Approved: 2/28/94
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairperson Bob Mead at 3:30 p.m.. on February 22, 1994 in Room 423-S of the Capitol.

All members were present except:
Representative George Dean, excused

Committee staff present: Lynne Holt, Legislative Research Department
Bob Nugent, Revisor of Statutes
Ellie Luthye, Committee Secretary

Conferees appearing before the committee:
Scott McGinley, West Plains Energy
Rick Hoffman, Seaboard Corporation
Mike Jensen, Kansas Pork Producers Council
Warren Parker, Kansas Farm Bureau
Rich McKee, Kansas Livestock Association
Marty Vanier, Kansas Agricultural Alliance
Blake Waters, Vice President, Agricultural Loans, Bank IV, Liberal, Kansas
Ann Harrison, Seward County Commissioner, Liberal, Kansas
Rich Olson, City Manager, Liberal, Kansas
Jack Taylor, Executive Vice President, Liberal Chamber of Commerce
Tim Fowler, West Plains Energy
Don Honig
Raye Sprague, Secretary, Kansas Swine Growers Association
Dan Nagengast, Kansas Rural Center
Ivan Wyatt, Farmers Union
Lloyd Helwig
Bryan Harris
Daryl Holley - National Farm Organization

Others attending: See attached list

Chairman Mead opened hearings on SB 554, allowing swine production facilities to be established in Kansas, and called on the proponents to give their testimony.

The first conferee was Scott McGinley, West Plains Energy. He stated legislation which would allow corporations to engage in the business of producing and exporting pork products in Kansas would create new jobs and economic expansion in the Kansas agriculture sector. He urged support of SB 554. (Attachment 1)

Rick Hoffman, Seaboard Corporation, told the committee Seaboard is a diversified international agribusiness and transportation company with corporate offices located in Merriam, Kansas and is in the process of building a pork processing plant in the panhandle of Oklahoma. He emphasized, with the passage of SB 554, Seaboard was expecting to sign a contract encompassing a capital investment exceeding $230 million to be located in Kansas. If the law does not allow this investment in Kansas, the facilities will be located in Texas. He concluded that as a corporate citizen of Kansas, it is his hope this legislation will become law for the benefit of economic development in the rural areas of Kansas. (Attachment 2)

Mike Jensen,Kansas Pork Producers Council, gave testimony for Sharon Schwartz, President of the Kansas Pork Producers Council. They encouraged passage of SB 554 which would place Kansas on a competitive level with states that respect the swine industry for the business it is. He stated pork producers need two tools to meet the challenges of the future; 1) unrestricted ability to use the corporate form of business structure for swine production and 2) the ability to engage in a partnership through production contracts without the

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

intervention of government. (Attachment 3)

The next conferee was Warren Parker, Assistant Director of Public Affairs of the Kansas Farm Bureau. He stated the Farm Bureau supports this legislation which they feel will mean more jobs, an expanded tax base, higher grain prices, improved livestock markets, new capital for agriculture and additional opportunities for farm families in Kansas. (Attachment 4)

Rich McKee, Executive Secretary, Kansas Livestock Association, told the committee KLA represents a broad range of farmers and ranchers across Kansas who are involved in every phase of red meat production - beef, pork and lamb and in addition, most KLA members produce grain, hay and other feedstuffs and over the past two decades the association has overwhelmingly approved a position endorsing liberalization of the laws which restrict corporate farming. (Attachment 5)

The Kansas Agricultural Alliance was represented by Marty Vanier. She stated the Alliance is a coalition of 29 agribusiness organizations that spans the entire spectrum of Kansas agriculture, including crop, livestock and horticultural production, input suppliers and allied industries and professions and this Alliance supports the relaxation of restrictions against corporate activity in swine production embodied in SB 554. (Attachment 6)

Blake Waters, Bank IV, Liberal, endorsed changes in the current corporate ownership and vertical integration restrictions pertaining to swine, stating the restrictions have negatively impacted the southwest area of the state with DeKalb Swine Breeders, Inc. moving a significant part of their operation to Oklahoma and Seaboard Corporation constructing a new pork processing facility in Guymon, Oklahoma. He concluded the proposed changes is critical for the prosperity of Kansas agriculture. (Attachment 7)

Ann Harrison, Seward County Commissioner, stated bankers, farmers, small and large businessmen, school board members and the elected officials in Seward County overwhelmingly support corporate hog farming in western Kansas. She told the committee a recent task force for the Governor's Forum on Rural Kansas discovered 3 of the weaknesses of rural Kansas that they believe may be hindering the achievement of a successful future for Kansas: 1) slow employment growth statewide 2) laws prohibiting corporate farming and 3) resistance to change. She stated SB 554 would answer those concerns in a very positive way. (Attachment 8)

The City Manager of Liberal, Rich Olson, requested passage of SB 554 which will afford Southwest Kansas the opportunity to partake in one of the fastest growing ag related markets and if the House fails to pass this bill it will not mean that the small family owned farms will be saved but that many will be forced out of business. (Attachment 9)

Jack Taylor, Executive Vice President, Liberal Chamber of Commerce, encouraged and supported passage of SB 554. He told the committee there had been an economic downturn in southwest Kansas due to the decrease in the number of oil and gas related jobs and this downturn could be significantly helped with the passage of this bill which would allow new business to come to Kansas and provide new jobs and strengthen the economy. (Attachment 10)

Tim Fowler spoke to the committee on behalf of West Plains Energy, The Joint Economic Development Council of Liberal and as a citizen of southwest Kansas. He stated without passage of SB 554, Kansas will have lost the opportunity to compete with other states and someone else will reap the profits and economic well being and all that will be left in southwest Kansas will be ghost towns of the past. (Attachment 11)

The Chair next called on those conferees who were opposed to SB 554.

Don Honig, Onaga, told the committee vertical integration tends to eliminate competition by simply closing out market access to outside bidders. He urged the committee to reject SB 554 and concluded the best economic development that could be envisioned for the small towns of Kansas would be to have Seaboard, Inc. set up buying stations across the state and bid competitively for independently grown hogs. (Attachment 12)

Raye Sprague spoke on behalf of the Kansas Swine Growers Association asking the committee if passage of SB 554 is the best way to benefit all the producers in the state or is the legislation something that will only benefit a few who have the resources to expand or build new facilities. She also called attention to several articles published regarding corporate hog farming operations. (Attachment 13)

Dan Nagengast, Kansas Rural Center, stated the Center is a private, non-profit organization which is committed to economically viable, environmentally sound and socially sustainable rural culture. It was the feeling of the Center that ending restriction on corporate ownership of hogs and production facilities would mean the end of independent family farms and the loss of thousands of livelihoods and stated the Center is opposed to any easing of these restrictions. (Attachment 14)

The Farmers Union was represented by Ivan W. Wyatt who told the committee in cases of economic development you build from your strength and in this case the strength is the ability to produce large amounts of raw agricultural commodities for added value processing and marketing. He concluded the bottom line of the entire issue was how rural communities survive in a world of free trade dominated by transnational corporations. (Attachment 15)

Lloyd Helwig of Columbus presented testimony which discussed the contract being offered by Seaboard and how it would impact his income over a two year period. He asked opposition to SB 554 and asked the committee to help keep the family farmer and work with him, and not the corporation, which will make Kansas better - not worse. Attachment 16)

Bryan Harris told the committee the private producers want to expand but they need to make a profit. He stated the key for expansion was to utilize feed suppliers, utilize veteran producers and to utilize grain elevators. He asked the committee to let SB 554 die in committee if they could not guarantee this.

Daryl Holley, National Farm Organization, told the committee the definition of a family farm was one whose ownership has substantial involvement in the daily operation and on-site management of the operation. He said the need was for vertical coordination and not vertical integration.

Written testimony was distributed from William Craven, Kansas Sierra Club and from the Kansas Grain and Feed Association. (Attachments 17 and 18)

Following questions from the committee to the conferees, Chairman Mead closed hearings on SB 554.

The meeting adjourned at 5:45 p.m.

The next meeting is scheduled for February 23, 1994.

GUEST LIST

COMMITTEE: Economic Development DATE: 2-22-94

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Russ Frey	Topeka	KVMA
Rodney Orrell	Overland Park Ks	Seaboard
Mike Jensen	Manhattan	KPPC
STEVE LLOYD	CLAY CENTER	Leg.
Marty Vanier	Manhattan	KAA
JIM WALKER	MERRIAM, KS	SEABOARD
Charles Ruckman	Topeka	KS. Ag stat.
Don Dailey	Erie, Ks	KSGA
Lloyd Helwig	Columbus Ks	KSGA
Don Honig	Rt 1 Box 158 Onaga	Hog farmer
John Rempe	Corning Ks	KSGA
Carole Mead	Pawnee Rock	leg.
David M. Becker	Merriam, KS	Seaboard Corp.
David Winton	Merriam KS	Seaboard Corp.
RICK HOFFMAN	" "	"
Jim Allen	Topeka	Seaboard
Dennis L. Lacy	Miami Co.	KSGA VP
Don W. Hain	Crawford Co	NFO
Raye Sprague	Allen Co.	KSGA
Max Sprague	allen Co.	KSGA
Dan Wagenseil	Douglas Co.	KRC
Bill Fuller	Manhattan	KFB
Scott McGinley	Great Bend Ks	West Plains Energy
T. W. Fowler	Liberal, KS	West Plains Energy & Liberal
John Dvorak		K C Star
BLAKE WATERS	LIBERAL, KS	Bank IV

GUEST LIST

COMMITTEE: ______________________ DATE: ______________________

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Rich Olson	Liberal KS	City of Liberal
Dee Chandler	Liberal KS	City of Liberal
Libby Quaid		AP
Jack Taylor	Liberal, Ks.	Lib. Chamber of Comm.
Ann Harrison	Liberal Ks	County Comm, Seward
Willynda Holmes	Liberal, Ks	Leg.

WestPlains Energy

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

TESTIMONY IN SUPPORT OF SENATE BILL 554

Mr. Chairman and members of the committee:

Thank you for allowing me the opportunity to speak to you today. My comments will be brief.

My name is Scott McGinley and I am Manager of Economic Development for WestPlains Energy.

WestPlains Energy, a division of UtiliCorp United, Inc., provides electric service to more than 138,000 customers in 122 communities in Kansas and 33 communities in Colorado. The larger communities served in Kansas include Dodge City, Liberal, Great Bend and Concordia. In Kansas, WestPlains works closely with two other UtiliCorp divisions, Peoples Natural Gas and Kansas Public Service by pooling resources, in order to maximize efficiencies and quality of service.

