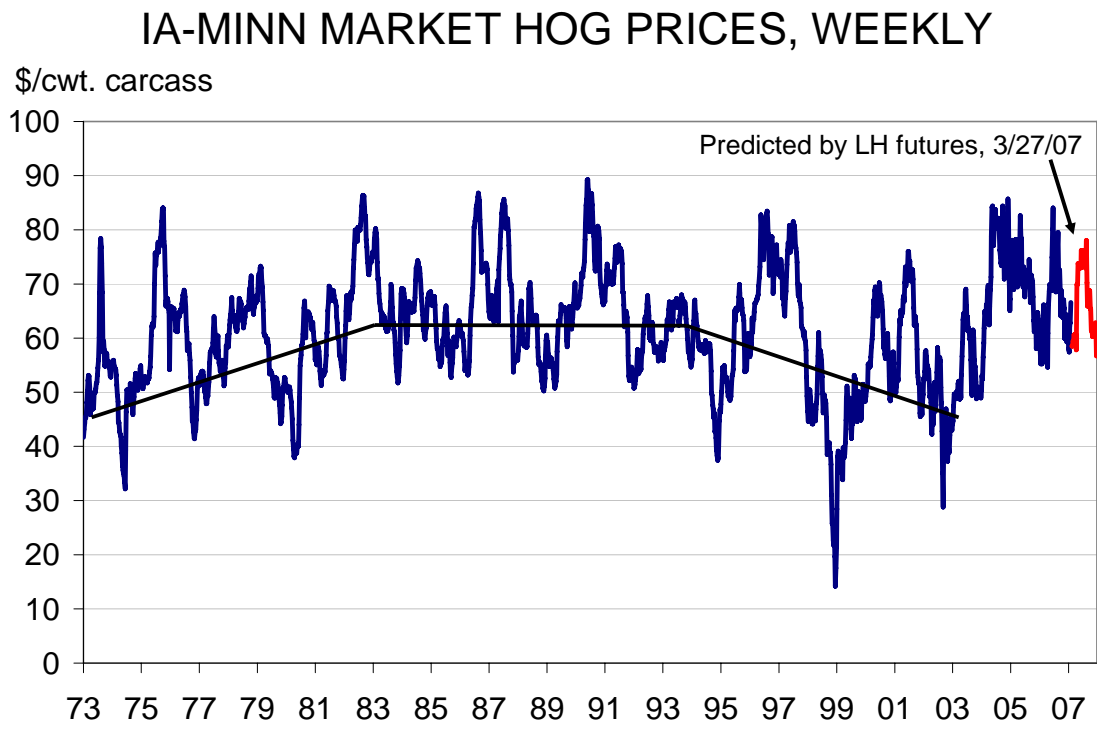
It is imperative that Congress and the pork industry reach a common understanding of where we want to go before we begin choosing roads. When that choice is clearly made, we must then decide which road gets us to the chosen destination at the least cost and in a manner that provides the greatest value to our customers. We believe the time is right for contemplation and collaboration, and we stand ready to fully participate in that process.

Figure 1



Source: John D. Lawrence, Iowa State University, Department of Economics.

Figure 2



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: Joy M. Philippi
Address: 2334 Hwy 81 Bruning, NE 68322
Telephone: 402-353-6365
Organization you represent (if any): National Pork Producers 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: From USDA to National Pork Producers Council / National Pork Board Amount: \$400,000
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: _____ Amount: _____
Source: _____ Amount: _____

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

Signature: Joy M. Philippi

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

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

Committee on Agriculture
U.S. House of Representatives
Information Required From 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: Joy M. Philippi

2. Business Address: _____

3. Business Phone Number: _____

4. Organization you represent: National Pork Producers Council

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

Row Crop Farmer & Pork Producer
Farmer Employee of Grain Elevator in
Bruning Nebraska working in areas of
marketing of grains

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:

Immediate Past President of NPPC
Co-Chair NPPC Farm Bill Task Force,
Chair Working group on Fuels & Ethanol &
livestock.

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