Testimony of Joel Brandenberger
President
on Behalf of
The National Turkey Federation
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Good morning, Chairman Tipton, Ranking Member Critz and members of the committee. My name is Joel Brandenberger, president of the National Turkey Federation (NTF). NTF is the national advocate for all segments of the $14 billion turkey industry, providing services and conducting activities that increase demand for its members' products by protecting and enhancing their ability to profitably provide wholesome, high-quality, nutritious products. We represent integrators, slaughter operators, processors and growers. There is no one size fits all model in the industry, but regardless of the model we all understand the essential importance that grower relationships play in our industry. We have family-owned companies, grower-owned cooperatives, and large, agriculturally diversified international companies that all play a critical role in determining NTF policy from the general membership all the way up to our Executive Committee. I want to thank the committee for inviting me to visit for a few minutes about this important topic and its likely devastating impact on the industry should regulations be implemented as currently written by USDA.

I have worked for the federation for more than 20 years and have witnessed many changes in that time – the ups and downs of a global industry as it has matured into the fully integrated model that we see today. According to the Small Business Administration (SBA) definition, integrators, slaughtering operations and processors are small if they have less than 500 employees. For producers or growers the size standard is gross revenue of under $750,000. According to the 2007 Census of Agriculture there are approximately 8,284 farms in the United States averaging 35,707 turkeys with gross farm receipts of $476,943 per farm. Additionally, 10 of the 25 turkey processors fit into the SBA definition. It should also be noted that a large percentage of turkey farmers consider this their full time job and employ a staff of anywhere from 200 people to 250 people, and are part owners in one of the seven cooperatives that produce high quality turkey meat products. Many of these farm operations should appropriately be considered small businesses themselves when examining the rule’s impact.

I recognize what USDA's Grain Inspection, and Stockyard Administration (GIPSA) was trying to accomplish when it proposed these rules; however I fear that these rules, if implemented as proposed, will ultimately only hurt those they were intending to help.

Structure of Today's 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, which raises 270 million turkeys per year.

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 health services necessary to raise the bird to maturity. 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 or small business operator owns the turkeys throughout their life cycle and provides the feed and health services, 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 health services; it also provides the housing and employ growers to oversee the production.

Some companies exclusively use one model or another, but they all have a unique system that allows them to market their products, which will potentially allow for growth and expansion that hopefully leads to job creation. For example, we had a member testify last week at a Senate Agriculture Committee hearing about their co-op of 16 turkey growers who have a production plan that is periodically reviewed by a board of members. In this arrangement, that board establishes the quantity of turkeys raised and an agreed upon pricing model that allow for appropriate production levels to maximize the co-op's ability to remain profitable during various industry cycles.

It is also common in the industry 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.

As mentioned earlier, many of these growers run small business operations that require creative expansion outside their business model. The current rules would certainly have a dampening effect over a small business owner's willingness to go outside the current structure to continue to grow.

Last summer, GIPSA officials said 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 livestock and poultry under contract.

Many of you 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 livestock and poultry processors. The second is the provision that requires processors to virtually guarantee growers 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 livestock and poultry in their care.

Taken together these provisions create significant new legal and regulatory risk for the livestock and poultry processors. Within the turkey industry about 80 percent of all birds are raised 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 those small farmers that are doing an outstanding job and receiving premiums will justifiably feel cheated as a new regulation forces everyone down to a lower common denominator. This rule put no incentive in small farmers that want to continue to grow in an ever changing market place.

The bigger impact will come in the long term, though. The rule creates greater economic and regulatory risk for the processors who raise livestock and poultry under production contracts. These processors will have to find ways to minimize that risk, and since 80 percent of all turkeys and a large majority of other livestock 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 livestock and poultry. 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 marketplace. Another realistic option would be for more processors to raise livestock and poutlry on company-owned farms. Right now such farms make up only 10 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 NTF found an impact of more than $360 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 five years. Industry analysis of the regulation concluded that it likely will have a chilling effect on innovation and flexibility, leading to a race toward mediocrity. It will create legal uncertainty that will drive costs higher and cause an increase in vertical integration in the livestock and poultry sector, driving producers out of the business and possibly affecting supplies. 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 by $14 billion.

USDA now has agreed to conduct an economic assessment, and that is a positive development. Still, no one at the department has committed to submitting the study for public comment before finalizing the rule. It should be noted, that the USDA's chief economist stated, just last week, that the rule met the requirements for an economic significant rule, but the agency still has not sent the study to Congress for a review, as required. This is an essential step if there is to be any level of confidence that the final rule truly has the interests of small family farmers and businesses at heart.

This concludes my testimony. Thank you again for the opportunity to discuss the impact of the proposed GIPSA rules on the turkey industry. I will be happy to answer any questions.