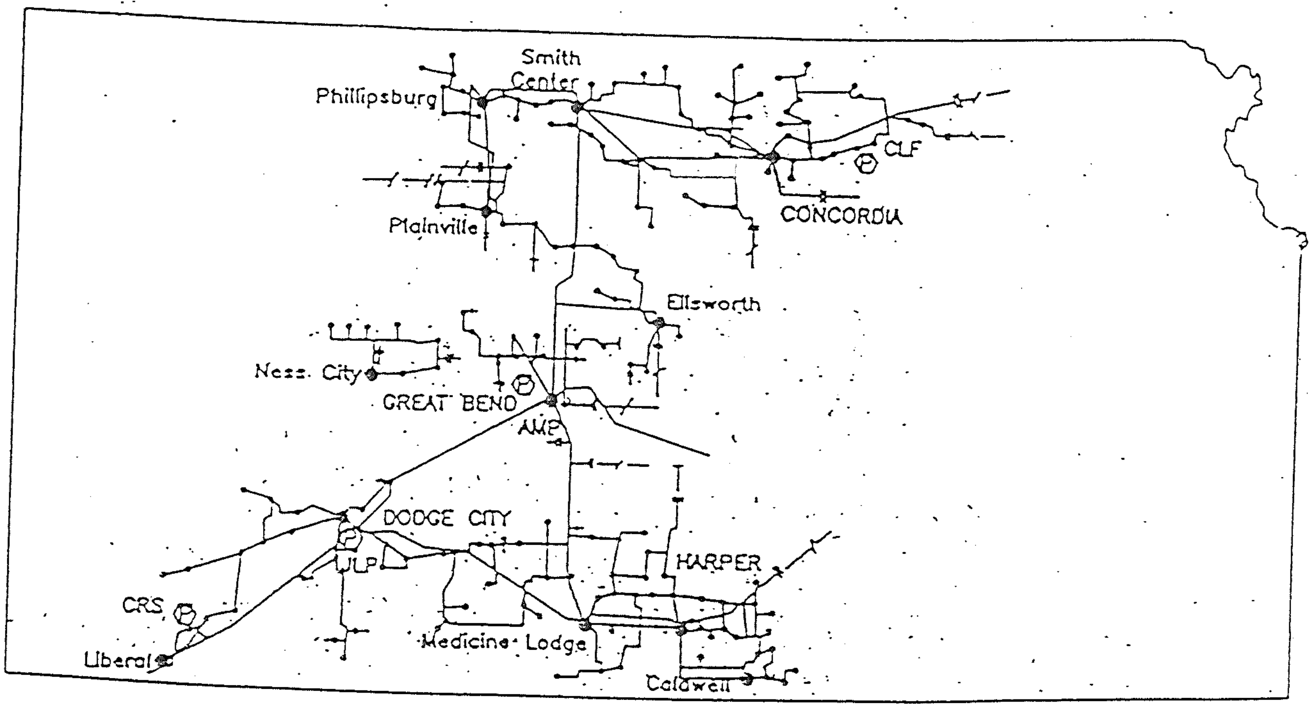
Utilicorp United and it's divisions support legislation that allows corporations to engage in the business of producing and exporting pork products in Kansas. This change will cause the creation of new jobs and economic expansion in the Kansas agriculture sector. Corporations are asking to expand into Kansas but are being forced to locate in neighboring states due to Kansas restrictions.

Senate bill 554 will allow new economic expansion in Kansas that will create jobs for our citizens and strengthen our base economy of agriculture.

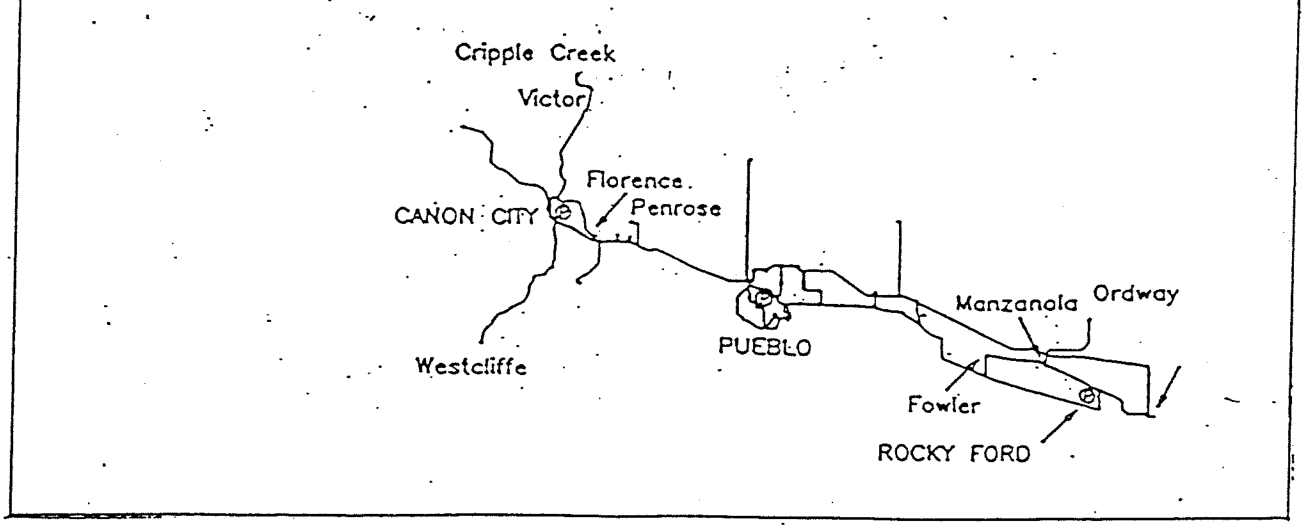
Thank you.

Economic Development
February 22, 1994
Attachment 1

WESTPLA..S ENERGY–KANSAS SERVICE AREA



WESTPLAINS ENERGY COLORADO SERVICE AREA



SEABOARD
CORPORATION

Senate Bill No. 554--Agricultural Corporations--Swine Production

Testimony by Rick Hoffman, Vice President - Finance
Seaboard Corporation

To: The Honorable Chairman Mead and
Members of the House Economic Development Committee

Introduction

The House Economic Development Committee is the perfect place to consider Senate Bill No. 554. I have met with a number of Governors, including Governor Edwards in Louisiana, Governor Walters in Oklahoma, Former Governor Wilkerson in Kentucky, and Governor Carlson in Minnesota, and throughout the country everywhere we go, the states are talking about economic development. The passage of Senate Bill No. 554, this year, means a lot for economic development in Kansas.

Background

Seaboard Corporation is a diversified international agribusiness and transportation company with corporate offices located in Merriam, Kansas.

Our company is currently building a pork processing plant in the panhandle of Oklahoma, capable of processing two million hogs per year on a single-shift basis, four million hogs per year operating a double-shift. This plant is expected to commence operation in 1995.

Historically, for a number of reasons, hog production and processing have been heavily concentrated in the upper Midwest (e.g. Iowa, Nebraska, Minnesota, Illinois, etc.) (see attached map showing the location of hog processing facilities).

Presently, there is not an adequate supply of hogs in the area directly surrounding our new plant to operate it economically at full capacity. Kansas, Oklahoma, Colorado and Texas do not appear on a list of top hog producing states. (See attachment showing top hog production states.)

Economic Development
February 22, 1994
Attachment 2

9000 West 67th Street • P.O. Box 2972 • Shawnee Mission, Kansas 66201 • PHONE: 913-676-8800 / FAX: 913-676-8872 · TELEX: 209513 SAMC UR

Why Kansas?

Seaboard believes that an area in the southwestern U.S., including the panhandle of Texas, Oklahoma, eastern Colorado and western Kansas is ideal for hog production and processing. The climate, including low rainfall and low humidity, is favorable for hog production. Low rainfall plus deep groundwater and an abundance of unpopulated land and irrigated crops minimizes the environmental concerns sometimes associated with hog production. Plus, the area has a sufficient supply of corn and milo needed for hog feed. The location is strategically well suited for exports to Mexico and Japan.

Economic Development

We believe the Kansas corporate farming laws are artificially restricting pork production in the state of Kansas and, as a result, Kansas presently has declining hog numbers and no pork processing plants. This has led to a significant loss of economic development in the state of Kansas. An aggregate capital investment of approximately \$300 - \$400 million will be expended on new facilities during the next 4 to 5 years to produce the hogs that are needed by our plant.

This capital investment and the hogs for the processing plant will come from several sources.

1. Open market hogs. Seaboard hopes to buy a large portion of the hogs in the open market from individual producers.

2. Contractual arrangements and purchase agreements with producers.
Contracts will be signed with individuals and/or corporations. They will be for farrowing, finishing and farrow to finish. And they will be on a market basis, cost plus and/or fee arrangement. (See attachment regarding grow/finish contract.)

3. Company-owned facilities. Seaboard itself intends to invest capital to produce approximately 25% of the hogs needed to operate the processing plant at full capacity.

Construction of some of the company-owned facilities and some facilities for contract hogs has already commenced in Colorado and Oklahoma.

In order to produce the hogs that are necessary when our processing operations begin in 1995, it is necessary that all construction of production facilities commence as soon as possible. Present laws in Kansas would prohibit much of the investment in hog production facilities. If present Kansas laws are not changed, this investment will be lost to the states of Oklahoma, Colorado and Texas, which do not have corporate farming restrictions.

Seaboard believes that the enactment of Senate Bill No. 554 will create a significant economic stimulus for the state of Kansas. To be specific, I can tell you now, that if Senate Bill No. 554 passes, we expect to sign a contract encompassing a capital investment exceeding \$230 million, to be located in Kansas. If the law does not allow this investment in Kansas, we expect these facilities to be located in Texas.

In addition to the direct investment in facilities, removal of the state laws prohibiting corporate farming would result in better returns for Kansas grain farmers and the creation of new jobs, not to mention the benefit to the construction industry and the indirect multiplier impact on jobs and investment.

Mr. Chairman, we are satisfied in that Senate Bill No. 554 would allow us to make capital investments and own hogs in Kansas. However, we are hopeful that the provision allowing the filing of a protest petition by September 1st can be modified. We are hopeful that the bill can become effective by April 1st and allow a protest petition to be filed within sixty days or June 1st. Otherwise, with the bill in its current form, we will lose the 1994 construction season.

Finally, the proposed legislation specifically prohibits the issuance of revenue bonds for hog production facilities and prohibits cities and counties from granting any exemptions from ad valorem taxes with respect to any hog production facilities on agricultural land owned or operated by a corporation. We have no problem with these provisions.

As a corporate citizen of the state of Kansas, we hope that this legislation will become law for the benefit of economic development in the rural areas of Kansas.

Thank you for your time.

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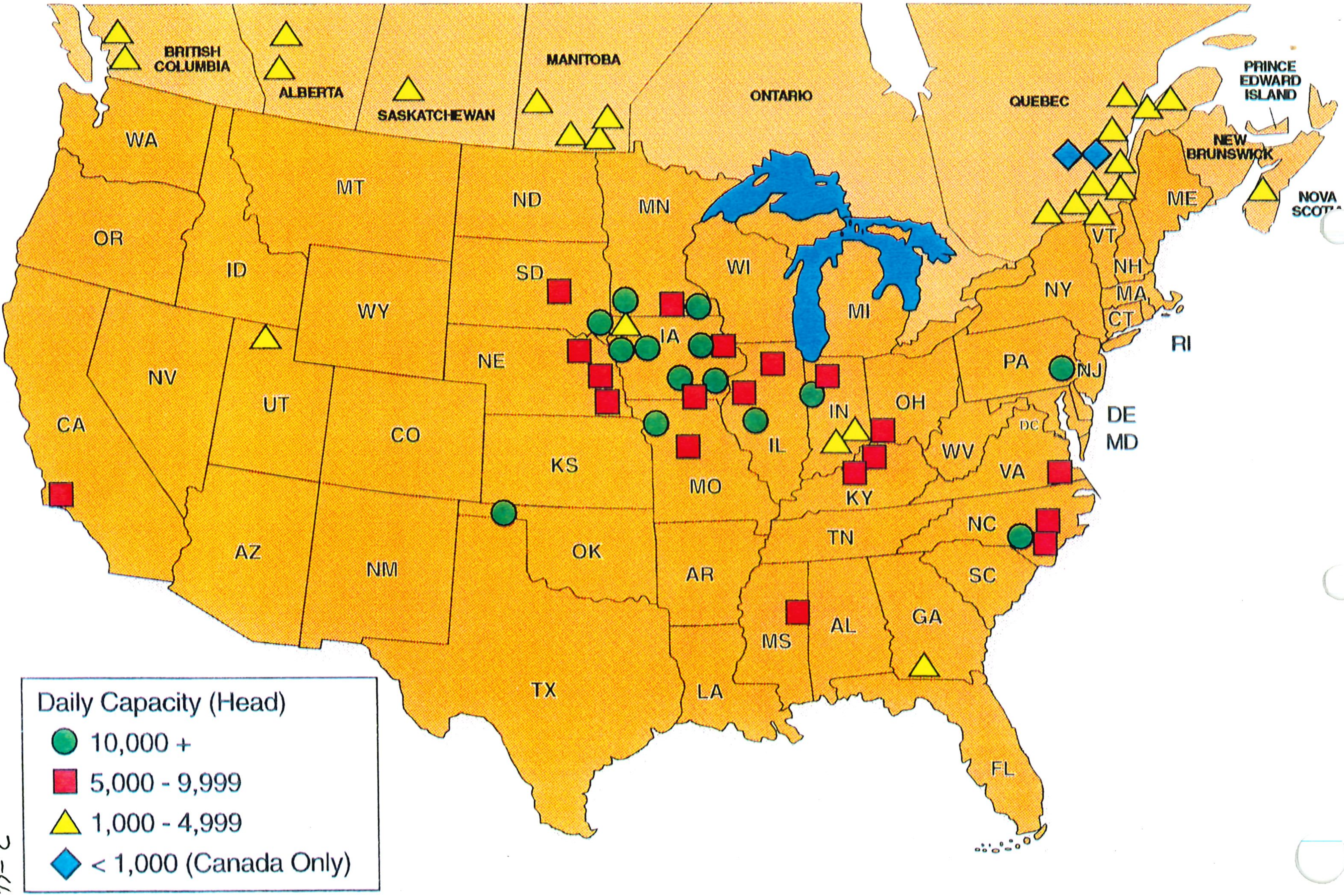
U.S. AND CANADIAN HOG SLAUGHTER FACILITIES



2-4

TOP HOG PRODUCING STATES
INVENTORY NUMBERS: BREEDING AND MARKET TOTAL
DECEMBER 1, 1993

		Inventories* @ 12-1-93	Projected Annual Marketings
1.	IOWA..................	14,600,000	26,280,000
2.	ILLINOIS.............	5,300,000	9,540,000
3.	NORTH CAROLINA.......	5,250,000	9,450,000
4.	MINNESOTA............	4,600,000	8,280,000
5.	NEBRASKA.............	4,250,000	7,650,000
6.	INDIANA..............	4,150,000	7,470,000
7.	MISSOURI.............	2,950,000	5,310,000
8.	SOUTH DAKOTA.........	1,750,000	3,150,000
9.	OHIO.................	1,630,000	2,934,000
10.	KANSAS...............	1,330,000	2,394,000

*Source: USDA Agricultural Statistic Board, NASS

SEABOARD GROW FINISH CONTRACT
PRODUCER EXAMPLE

Cash	$1,883
Cash Value of Life Insurance	4,100
Transportation Equipment	25,000
Mobile Home	29,000
Personal Property	10,000
Farm Partnership Equity	149,466
Other Assets	66,835

Total Assets	$286,284
Total Liabilities	0
Net Worth	$286,284

Producer Grow Finish Contract Summary

* 7 Building Grow Finish Complex
* 100% loan financing for 10 years @ 7%

	Years 1 – 10	Years 10 – 20	Total
CUMMULATIVE CASH FLOW	$625,480	$1,897,230	$2,522,710
CUMMULATIVE BEFORE TAX EARNINGS	$1,202,331	$1,093,380	$2,295,711

KANSAS PORK PRODUCERS COUNCIL
KPPC
Serving Since 1956

Testimony by Sharon Schwartz
President of the Kansas Pork Producers Council

My name is Sharon Schwartz. I am a pork producer from Washington, Kansas. It is my pleasure to testify before you today on behalf of the members of the Kansas Pork Producers Council. Our statewide membership represents the majority of the hog production base in Kansas.

We support the principles outlined in Senate Bill 554. Specifically, the opportunity of swine producers in Kansas to utilize the corporate form of business structure as well as the ability of Kansas producers to take advantage of production contracts.

We have spoken on numerous occasions concerning the decline of the Kansas swine industry and I will not dwell on that point. The effect of 13 years of "protectionist" legislation for the Kansas producer has spoken for me. In addition, our efforts in 1988 which resulted in the prohibition of processors from contracting did not result in a nationwide groundswell of change, but rather a further decline in both our processing and production capacity. In fact, we now have not only the most stringent of anti-processor\contractor laws; but also, one of the most dramatic declines of hog production among the major hog-producing states.

Today, I encourage you to pass this legislation which places Kansas on a competitive level with states that respect the swine industry for the business that it is. Specifically, pork producers need two tools to meet the challenges of the future. The first is the unrestricted ability to use the corporate form of business structure for swine production. We must also have the ability to engage in a partnership through production contracts with whomever we choose, without the intervention of government.

We appreciate your work on this matter and hope that once and for all we can do something positive for Kansas, the pork industry and rural Kansans.

Economic Development
February 22, 1994
Attachment 3

2601 Farm Bureau Road • Manhattan, Kansas 66502 • 913/776-0442 • FAX 913/776-9897

Kansas Farm Bureau

PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

Re: S.B. 554 - Amending the Corporate Farming Law

February 22, 1994
Topeka, Kansas

Presented by:
Warren Parker, Assistant Director
Public Affairs Division
Kansas Farm Bureau

Mr. Chairman and members of the Committee:

My name is Warren Parker. I am the Assistant Director of the Public Affairs Division of Kansas Farm Bureau. We appreciate this opportunity to testify on S.B. 554 today.

The farm and ranch members of Farm Bureau recognize the need to expand the Corporate Farm Law to include pork production. Allowing corporate pork production will be good for the state of Kansas and good for Kansas agriculture. Some of the benefits will be more jobs, an expanded tax base, higher grain prices, improved livestock markets, new capital for agriculture and additional opportunities for farm families.

Farm Bureau support for corporate swine production is based on policy adopted by the 426 Voting Delegates representing the 105 County Farm Bureau's at the 75th Annual Meeting of KFB in Wichita last November. That policy position is attached to this testimony.

The policy does not contain a provision for a county option which exists in S.B. 554. We believe S.B. 554 should be amended to apply uniformly across the state. The cornerstone of Farm Bureau's support of corporate pork production is the enhancement of opportunities for farm families who are now raising swine in Kansas. We want to assure that the independent pork producer has the opportunity to contract

Economic Development
February 22, 1994
Attachment 4

:h new corporate entities in the production of hogs. Perha safeguards should be added to the legislation. At least there should be some assurances by the corporate entities. We also believe assisting independent producers with marketing strategies could become an important function of the Marketing Division of the Department of Agriculture.

Corporate entities for the production of pork must not be allowed any economic incentives or tax advantages which are not available to family farmers. A level playing field remains crucial to Farm Bureau support.

Mr. Chairman and members of the Committee, I will close by summarizing a few points:

1. Farm Bureau supports corporate pork production in Kansas.
2. We insist that a level playing field be maintained.
3. We believe the bill should have statewide application.
4. We believe there must be opportunities for existing pork producers.

Thank you for your time. I would be happy to attempt to answer any questions.

Farm Bureau Policy

Corporate Farm Law **AG - 10**

Kansas needs to be responsive and innovative in capital formation for agriculture and economic development in agriculture. We support changes in the Kansas Corporate Farm Law that will enhance economic opportunities for farm families, and for growth and expansion of grain and livestock operations.

We support expansion of the Kansas Corporate Farm law to include corporate dairy and swine production, provided such expansion, amendment or change of law does not give economic incentives or tax advantages to corporate entities which are not available to family farmers.

Kansas Livestock Association

6031 S.W. 37th Street • Topeka, Kansas 66614-5128 • Telephone: (913) 273-5115
FAX: (913) 273-3399
Owns and Publishes The Kansas STOCKMAN magazine and KLA News & Market Report newsletter.

STATEMENT
OF THE
KANSAS LIVESTOCK ASSOCIATION
TO THE
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT
REPRESENTATIVE BOB MEAD, CHAIRMAN
WITH RESPECT TO
CORPORATE FARMING LAW
RE: SWINE PRODUCTION
SB 554
Presented by
RICH MCKEE
EXECUTIVE SECRETARY
FEEDLOT DIVISION
Tuesday, February 22, 1994

Mr. Chairman and members of the committee, I am Rich McKee representing the Kansas Livestock Association. As most of you already know, KLA represents a broad range of farmers and ranchers across Kansas who are involved in literally every phase of red meat production . . . beef, pork and lamb. In addition, most KLA members produce grain, hay and other feedstuffs.

Our association has taken a very active part in the legislative deliberations concerning corporate farming for many years. We appear today in support of broadening the ability of corporations to engage in swine production in Kansas.

Over the past two decades the entire corporate farm issue has been reviewed by our association numerous times. Each time our association has overwhelmingly approved a position endorsing liberalization of the laws which restrict corporate farming. Philosophically, our members have confidence in the ability of the marketplace and free enterprise system to act as the best regulator of participants in our industry. We realize that corporate farming frequently becomes very emotional for some individuals. However, we believe this issue should be considered strictly from a business point of view. Realistically, there is no special magic about corporations or reason to fear their involvement in agriculture. Corporations shouldn't be restricted any differently than individuals. If individuals have rights to engage in certain business ventures and assume any form of business structure they choose, why should corporations, which are only a group of individual owners, be restricted? They are only a collection of individuals who shouldn't lose those rights because of a particular business structure.

Economic Development
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attachment 5

We believe the swine industry in Kansas would benefit from allowing corporations to engage in swine production. Kansas is obviously lagging behind other areas of the country; at least partially due to our restrictions on corporations. As a result, other states have benefited from investments in swine production facilities that could have located in Kansas. Furthermore, if there is any hope of attracting pork packing and processing facilities to locate in Kansas, swine production must increase dramatically. It is simply a business reality that packing and processing facilities are compelled by strong economic forces to locate in the proximity of large supplies of hogs.

I'm reminded how fortunate we are that such corporate restrictions have not included the beef sector. We have a strong and viable beef industry in Kansas. It's benefited our farm and ranch families, stimulated economic development in many rural areas, and grown to be a major business for this state. I'm certain this growth would not have occurred if our law prohibited corporate involvement in the beef business.

Last year's testimony made one point which I feel is important to remember as you debate this issue. The Kansas legislature can have little impact on the future structure of the swine industry. You have heard about the trends for more integration, either contractual or complete ownership, in the swine industry. You have the ability to stifle any substantial growth of this industry within the borders of Kansas. If you choose to deny this corporate involvement, Kansas will most likely continue to loose market share and other states will benefit.

We realize there are groups and individuals who fear the entry of corporations into agriculture. There are those who, in their passion to preserve the "family farm" would like to "freeze" agriculture and isolate it from the natural evolutionary and economic forces which change all industries in our business system. We believe that would be a mistake. We realize change is uncomfortable for some, but to resist it instead of dealing with it in a realistic and rational way is tantamount to economic suicide, which is just about what's been happening to the swine production industry in Kansas.

KLA supports the efforts of the Kansas Pork Producers Council to modify the Kansas Corporate Farming Law as it relates to swine production in our state.

KANSAS AGRICULTURAL ALLIANCE

STATEMENT OF THE

KANSAS AGRICULTURAL ALLIANCE

BEFORE THE

HOUSE ECONOMIC DEVELOPMENT COMMITTEE

BOB MEAD, CHAIRMAN

REGARDING SB 554

FEBRUARY 22, 1994

The Kansas Agricultural Alliance (KAA), formerly known as the Committee of Kansas Farm Organizations, is a coalition of 29 agribusiness organizations that spans the entire spectrum of Kansas agriculture, including crop, livestock and horticultural production, input suppliers, allied industries and professions.

The Alliance supports the relaxation of restrictions against corporate activity in swine production embodied in SB 554.

A unique opportunity has presented itself to Kansas pork producers. One major pork processor is building a new processing plant that will have a major impact on the agricultural economy of southwest Kansas, while another processor surveys prospects in southeast Kansas. The new plant is located near southwest Kansas, in part, because pork production in Kansas has unused capacity and, therefore, the ability to expand.

To control costs and optimize production pork processors try to develop constantly available supplies of uniformly high-quality animals to process by engaging in various forms of production or contractual arrangements. The processor in southwest Kansas, in an attempt to maintain a constant supply of hogs into the plant, has stated that it will raise some of the hogs necessary and obtain the rest from Kansas pork producers.

KAA sees this opportunity as having several advantages for the Kansas pork industry and the Kansas economy:

1. Kansas pork production can expand
--current producers will be strengthened by the additional market and the competition that it will bring for their hogs
--additional producers will be needed to meet the demand. This

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February 22, 1994
attachment 6

Marty Vanier, DVM ◆ Legislative Agent
1728 Thomas Circle ◆ Manhattan, Kansas 66502 ◆ (913) 539-9506

will allow more young producers to remain in agriculture and stay on the farm.

2. Rural communities and economies will be strengthened by
--capital investment in new facilities, either corporate or private
--more farm families remaining in the community and supporting the community economy by buying goods and services.
--increased employment on farms, in farm-related businesses and in the community at large.
--increased sales benefitting input suppliers and grain farmers
--an expanding tax base

3. Environment will be protected
--facilities with over 300 head must have a permit and be inspected by KDHE. The larger the facility the stricter the standards that must be met.

The members of the Kansas Agricultural Alliance hope you will allow the pork producers of Kansas to take advantage of this opportunity.

February 22, 1994

House of Representatives
Economic Committee

Mr. Chairman, members of the committee, my name is Blake Waters, Senior Vice President, Agricultural Loans, Bank IV, Liberal. I want to make it clear that Bank IV, Kansas has no policy regarding this issue. However in the Bank IV system all banks are encouraged to be active supporters of their community and to support the economic growth of the community. Our parent company, Fourth Financial Corporation has been a consistent advocate for economic growth and opportunities and support the local Bank IV efforts to build a stronger economy for their communities and all of Kansas, and therefore approves and supports my testimony on behalf of my community of Liberal.

I wish to submit to you our endorsement of changes in our current corporate ownership and vertical integration restrictions pertaining to swine. Over the past several years, the restrictions have negatively impacted the southwest area of our great state in many respects.

After the failure to enact changes in the law, Dekalb Swine Breeders, Inc. have moved a significant part of their operation to Oklahoma. Not only have we lost property valuation, retail business and jobs, but also citizens of our own state have relocated to Oklahoma so that they might be involved in the pork industry.

Most recently, Seaboard Corporation began construction of a new pork processing facility in Guymon, Oklahoma. They had seriously considered our community as a potential site for their plant but the vertical integration prohibition, which is specifically discriminatory to swine, effectively stopped that economical development. Lost are the jobs and prosperity so critical for the southwest area of the state. We depend heavily on agriculture and the value added manufacturing that accompanies it.

Not only have we lost Dekalb's expansion and the Seaboard plant, but our swine producers of the area - and those that want to enter the swine industry - are precluded from contracting with Seaboard to produce hogs for their new plant.

Economic Development
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attachment 7

Using a conservative estimate, if just one-half of the plant's slaughter were to originate from Kansas, this could represent over $125,000,000 in new swine production facilities being built in our state.

We believe that the proposed changes are critical for the prosperity of Kansas agriculture and would urge your adoption.

Please refer to the attached additional comments for more details regarding our history with the swine industry.

Respectfully submitted,

L. Blake Waters
Senior Vice President
Agricultural Loans

February 22, 1994

House of Representatives
Economic Committee

Supporting Comments

Our branch of Bank IV Kansas, N.A. is located in Liberal which borders the Oklahoma panhandle. In February of 1992 our officers and directors were approached by several local farmers about the possibility of financing the purchase and construction of facilities which would house swine on a contract production basis with Dekalb Swine Breeders, Inc. of Plains, Kansas. This was a new concept to us and I was instructed to complete a research project to find out more about it.

I called several bankers in North Carolina and found that this type of financing has become very competitive and none of them had ever experienced any loan losses on farm contracts with the integrators. Two of my contacts included Bryan Bird of First Union Bank in Clinton which is a super regional holding company and Royce Edwards of the Farm Credit System, also in Clinton.

Both of these individuals reported that the farm contracts led to the location of a pork processing plant in their community. This plant employs over 1000 people and has had a major economic impact on their housing and small businesses.

We then took a tour of the Dekalb Swine Breeders, Inc. production farms located south of Plains. These folks appear to us to be of high integrity and professionalism. They exhibit extreme care in all of their research and production efforts. During this tour we were shown how their waste is used as fertilizer contracted with local farmers for application through their sprinkler irrigation systems. Our bank is involved in the financing of some of these family farms and our customers having nothing but positive comments regarding the business ethics of the Dekalb management team. The fertilizer application process has lowered their production costs and increased their crop yields.

Since March of 1992 our Bank began the process of analyzing several requests to contract with Dekalb and Seaboard. To date we have committed to fund nearly $3,300,000 of facility loans. Due to the extreme amount of time that it takes to obtain approval from the Water Resources Board and the Environmental Protection Agency prior to construction only $300,000 of our loan commitments have actually been funded.

Farm contracts with Dekalb have net our producers an additional $10,000 to $16,000 per year after expenses and debt payments. When their debt is paid off in 10 years their cash flow will increase by an additional $40,000 or more while the facilities still have a remaining economic life of an additional 15 to 20 years.

Mr. Chairman and committee members, this income could save many of our family farms. The pork processing plants will also increase our hog and grain prices in addition to creating new jobs if we allow them to build in Kansas. Otherwise we will see these benefits continue to go to our neighbors in Oklahoma and Texas.

Please support the changes required to provide our state with a more competitive and healthy agricultural environment.

Thank you for your time and consideration!

Respectfully submitted,

L. Blake Waters
Senior Vice President
Agricultural Loans

ANNA FAY "ANN" HARRISON

524 N. PERSHING

LIBERAL, KS 67901

316 624-1451

Chairperson Meade and members of the House Economic Development Committee, thank you for the opportunity to speak as a proponent for SB 554, The Corporate Swine Bill. I am Ann Harrison, a Seward County Commissioner.

I have found overwhelming support in western Kansas for allowing swine production the same position as beef production in our state. I have not found one elected official in Seward County who opposes the concept of Corporate Swine farming. Bankers, farmers, small and large businessmen, school board members, are all working for passage of this bill. We are united in our effort.

If we will look at the very positive effect corporate beef production has had on the economic picture in western Kansas, we can visualize the additional positive impact corporate swine production will have on western Kansas!

Corporate hog farming would provide better market access for family farms. It will enhance the feed grain market, and is expected to create spin off businesses. There will be jobs created!

Allow us in western Kansas to have this additional tool for economic growth and you will be helping all of Kansas to be in a better financial position. As western Kansas grows in economic development, as our tax base broadens, the entire state of Kansas benefits. More jobs in Western Kansas means more income tax state wide, more sales tax to help with state projects, more dollars to put into school finance, fighting crime, water issues and many other state projects.

This bill allows flexibility for those counties who wish to preserve the "status quo". This will allow western Kansas to grow while allowing other parts of the state, who might not reap great benefits from this bill, the option to not allow corporate swine production.

A recent task force for the Governor's Forum on Rural Kansas discovered perceived weaknesses of rural Kansas that they believe may be hindering the achievement of a successful future for Kansas. Three of these weaknesses are 1. Slow employment growth statewide, 2. Laws prohibiting corporate farming may hinder economic development efforts, 3.Resistance to change often thwarts innovative approaches to economic development. Participants from all counties in Kansas voiced their common concerns including; loss of population (tax) base and that dollars were leaving as jobs leave. SB 554 will answer those concerns in a very positive way. Please give your support to SB 554!

Thank you

The
CITY of LIBERAL
P. O. BOX 2199 • LIBERAL, KANSAS 67905-2199 • (316) 626-0101

PROPONENT OF SENATE BILL #554
By Richard C. Olson
City Manager
City of Liberal, Kansas

Good Afternoon, my name is Rich Olson, I am the City Manager of Liberal, Kansas. I would like to thank the House Economic Development Committee for an opportunity to speak in support of Senate Bill #554. I would like to start by saying there is no city in Kansas which has felt the economic hardship of Governor Finney's veto of last year's corporate farming law more than Liberal. The City of Liberal and Seward County was unable to attract the Seaboard Pork Processing plant, which would have added fifteen hundred (1,500) new jobs and a capital investment of $100 million to the City of Liberal, Seward County and the State of Kansas.

The past is behind us and we must now look to the future. Senate Bill #554 will afford Southwest Kansas an opportunity to partake in one of the fastest growing ag related markets. A community must recruit industry based on its strengths. The City of Liberal and Southwest Kansas have two major strengths, they are oil and gas and agri-business. Unfortunately, due to technology, we have seen over the last ten years a decrease in the number of oil and gas related jobs. However, agri-business in our region

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has grown steadily in the same period of time and has been able to absorb most jobs which have been displaced. Passage of Senate Bill #554 is critical and will enable the State of Kansas to remain competitive with our neighboring states who have looked at this issue for what it is, a pro-business economic development issue. If the House fails to pass Senate Bill #554 it will not mean that we will save the small family owned farm. To the contrary, we will force countless number of small family owned farms out of business.

The passage of Senate Bill #554 will afford swine producers the same benefit that the cattle and poultry producers presently have. The County option will ensure that the citizen voice will be heard on this issue. The City of Liberal, Seward County and the State of Kansas has lost once, make sure we do not lose again.

I respectfully request passage of Senate Bill #554.

LIBERAL CHAMBER OF COMMERCE

505 N. KANSAS TELEPHONE (316) 624-3855 P.O. BOX 676 LIBERAL, KANSAS 67901

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

TESTIMONY ON SENATE BILL 554

Chairperson Meade and members of the Committee:

Thank you for allowing me a few minutes to speak to you in favor of Senate Bill 554, the Corporate Swine Bill. I am Jack Taylor, Executive Vice President, of the Liberal Chamber of Commerce. The Liberal Area Chamber of Commerce in Seward County is extremely interested in Legislation which would encourage and support the economic grwoth of our Area, specifically Southwest Kansas. Senate Bill 554 would certainly allow and encourage economic growth in our Area allowing those Counties who do not want Corporate Farming to petition out.

Unfortunately for the Liberal Area this provision was not in effect earlier, so Guymon, Oklahoma was successful in getting the Seaboard Corp. to start construction on a Multi-million dollar hog processing plant there. This will add approximately 800 new jobs, approximately 2400 additional people, thousands of additional spendable dollars locally, plus thousands of additional local and state tax dollars.

We would ask you to remove the restrictions in Kansas so that we might compete on equal ground with neighboring states for these Economic Development advantages.

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The economic downturn can be helped significantly by the passage of SB 554 which would allow new business to come to Kansas and provide new jobs, bring additional people to our State and strengthen our economy.

Seaboard Corp. is in the middle of construction 35 miles away, and as you are aware, they are very supportive of the Senate Bill 554 which would allow them to expand into Southwest Kansas. DeKalb Swine Breeders, Inc. is in Southwest Kansas now, but they have had to do all their expansion in Oklahoma, just across the state line. The passage of this Bill would also allow them to expand their operations in Southwest Kansas instead of Oklahoma.

The Liberal Area Chamber of Commerce supports this legislation because of its positive economic impact on the great State of Kansas. Please don't let this opportunity pass, leaving us at a continued disadvantage with our forward thinking neighboring states.

WestPlains Energy

115 West 4th Street
P.O. Box 2499
Liberal, KS 67901

316-624-2592

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

TESTIMONY
ON SENATE BILL 554

Mr. Chairman and members of the committee:

Thank you for allowing me the opportunity to speak to you today. My comments will be brief.

My name is Tim Fowler, I am an employee of WestPlains Energy. However today I will speak to you on behalf of three entities; WestPlains Energy, The Joint Economic Development Council of Liberal and as a citizen of southwest Kansas.

Today I am here to give my support for Senate Bill 554. As you are well aware we only have two major industries in southwest Kansas, Oil & Gas and Agriculture.

I could set here all day and bore you with what I think are facts to support the need for corporate farming, and we do need it, however I am going to talk about the people in southwest Kansas instead. You will find only a small percentage of people there that do not either work in one of these two industries or work in an industry that supports one of these two. Those are our assets and if we are to grow and expand it will be in one of those two fields. We need this bill, because without it we can not compete with other states and it will be our loss and all we will have left in

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WestPlains Energy

115 West 4th Street
P.O. Box 2499
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316-624-2592

southwest Kansas will be ghost towns of the past.

All that we are asking is the same rules that we have in the beef industry. If we did not have the beef industry in Liberal our town of 16,500 would be more like 5,000 people. One thing I can tell you today is that someone will grow Hogs for Seaboard, if it is not in Kansas it will be in another state and they will reap the profits and the economic well being that we are not afforded the opportunity because it is not allowed in our state.

I will be glad to answer any questions that you may have at this time.

Thank You.

S.B. 554: Corporate Hogs 22 Feb. 1994

Good afternoon! I'm Don Honig. I farm and raise hogs in northern Pottawatomie Co., by Onaga. Thank you for giving me the opportunity to come before this committee to speak my views.

Actually, I'm both angry and disappointed that I have to be here at all. It disgusts me that this issue of corporate hog farming, which is obviously very unpopular among farmers and rural Kansans, keeps returning year after year in one attempt after another.

As a hog producer, I find S.B. 554 highly unsavory. We only need look at other states and other industries to see the effects of corporate intrusion on independent farmers. We would be hard pressed to find an independent broiler farm these days. Few, if any, exist. And close inspection of the corporate swine industry in North Carolina and Missouri shows that independent farmers are rapidly loosing market access. In our own state, the cattle feeding business is dominated by corporate giants, and an independent feeder expects to recieve \$3-\$5/cwt less than the feedyard for cattle of similar quality. In an enterprise full of high risk and tight margins, \$5/cwt can mean the difference between profit and loss. It's no surprise that independent cattle feeders have left the business in droves.

Some may feel that contract growing is a favorable blend of corporate farming and private enterprise. In my opinion, contract production is little more than a company asking an employee to purchase the factory in which he works.

In many parts of the state, a large swine feeding facility would be useless if its owner no longer had a contract with the processor.

As you debate S.B. 554, I hope that you consider two factors; market price and market access. Envision what the lack of either one of these would do to

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independent swine producers.

To explore these, let's look at what's happening in other states where corporates and integrators now abide.

North Carolina has the most developed corporate hog industry in the nation. It has the fastest growing swine industry, and as we speak, may well be the second largest producing state in the nation. When other state's hog numbers were declining last year, North Carolina expanded by 17%. Environmental pollution may be the only thing slowing the state down.

That may seem fantastic, but if you are an independent producer in North Carolina, you can expect to be paid $12-18 less per animal than if you sold the same pig on the same day in the Midwest. A North Carolina independent with 100 sows and better-than-average efficiency would raise about 2000 pigs, but would be paid at least $24,000 less for his or her efforts than a similar farmer in Illinois. According to Hogs Today (Feb. edition), "On one (North Carolina) plants grade and yield (price quote), hogs brought $51/cwt; the same day at a local live buying point, the bid was $39/cwt." That's a $12 price sread simply on volume alone. Price spreads in Northeast Kansas normally are about $2-3/cwt.

Price reductions of this magnitude over any length of time would devastate independent producers. And for what reason but to discourage independent farmers. So much for economic development!

Market access is another thorny issue. In Missouri, which only recently opened its borders to corporates, 21% of the state's breeding stock producers have called it quits. Because purebred operators are traditionally smaller and more specialized than commercial herds, they weren't large enough to bid competitively for corporate business, and were left without a market for their product. The purebred business is usually considered the "barometer" of the livestock industry, where future trends show up first. If this is any indication, Missouri's commercial herds may be the next to feel the pinch.

Vertical integration, by its very nature, tends to eliminate competition by simply closing out market access to outside bidders. In this case the competition will be independent farmers looking for a place to sell their product.

I urge you, as the state's lawmakers, to dispose of S.B. 554. The best economic development that we could envision for the small towns of Kansas would be to have Seaboard Inc. set up buying stations aeross the state and bid competitively for independently grown hogs.

Thank you again for your attention and concern on this matter.

Donald Honig

Opinion Page

By Bill Fleming

If hog farming eventually is taken over by huge corporations, family-style operations won't be the only victims.

Add to the list businesses up and down Main Street in thousands of small towns. In fact, the entire structure of rural American may be at stake!

I admit that sounds pretty strong. But it all boils down to jobs and dollars – especially to where jobs are located.

Let me first emphasize I'm not talking about total jobs. If we raise 90 million head of hogs in the U.S. every year, it probably will take about the same number of workers – whether those hogs are raised by a dozen corporate giants in 200 units or by 90,000 independent family operations marketing 1,000 or more hogs a year.

But job location is another matter. The real question is this: Is it better to have those jobs scattered across thousands of rural small towns – or should all of the jobs be concentrated in a handful of communities?

Today, survival of small-town America is hanging by a very slender thread. The declining count of farm families threatens to turn communities of 500-1,500 people into ghost towns.

It's easy to figure out what has happened. Fifty years ago, an "average" farm family could probably handle 160 acres of row crops, plus a couple milk cows, a few pigs and a small laying flock. Today, the same farm family, with huge tractors and combines, can easily handle 1,000 acres of corn and soybeans.

At this point, let me set an arbitrary figure. In most cases, those small towns rely on the folks living within seven miles of the community to provide the business that keeps the town alive. (If you don't like seven miles, pick your own figure.) But seven miles means an average of 14 miles between towns. In eastern states, that figure is probably high. In the West, it's low.

A circle of seven miles around the town calculates to nearly 154 square miles or 98,000 acres.

If you accept my 160-acre figure, that means it took over 600 farm families to farm the land a half-century ago. And the town itself probably included another 200 families. So 800 families kept the local grocery stores, filling stations, restaurants and drug stores in business. Eight hundred families meant a decent-sized school. And it meant churches, 4-H clubs, a Memorial Day parade and a whole lot of institutions we took for granted.

If huge corporations raise all the hogs – it may be a death sentence for thousands of small towns!

But, in 1992 it only takes 98 families to farm that acreage – not enough to keep most of those businesses going.

It's the beginning of a vicious cycle. As the number of farm families goes down, fewer businesses survive and that means fewer people living in the town. The whole shrinking process becomes almost impossible to turn around.

The problem is not restricted to towns with 800 or 1,000 people. The same spiral is chipping away at larger towns with populations of 5,000 to 10,000. Today, even the traditional "county seat" offers a lot less support for the farming community than it did 20 years ago.

It boils down to this: The small towns of America cannot survive in a cash grain economy. It takes the jobs and the extra income of livestock production to keep them alive.

If all hog production winds up in the hands of a few corporations – and they choose to follow the National Farms example of hammering together units with 20,000 sows in one community – there will be maybe 250 communities across the U.S. that will think they have tapped a gold mine with all of those extra jobs.

But thousands of towns, left with only cash grain farmers, will wither. Not only will local businesses gradually close their doors, but – except for the 100 or so families left on the land – the most promising young people will leave.

But, if there are highly skilled jobs available, the majority of the young people will gladly retain their "membership" in the community where they grew up.

Given that choice, you would expect to see small-town businessmen working hard to attract new livestock operations into their communities. Or working to help existing farmers expand.

But all too often, they ignore possible jobs in agriculture. "We need a couple of factories" is the all-too-common cry. Community leaders will offer tax breaks, float municipal bond issues, line up financing and do whatever else is needed to bring in a manufacturer hiring 20 laborers. But will they offer the same breaks and the same assistance to 20 pork producers who would provide an equal number of jobs by expanding their operations?

You know the answer to that question as well as I do! Too often, the local pork producer is strictly on his own!

Jobs are only part of the picture. The pork producer has added value to the products being sold from that community. Which brings the most money into the community – eight bushels of corn sold for \$2.50 a bushel (\$20) or the same eight bushels of corn used to raise a market hog that brings \$100 or more?

The struggle between giant corporate units and independent family hog farms is not something Main Street can walk away from. The impact on rural values in America is way too important to be left to chance.

12-4

Testimony to House Economic Development Committee
Concerning SB 554

Testimony
given by:

Raye Sprague, Secretary KSGA

Thank you for allowing me to share with you this morning.

My name is Raye Sprague. I am currently serving as the Secretary of the Kansas Swine Growers Association. We are a growing organization with many concerns, only one of which is corporate control of the food industry.

It is of public knowledge that this was the first issue that the KSGA faced as an organization last year. Its continued growth throughout the year gives me confidence that I can speak on this subject for the majority of the members. The fact that we surveyed the entire membership during the summer of last year and asked their opinion of this issue and how they would like to see us proceed should we need to also lets me speak on behalf of the group.

A few points I would like to make:

1. Kansas could benefit from developing its pork industry.

2. This type of economic development could create a few jobs.

3. Some bordering states have reversed earlier bans on vertically integrated operations.

HOWEVER:

1. Is this the best way to benefit all the producers in the state or is this legislation something that will benefit only the few that have the resources to expand or build new facilities?

2. The jobs that this type of "Economic Development would create will be few and of little help to those already here in Kansas. Historically corporate facilities import their own employees for management positions leaving only the low paying labor intensive jobs for local hire.

3. Yes, some bordering states have reversed their decision on corporate activity in the livestock industry however, others have not. Iowa is still the number one hog producing state yet they do not allow corporate ownership of land or livestock.

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4. Further, these corporate packers are playing you as legislators of your respective states one against the other to their own benefit. This type of "border hopping" threat is nothing new to these guys. They are being told in Missouri that Kansas is in the process of removing all restrictions on corporate activity and that the Governor here will sign anything that comes across her desk. The feeling of the legislature there is that they had better change their laws also so as to not be "left out". Sound familiar?

My point is that Kansas has a chance to be a leader in the breaking of this cycle of integration. Are we as a state going to be part of the problem or part of the solution?

Segment taken from "Hog Industry Insider", Feedstuffs, July 20, 1992

Canada has a mandatory electronic auction and this has helped introduce a certain level of stability into the industry which should prevent further loss of producers. Rolan Soucy of the Canadian Meat Council has said that the electronic auction has lessened the price differential between US and Canadian hog prices and has slowed down the loss of producers. In fact Soucy says, there is now a trend away from integration. For example, 10 years ago in Quebec, 80 percent of the hogs were owned outright or contract fed by feed companies. Independent producers now are in the majority. According to Soucy, the two year old electronic auction precludes packers from giving advantages to large volume suppliers.

I do not suggest that this example could be implemented in Kansas without support from other states and the producers in those states, but the fact remains that they faced a tough problem and they found a solution that could benefit all producers and actually reversed the trend of integration.

Statement from Successful Farming, March 1993 "GIANT PACKERS BAD FOR HOGS AND CONSUMERS"

Reference to: Texas Commissioner of Agriculture, Jim Hightower

Reference to: Hog Contracting, Center for Rural Affairs Newsletter.

Potential (+) and (-) of large-scale hog confinement and contracting

GIANT PACKERS BAD FOR HOGS AND CONSUMERS

The meat industry that survives the 1990s will be very different than it is today, says Alister Pease, a consultant to the National Pork Producers Council (NPPC). Pease, who has worked for many agribusiness firms in Europe and the U.S., recently finished a study sponsored by the NPPC entitled "Where is the U.S. Pork Chain Going?"

"The pork chain today is completely commodity oriented, and this is misery for everyone—the packer, the farmer, even the hog," says Pease. "It's going to take a different kind of packing plant to survive the '90s."

The huge packers are only marginally profitable, he says. "Farmers think they can get more money out of packers and they can't." The packers' profit, or lack of it, represents only about 1% of the retail price of pork, says Pease.

Packers fail to realize that producing a superior product for which consumers will pay more is more important than marginal reductions in packing costs, he says. "It's absolute nonsense that when a ham or loin comes out of a packing plant, nobody knows who produced it.

"Farmers have to go further down the chain toward the consumer. Producers can change pork into what the consumer wants; packers can only spoil it." For this reason, Pease envisions smaller processing plants and even federally inspected lockers becoming more popular.

No reason for huge plants

A look at history tells why giant packers got started 100 years ago, but not why they've stayed around, says Pease. "The huge plants started when producers had to get live hogs to the city where the people were. There's no reason to do that now." The only economy of scale in packing is in the processing of blood, rendering products and bones, he says.

It will be difficult for big packers to ever eliminate pre-stunning stress, he says. "You can't line up 1,000 hogs an hour for the kill floor without stress."

Pease, who has worked for a breeding stock company and managed a packer plant, says factors affecting eating quality of pork are genetics, feeding, slaughter stress (handling) and rapid cooling. ■

NATIONAL AG DAY IS MARCH 20

The 21 million men and women who provide food and fiber for America will be honored during National Agriculture Week (March 14–20, 1993) and National Agriculture Day (March 20, 1993).

The 20th anniversary theme, "American Agriculture—Growing Better Every Day," conveys the message that American agriculture is a progressive, forward-thinking industry that continuously strives to improve its methods and better respond to consumer needs.

"We tend to take for granted the very industry that puts food on our table, clothes on our back and shelter over our head each day," says Keith Nelson, chairman of the Agriculture Council of America, which coordinates the celebration. "National Agriculture Week provides an opportunity for all Americans to take a moment and reflect upon the many ways agriculture touches their lives."

If you would like to order National Agriculture Day posters, activity kits or fact cards, call the Agriculture Council of America at 202/682-9200. ■

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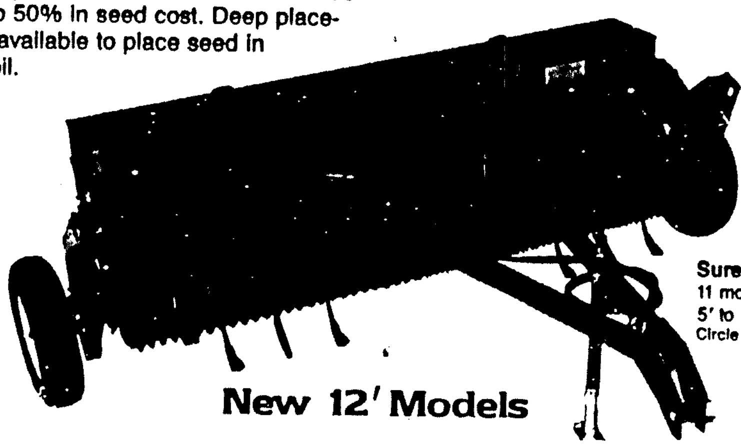

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COMMISSIC JER
OF AGRICULTURE
P. O. BOX 12847
AUSTIN, TEXAS 78711 · (512) 463-7435

January 19, 1990

Dear Friend:

The Texas Department of Agriculture has just released a study entitled "A Report on the Economic Potential of the Broiler Industry in East Texas." A copy of this report is enclosed.

As we seek to develop agricultural industries that have demonstrated growth and profit potential, the poultry industry will undoubtedly be one of the most important for East Texas. The industry currently employs approximately 8,400 people and generates $635 million at the farm level. Based upon a very achievable annual growth rate of 10% per year, the industry would employ 13,500 people and generate nearly $1 billion in farm sales by 1994.

While the industry itself is thriving, our report raises serious questions about whether a number of Texas poultry raisers have been excluded from reaping the benefits enjoyed by the major integrators. Several of the major corporations involved in processing and marketing poultry have doubled their sales and nearly tripled their increases in stockholder equity in the last five years. Meanwhile, some growers have received as little as $579 in annual income per 20,000-bird-capacity broiler house.

This report is just one part of TDA's effort to assist the growth and development of the poultry industry in Texas. It is important that growers receive a fair return for the industry to reach its full potential.

Your comments and suggestions on the material in the report are welcomed. Please direct them to TDA's Tyler District Office at (214) 597-6571. We look forward to hearing from you.

Best regards,

Hightower

JIM HIGHTOWER

JH:jvs

HOG CONTRACTING

Hog contracting has been on the increase for years, but recently it's reached fever proportions.

A contractor is someone who owns hogs and pays a producer under contract to farrow or grow them to market weight. For some producers, it seems like a good way to shift risk, since the contractor invests in the hogs and maintains ownership right through final marketing. For others who are financially strapped or who are just getting into pork production, it's the only way to talk a lender into making a loan.

Contractors like the arrangement because it reduces the amount they have to invest in buildings and equipment and allows them to cut back or increase production quickly.

Let's take a look at hog contracting in the U.S. today.

Hog Contracting Today

The University of Missouri and PORK'92 magazine surveyed hog contractors and producers (usually called growers) in 1992.

UM economists estimate there were 1,256 hog contractors marketing over ***13.7 million hogs*** in the U.S. in 1991. That's ***about 15-16 percent of all market hogs*** sold that year.

But contractors market hogs they produce themselves as well as hogs they contract to have produced for them, and about 43% of those 13.7 million hogs were grown in the contractors' own facilities. So only the other 57 percent were raised on contract by others. That's about 9 percent of the national hog market.

Clearly, contracting ***is increasingly a game for the big boys.*** A tiny group estimated at 31 so-called "super contractors" (marketing 50,000 head or more) sold more than all the other contractors together in 1991. These 31 marketed alone about 9 percent of all the hogs in the U.S. that year, most of them (70%) under contract with growers.

The growth in contracting also appears to be among those super contractors. Overall, contractors increased production by nearly 21 percent from 1990 to 1991 alone, but survey records indicate the ***super contractors grew nearly 50 percent between 1988 and 1991***, while smaller contractors actually cut output by over 15 percent during that four-year period.

About 45 percent of all contractor-marketed hogs came from about 100 contractors in the South Central and South Atlantic states. There, contracting is dominated by a few large operations like Murphy Farms, Tyson Foods, Carroll's Farms, and Cargill. ***Almost three-fourths of the super contractors' production is in the South,*** where average marketings per contractor is over 61,000 hogs, compared to average marketings of about 6,600 from contractors in the North Central region.

Going into debt to build new facilities in order to secure a contract is clearly commonplace and becoming more frequent among growers. More than 8 in 10 of the growers in the survey said their facilities were mortgaged, and ***over one-half (51%) had invested in new or remodeled facilities in order to get a contract.*** The percentage was much higher in the South where the larger contractors dominate. Eighty-nine percent of the super contractors said they require facilities that meet their specifications. Growers who had signed contracts more recently were also more likely to have built facilities to get the contract.

These investments can be substantial. The contractors responding to the survey said their typical finishing grower has invested about ***$100 per head of capacity*** for new facilities. Since most of these finishing facilities are likely to handle at least 1,000 hogs, that's $100,000. Three-fourths of the hogs finished on contract were grown in operations that would require at least two buildings of that size.

And much of this investment is coming from people with ***relatively little experience*** in hog production and ***no intention to become independent*** producers. Forty-two percent of the super-contractors prefer inexperienced people over experienced pork producers, another 35 percent don't care, and only 23 percent prefer experienced pork producers. The reason may be that the experienced pork producer might have a lingering hankering for independence.

So it's not surprising that only 13 percent of the growers say they raise hogs independently as well as on contract, and only 28 percent of those who don't produce independently say they would like to do so. In fact, over one in four had a full-time job off the farm.

The Nature of Contracts

Increasingly, the typical contract is between one of those 31 super contractors and a grower who finishes feeder pigs. The contractor supplies the pigs, the feed, the medication, and frequently a management system and training. The grower supplies the land, labor, buildings and equipment. According to the Missouri/PORK'92 survey, contracts range in length from three to 84 months, with half running 12 months or shorter.

Getting copies of contracts to review isn't easy, but some university researchers and others have gotten enough information to conclude that in most hog finishing contracts, there is a ***base payment*** per pig (usually around $8.00 or $9.00), some of which is paid when feeder pigs are delivered to the grower, and some of which is paid when the hogs are marketed.

Most experts agree that the base payment rarely is high enough to provide the grower with a reasonable wage for labor and return on investment in buildings and equipment. ***To get good returns, you have to "perform" well enough to earn one of several available premiums.***

The most common premiums are for producers who keep death loss among the pigs at a minimum (perhaps under 2%), and for those who achieve a high level of feed efficiency (say, less than 4 pounds of feed per pound of weight gain).

The problem is that ***lots of growers will have trouble achieving these performance levels.*** We saw a finishing contract from one of the leading corporate contractors in the Midwest that paid a premium for any producer who had a death loss rate below 1.5 percent, or who had a feed efficiency level of less than 3.4 pounds of feed per pound of weight gain. According to the **Iowa Swine Enterprise Records**, nearly three-fourths of Iowa's pork producers had worse feed efficiency levels in 1990, and almost 90 percent had higher death loss rates.

Moreover, many of the factors that determine a producer's ability to meet these tough standards ***are in control of the contractor,*** including the quality of the feeder pigs delivered to the grower, the medication allowed, and even the wieght at which the hogs are delivered to market. If hogs are marketed at 220 pounds, for example, it might be easier to achieve some feed efficiency. But hogs held to weights of 260 or 280 pounds -- as is increasingly the case -- will have lower average feed efficiency simply because those last heavyweight pounds require a disproportional amount of feed.

That's why the Iowa Pork Producers Association recommends that growers try to ***get contracts that provide differing thresholds*** for feed efficiency premiums ***depending on the weight at which the contractor decides to market the hogs.***

Some potential positive (+) and negative (-) effects of large-scale hog confinement and contracting (by area; with space for additions)

Producer/worker

(+) some contracts guarantee a certain income if guidelines are met
(-) most are based more on bonuses for low death loss and feed efficiency at rates reachable by outstanding managers.
(+) contracting allows some farmers who have underutilized facilities to use them until they wear out, and then don't replace them.
(+) in the early phase of the consolidation of the industry by a few companies, there is a fair amount of corporate competition, resulting in contracts generally more favorable to the producer than when consolidation occurs.
(-) many contracts, even in this early phase of contracting/consolidation, have been unfair to the producer
(-) according to the Iowa Attorney General's Office, most farmers under contract in Iowa are not getting anything for the use of their buildings.
(-) once consolidated, this system makes the producer/worker ultimately dependent on the contracting corporation (e.g. ConAgra, Tyson, Fina, Cargill...) with little or no recourse regarding markets, prices, disputes, management decisions, etc. In fact, in the poultry industry, fear of reprisal appears to be a major factor in producers' actions and in the negotiation of contracts.
(-) there are substantial health costs and severe risks undertaken by the producer/worker in confinement operations, especially from dust (feed, dander, etc), ammonia, carbon monoxide, hydrogen sulfide, and carbon dioxide.
(-) there are no health benefits supplied as part of the contracts.
(+) if this indeed the "wave of the future", then a few who get in it early and manage to do well may continue to do OK.
(+) some jobs will be available at confinement facilities, skilled and unskilled
(-) there are concerns being raised about the wages, benefits, and health risks of confinement facility jobs -- now and in the future (poultry industry example).

Family Farm Structure of Agriculture

(-) advantages of large-scale facilities with direct relationships with a packer will remove hogs from the options available for most family farmers and make family farms even more dependent on a fewer number of options.
(+) in the early phase, contracting provides an opportunity for beginning farmers to get started with less start-up costs.
(-) with greater disease incidence in confinement operations, surrounding farms may also be adversely affected by pseudorabies, etc.
(-) competition in the short-term from farmers utilizing unused facilities (but who are not going to stay in the business and therefore don't need to save for new buildings) will adversely affect farmers in it for the long-term.
(+) or (-) a few operations will get big and benefit big

Environment

(-) large-scale confinement operations threaten ground and surface water contamination if manure not managed well. The leaking of lagoons and, especially, excessive amounts of manure spread on too few acres, are the biggest dangers.
(-) manure is wasted as a resource in many operations, seen as a waste more than as a resource. Most large-scale manure storage systems mean major losses of nitrogen -- for example, 75% loss in lagoon storage systems.
(-) local expansion of corn production for feed may jeopardize fragile land and increase levels of chemicals reaching the groundwater. Environmentally beneficial forage crops like alfalfa, or by product feeds are generally not used in large-scale confinement operations.
(-) standardization of pork production to meet packers' demands may mean a further loss of genetic diversity in the swine population.

Local communities

(+) some local employment at swine facilities
(+) there are arguments being made that large scale confinement and contracting would help keep swine industry in Minnesota (currently MN is #3 in nation).
(-) smell of large-scale operations may drive down property values and quality of life for nearby residents.
(-) consolidation of industry may mean loss of local enterprises, like buying stations, and processing plants.
(-) the costs of decommissioning a large lagoon may fall on the local governmental unit and taxpayers if an operation fails or moves out. (can be very costly)
(-) loss of family farms would continue to depopulate rural areas and impoverish local businesses and institutions.

Meatpackers/meat corporations

(+) would gain a uniform hog for processing, and a uniform product to sell
(+) would gain control of pork industry, from production to retail
(+) would gain ability to set prices (at each level)
(+) would gain control over a workforce that would not be easily organized, and that would be dependent on the packers/contractors.
(+) would cut buying and transport costs, by streamlining system to their plants
(+) would increase profits
(+) would provide "captive" market for same companies' feed and breeding divisions.

Large-scale hog confinement and contracting: effects (cont'd)

General Public

(-) may see increased health risk from pork -- like increasing rates of salmonella in chickens as consolidation has increased, and perhaps from increased use of antibiotics in pork production.
(-) may see increased food costs, not from real production costs, as much as from the effect of an essential monopoly or oligopoly in the market.
(-) concentration of economic power into fewer hands means a weaker democracy.
(-) increased taxes to subsidize housing, food, health costs for industry workers paid a lower-than-living wage, and for displaced farm families.
(-) heightened animal welfare concerns
(+) or (-) pork would be of a more uniform quality: either leaner and superior; or like store-bought tomatoes which are of superior profitability but not taste or nutrition.

THE KANSAS RURAL CENTER

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TESTIMONY CONCERNING THE LOOSENING OF RESTRICTIONS ON CORPORATE HOG PRODUCTION

The Kansas Rural Center is a private, non-profit organization that promotes the long term health of the land and its people through education, research and advocacy. The Rural Center cultivates grassroots support for public policies that encourage family farming and stewardship of soil and water. The Center is committed to economically viable, environmentally sound, and socially sustainable rural culture.

It would be nice for legislators and farmers if ending the restrictions on corporate ownership of hogs and productions facilities did not mean the end of independent family farms and the loss of thousands of livelihoods. Unfortunately, it does. I see no way, once these restrictions are lifted, in which this body can justify keeping corporate concentrators out of other areas of the state. This is not a vote for southwestern Kansas, it is a vote to end the family farm system.

Corporations are interested in owning hogs, because feeding livestock carries the chance of greater profits, and at less risk, than cash grain production. Feeding livestock is the primary means by which independent farmers can add value to their grain production. Were packing plants allowed to own their own hogs, independent producers would not be able to sell their animals. Farming would become less profitable, and the trend towards the disappearance of the family-owned farm would accelerate.

I have appended an article from the December, 1993 American Journal of Agricultural Economics which discusses the role of the independent input supplier of such things as feed grains. I quote, "To the input supplier, industrialization has changed from an opportunity to a threat. The size of the market available to the traditional farm supplier is shrinking and its traditional arms-length retailing relationship with the farmer is being replaced by the arms-twist management of the integrator and contractor." Existing Western Kansas feed grain suppliers have as much to fear as Eastern Kansas hog producers.

The assumption that a "producer" who has invested hundreds of thousands of dollars on a hog facility in an area with only one packing plant, can somehow be protected in contracting with that plant defies common sense and economics. It sounds good, but if a gigantic agribusiness can make better money owning its own hogs, that is where the trend will be, and producers will be cast aside, no matter how much "protection".

The Kansas Rural Center continues to oppose any easing of restrictions on Corporate Hog Production in Kansas.

Economic Development
February 22, 1994
Attachment 14

Implications for Farm Supply Cooperatives of the Industrialization of Agriculture

Joseph D. Coffey

During most of the past 50 years, the industrialization of agriculture was led by input suppliers selling farmers substitutes for home-grown inputs. The leadership of the today's industrialization is shifting from production-driven technologies of suppliers to the consumer-driven requirements of processors.

To the input supplier, industrialization has changed from an opportunity to a threat. The size of the market available to the traditional farm supplier is shrinking and its traditional arms-length retailing relationship with the farmer is being replaced by the arms-twist management of the integrator and contractor. A tug-of-war is developing between the input supplier and the product processor. In the words of Downey, Akridge, and Erickson (p. 24), "a major struggle for control will occur among farm supply firms who want assurance of a continued market for their products and food processing/manufacturing firms who want to control the production process."

This "new industrial state" of agriculture has major implications for the business strategies of the farm supply cooperative and, although I will not dwell upon it, the independent farmer as well. Farmer cooperatives are owned and controlled by their farmer members, so their futures are tied closely together. Industrialization poses a threat to both the structure and independence of farming. The additional profits arising from this process may not be shared with farmers or their cooperatives.

Strategic Position of Cooperatives

Cooperatives are the leading handler of production inputs. According to the Agricultural Cooperative Service (p. 18–19), in 1991 the 1,689 farm supply cooperatives with 2,025,156 memberships sold 34% of feed, 14% of seed, 49% of fertilizer, and 29% of ag chemicals to farmers.

Farm Chemicals magazine indicates that the top 25 farm cooperatives account for 4,544 fertilizer and ag chemical retail outlets compared to the 2,730 retail outlets of the top 100 independent dealers. Farmer cooperatives own CF Industries, one of the world's largest fertilizer companies. Five of the top eleven commercial feed manufacturers are cooperatives. If cooperatives were to combine their seed operations, they would have the world's fifth ranking seed company.

In what may even be more strategically important in the future, cooperatives are the leading production information source for farmers (Babb and Ford).

The Input Market

U.S. farmers purchased $144 billion of production inputs in 1992 (*Agricultural Outlook*), of which $37.5 billion was feed, seed, fertilizer, and ag chemicals—the inputs traditionally handled by farm suppliers.

The market for these inputs is mature. Real farmer expenditures for feed, seed, fertilizer, and ag chemicals grew in the 1960s and 1970s, but crested in 1979 (figure 1). They have been flat for more than a decade. Real ag chemical expenditure is the only one of these inputs to have increased in the 1980s and that increase was less than 20%.

But this market maturity masks three underlying changes. First, an increasing share is either being sold directly to the large farmer or being supplied by a contractor and bypassing the local retail store.

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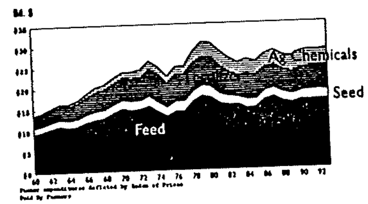

Figure 1. Farmer purchases of feed, seed, fertilizers, and ag chemicals (1977 $)

Second, there has been a proliferation of products. For example, Southern States handles 35,500 items and adds or deletes some 350 items monthly. Third, there has been a growth in value-added services such as custom application. Some 96% of the co-ops and 62% of the independent dealers in the *Farm Chemicals* top dealers list offer application services.

All of these trends of mature markets, bypassing of local dealers, proliferation of products, and expansion of value-added services are expected to continue and have major implications for business strategies.

Implications for Business Strategies

Feed traditionally was sold to independent producers from a local retail store. This strategy is being threatened by structural, manufacturing, marketing, and regulatory forces. The structural shift to swine and poultry integration, and to large-scale producers who manufacture their own feed, shrinks the market available to the local dealer.

From Feed Sales to Food Production

On the manufacturing side, the smaller mills and on-farm mixing are being made obsolete by more stringent drug handling regulations, increased product liability risks, more capital intensive manufacturing processes for pelleted and extruded feeds, and the shift to customized formulations involving literally dozens of ingredients and micronutrients. Clean air and storm water run-off regulations will force many feed mills to make major investments or close down.

On the marketing side, sales and distribution are being challenged by the increased nutritional requirements of high-performance animals, more complex multi-phase feed formulas, and the vantages of pelleted high-energy feeds. pending approval of growth hormones for (BST) and swine (PST) production will boost feed efficiency and intensify feeding systems.

There are three key implications of these changes for success in the feed business. First, the "good old boy" feed salesman peddling standard formulas from behind the store counter is obsolete. Success in the future will require technically trained, computer-equipped professionals who spend their time at the farm, not at the store.

Second, the survival of the independent livestock producer is at stake —especially the independent swine producer. The survival of the traditional local feed supplier is dependent upon the survival of the independent producer. The feed supplier of the future must ensure that the independent producer has access to genetics, feeding systems, and production technology that will enable him to compete with the integrator and the on-farm mills of the super farmer.

Third, as the independent market shrinks, the feed supplier must decide whether to seek a larger share of the shrinking independent market, shrink the business, or engage in integration and/or production. As Jim Rhodes bluntly states (p. 4), "the role for feed supply cooperatives in t g industry will either change greatly or th largely disappear."

Becoming involved in integration has been a controversial issue for many co-ops. Members traditionally have viewed their co-op as an arms-length feed supplier, not as a competing livestock producer.

From Local Public to Global Proprietaries

While commercialization of genetically engineered crop varieties has been slower than some global pharmaceutical companies bargained for, seed will soon assume the strategic role of carrier of the new biotechnology to the farmer. Genetic engineering is significant because it will accelerate the rate of genetic progress; displace some of the seed, agricultural chemicals and fertilizer that suppliers presently handle; and raise the stakes of participating in agr al research and development.

The seed business is shifting fr va-rieties developed by the land-gran .sities to proprietary varieties developed by global giants. This shift has been fostered by reduced land-grant university varietal research and by plant-patenting laws that encourage private investment in seed research.

The need to spread the rising costs of seed research and marketing over larger volumes is leading to further consolidation of the seed industry into the hands of deep-pocketed global pharmaceutical companies. Small-scale, locally branded, conventionally bred public varieties have a dim future.

We are seeing the beginnings of identity-preserved production in the major crops of soybeans and corn. A number of farmers are producing a special variety of soybeans for the Japanese market. Thomas Urban, the chairman of Pioneer, envisions that (p. 3) "by the year 2000, 25% of all corn grain production in the United States will be processed. . . . A large portion . . . will be identity preserved."

The key implication for the local seed dealer is that genetic engineering will create new and more highly differentiated products and encourage production geared more to specific market needs under a contractual or integrated basis. Under these conditions, contractors will be offered packages of inputs and access to markets. Production of these differentiated products by independent producers outside the integrated/contractual/franchised system will be much riskier unless they have access to the market and expertise.

Cooperatives will need to collaborate in seed research and marketing or ally with major seed companies to ensure that they can offer the independent producer access and expertise. More cooperatives may compete by bundling seed with the proper nutrients and crop protectants and custom planting them.

From Fertilizer to Nutrient Management

The successful fertilizer supplier of the future must focus on plant nutrition, not fertilizer tons. The key is making available in usable form the optimum set of nutrients at the proper place and at the proper time. Nutrients that leach, run off, or evaporate are not only costly to the farmer but may be harmful to the environment.

Dealer facilities will require a totally enclosed system that prevents any releases to the environment. This may quadruple the investment cost and the break-even tonnage of the local dealer. Clearly, the emerging environmental regulations for input suppliers are going to precipitate a round of closures of fertilizer dealers.

While the tons of fertilizer used in the future may shrink, custom applications by the dealer may increase. New satellite guidance systems will control the application rates of fertilizers and ag chemicals and usher in "farming by the foot"—literally mixing and applying nutrients and protectants according to the needs in the immediate area being treated, not the average of the field.

Another area of business-growth potential is crop consulting, which includes such services as variety selection, soil and tissue testing, fertility recommendations, pest and weed scouting, pesticide applications, and nutrient management. While these value-added services have promise, their profit potential depends on the extent to which comprehensive farm plans are government-mandated and government-supplied. The dealer will not be able to compete if these services are offered "free" by public agencies or dealers are not eligible to become crop consultants.

From Ag Chemicals to Crop Protection

Cleaner air, water, soil, and food regulations, low-rate technology, and consolidation of major manufacturers are the major driving forces in the ag chemical business. Regulations are becoming much tighter, requiring licenses for applicators and documentation for transporting. Dealers and now farmers have to keep records of restricted-use pesticides.

Pesticides are shifting to low-rate technology and post-emergence applications based upon economic thresholds. The new low-application-rate pesticides, some with only 1/2 ounce of active ingredient per acre, require specialized post-emergence application equipment which costs from $25,000 to $50,000 per unit. Low-rate applications not only reduce the active ingredients, but they minimize container disposal.

The major implication for suppliers is that facility and service requirements are changing. Custom application is a booming business—for now at least, until the next technology emerges. Strict adherence to labels and regulations, scouting services, recordkeeping, and environmentally safe facilities will be the keys to success.

From General Stores to Service Niches

The segmentation of the traditional customers of the local farm store into the commercial farmer, who requires sophisticated services and good prices, versus the part-time farmer and urbanite, who require convenient and attractive shopping, antiquates the format of local general farm supply stores. To supply the commercial farmer, the ideal store location is a large isolated area surrounded by environmental buffers with access to rail and away from high traffic, high visibility, population centers.

Marketing to the commercial farmer is shifting from the showroom to the field, phone, and computer connection. The larger farmer shops over a much wider radius and often bypasses the local store. How to maintain a local presence, but be price competitive and profitable, is spurring the search for the farm store of the future.

That search is being hastened by the expansion of mass merchandisers such as K Mart and Wal-Mart into rural enclaves traditionally served by local farm supply stores. Now, even more direct competition is coming from Wal-Mart, which has opened a super farm supply store in Kirksville, Mo., and from "category killers," such as Tractor Supply and Central Tractor, which are also expanding their farm supply super stores.

The major implication for the input suppliers is that they must adjust to the segmentation of their customers and to attacks from competition from all sides. Their most likely niche will be to differentiate themselves by offering more sophisticated services and advice to their customer. With the take-over of rural banks by the regionals, financing farmers' purchases may become one of the dealer's most profitable businesses. The strategy will be to compete with the interlopers on the basis of outstanding service and to be reasonably competitive on price.

Conclusion

Farm input suppliers are being challenged on several fronts: industrialization and integration of agriculture, globalization and consolidation in the marketplace, escalating costs of environmental compliance, soaring stakes of research and development, segmentation of customers, proliferation of products, and the invasion of mass merchants into their rural sanctuaries.

Farmer cooperatives are evolving in order to capitalize upon their strategic position in the marketplace: a comprehensive distribution system, the ability to package the products and se vices into a one-stop solution center, a favorab reputation as an information source, and a gold mine of customer information. In short, cooperatives are evolving from being an off-farm arm to being an on-farm hand.

Postscript

Finally, permit me to close with a challenge to our profession. While industrialization is likely to continue, the pace and path it takes have major implications for farm policies and farmer pocketbooks. It seems ironic to me that while the rest of the world is discovering the marvels of the marketplace and the independent producer, we ag economists are being lulled into the tacit assumption that the apparent success of displacing input and first handler markets with broiler integration is best for other commodities as well.

We urgently need to develop alternative market mechanisms and approaches to maintaining open factor and product markets for the independent producer. Simply limiting corporate agriculture, as nine midwestern states do, forces the integrators to move to more hospitable pla outside the midwest. I'm not advocating ro blocks to industrialization; I'm advocating av nues to open markets.

The development of computer-linked marketing systems to replace decaying local markets and provide options to concentrating regional markets, and the creation of more sophisticated grading systems which more accurately reflect consumer preferences, are two high priorities for the agricultural economists' attention.

Last, but certainly not least, cooperatives may become even more important as a way for independent farmers to gain greater leverage from industrialization.

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SUMMARY

OF

FARMERS UNION STATEMENT

ON

SB-554

BY

IVAN W. WYATT

THIS COMMITTEE MAY BE THE MOST REASONABLE PLACE TO DEBATE THIS ISSUE. PROPONENTS WANT TO CALL IT RURAL DEVELOPMENT.

IN MOST CASES OF ECONOMIC DEVELOPMENT, YOU BUILD FROM YOUR STRENGTH. IN THIS CASE, WE ARE IGNORING THE STRENGTH OF OUR ABILITY TO PRODUCE LARGE AMOUNTS OF RAW AGRICULTURAL COMMODITIES FOR ADDED VALUE PROCESSING AND MARKETING.

EXAMPLE: IT HAS BEEN STATED KANSAS PRODUCES APPROXIMATELY $7 BILLION OF AG COMMODITIES. WHEN YOU ADD VALUE BY PROCESSING AND MARKETING THESE COMMODITIES, THAT VALUE JUMPS TO $21 BILLION. THAT ADDED $14 BILLION PLUS THE $7 BILLION IN THE PRODUCTION OF THOSE COMMODITIES ADDS UP TO A LARGE AMOUNT OF MONEY. THAT COMBINATION OF DOLLARS IS OUR STRENGTH; THE STRENGTH THAT CAN BE THE SOURCE OF RURAL REGIONAL ECONOMIC DEVELOPMENT; THE ROOTS THAT CAN MAKE THE RURAL ECONOMIES GROW AGAIN. "IF."

BUT, THERE IS A BIG "IF." I'M SURE "ECONOMIC DEVELOPMENT" IS NOT A LOT DIFFERENT THAN GROWING WHEAT. WHEN YOU PLANT THE SEED YOU DON'T CAST THE SEED TO THE WIND TO FALL WHERE IT MAY. INSTEAD, YOU TRY TO GET A GOOD DISTRIBUTION. IF YOU DID THAT LAST WEEK, THE SEED WOULD NO DOUBT HAVE BLOWN UP IN ONE CORNER OR ANOTHER OF THE FIELDS.

Economic Development
February 22, 1994
attachment 15

THEN COMES "ECONOMIC DEVELOPMENT." YOU ADD SOME NUTRIENTS (FERTILIZER) TO MAKE THE PLANTS DEVELOPMENT AND PRODUCE.

NOW WOULD YOU GO OUT THERE ON A WINDY DAY, CASTING THOSE NUTRIENTS INTO THE AIR TO FALL WHERE THEY MAY? NO DOUBT A LARGE AMOUNT WOULD END UP IN THE NEXT COUNTY OR STATE. THE RESULT, I DON'T HAVE TO TELL YOU.

THAT IS WHY WE OPPOSE THIS LEGISLATION. THE FACT IS THAT THIS BILL WITH ITS' VERTICAL INTEGRATION COST-PLUS CAPTIVE CONTRACT SECTION, BECOMES A FOREIGN AID PROJECT. A CASTING OF FERTILIZER INTO THE WIND THAT WILL BE MORE BENEFICIAL TO A FOREIGN CORPORATION AND ITS' NATION'S ECONOMY THAN KANSAS.

INSTEAD OF TURNING A BIG PART OF KANSAS' $21 BILLION VALUE ADDED PRODUCTION, PROCESSING AND MARKETING TO OUTSIDE CORPORATE INVESTORS, WE SHOULD BE UTILIZING THE DEVELOPMENT AGENCIES WE HAVE IN PLACE. WE HAVE KTEC, MACC FOR INDUSTRIAL DEVELOPMENT. WE NEED TO UTILIZE THIS TYPE OF APPROACH TO RURAL REGIONAL AG DEVELOPMENT.

THE CANADIANS HAVE SUCCESSFULLY BUILT THEIR RURAL COMMUNITY'S ECONOMIES ON THIS BASIS FOR YEARS. SOME STATES HAVE BEGUN THIS RURAL REGIONAL DEVELOPMENT ON THEIR OWN. IT IS THE SAME PRINCIPAL THAT KANSAS COMMUNITIES USED YEARS AGO TO BUILD A MASSIVE CHAIN OF COMMUNITY ELEVATORS ACROSS THE STATE. IN MANY CASES, TODAY, THOSE COMMUNITY INVESTOR-BUILT ELEVATORS ARE VIRTUALLY THE ONLY REMAINING BUSINESS LEFT IN THE COMMUNITY.

AS I STATED, THE CANADIANS, ESPECIALLY IN EASTERN CANADA, OVER THE YEARS BUILT THEIR RURAL COMMUNITY ECONOMY ON THIS PRINCIPAL. ACCORDING

THE CANADIAN CENSUS, THE AVERAGE AGE OF FARMERS THERE IS 40 YEARS AGE.

THAT IS WHY I CALL SB-554 THE TROJAN HOG BILL. IT CERTAINLY IS NOT WHAT IT APPEARS TO BE.

BUT IT GETS WORSE.

THE AMENDMENTS PROPOSED ARE EITHER A "SHAM," A "MONSTER" OR PERHAPS SCANDALOUS. I SAY SCANDALOUS BECAUSE APPARENTLY THE AUTHOR DID NOT RESEARCH THE HISTORY OF VERTICAL INTEGRATED, COST-PLUS CONTRACTS AND MARKETING COOPS. MARKETING COOPS WORK WELL IN FREE TRADE IN AN OPEN MARKET. SB-554 IS NOT FREE TRADE. SB-554 IS ABOUT A VERTICALLY INTEGRATED PROCESSING CORPORATION USING A STRICT COST-PLUS CONTRACT TO EMPLOYEE THE SERVICES OF AN INDIVIDUAL OR GROUP OF INDIVIDUALS TO RAISE THEIR HOGS.

THE PROPOSED AMENDMENTS ARE A "SHAM" BECAUSE THEY INFER THAT THERE IS SOME PROTECTION FOR INDEPENDENT PRODUCERS, WHEN ANY RESEARCH WOULD INDICATE OTHERWISE. I THINK THE PROPONENTS KNOW THAT.

THIS PROPOSED "MARKETING COOP" AMENDMENT IS NOT A "NEW" IDEA. MARKETING COOPS ARE ALREADY BEING USED IN TODAY'S OPEN COMPETITIVE MARKET. THE AMENDMENTS SIMPLY ADD BUREAUCRACY, RED TAPE, LICENSING AND NO DOUBT ANOTHER TAX, IN AN ATTEMPT TO TAKE CREDIT FOR AN EXISTING ENTREPRENEUR IDEA.

THE PORK INDUSTRY TODAY IS ABOUT WHERE THE BROILER INDUSTRY WAS ABOUT 25 YEARS AGO. TODAY, THERE ARE NO TRUE "BROILER MARKETING COOPS." THE U.S. AG CENSUS PEOPLE SAY THAT THE BROILER INDUSTRY IS SO

ONCENTRATED THROUGH VERTICAL INTEGRATION, THERE IS NO WAY TO DETER THE MARKET VALUE OF A BROILER WHEN IT LEAVES THE GROWING FACILITY. THE SO-CALLED "CONTRACT GROWER" DOES NOT KNOW THE VALUE BECAUSE THEY ARE NOT PRIVY TO PRODUCTION COST, AND THE CONTRACT OWNER REFUSES TO GIVE THE INFORMATION TO THE CENSUS BUREAU.

HOW DID THIS HAPPEN? IT IS WELL RECORDED IN COURT RECORDS.

IN THE LATE 60'S AND EARLY 70'S IN NORTHEAST ARKANSAS, WHERE VERTICAL INTEGRATION BEGIN IN THE BROILER INDUSTRY, INDEPENDENT AND CONTRACT BROILER PRODUCERS FORMED "MARKETING COOPS" SO THEY COULD NEGOTIATE A DECENT PRICE FOR THEIR LABOR AND INVESTMENT. THOSE MARKETING COOPS WERE JUST LIKE THE ONES MENTIONED IN THE PROPOSED AMENDMENTS. THE "PROCESSING CONTRACTORS" BEGIN "BLACK BALLING" PRODUCERS THAT GOT INVOLVED IN THESE COOPS. SOMETIMES THEY DID THIS SIMPLY BECAUSE THEY ATTENDED A MEETING, OR HELPED ORGANIZE A MEETING, OR EVEN REQUESTED A COPY OF THEIR CONTRACT WITH THE PROCESSOR.

NEEDLESS TO SAY, THIS "BLACK BALLING" AND DISCRIMINATION WERE ILLEGAL, BUT THROUGH THE PROCESS OF APPEALS AND LEGAL MANEUVERING, IT WAS SEVEN YEARS BEFORE A DECEASE AND DESIST ORDER WAS FINALLY PASSED DOWN BY THE COURTS.

NOW I ASK YOU, IF YOU HAVE A BIG INVESTMENT IN BUILDINGS AND EQUIPMENT, PLUS PAYMENT SCHEDULES AND INTEREST, HOW LONG COULD YOU SURVIVE A BLACKBALL OR A LOCK OUT OF YOUR MARKET, EVEN THOUGH IT WAS ILLEGAL.

JUSTICE DELAYED IS JUSTICE DENIED.

THOSE PEOPLE WERE DENIED JUSTICE. THERE WAS A COURT DECISION THEIR FAVOR, BUT JUSTICE WAS DELAYED THROUGH THEIR SEVEN YEAR TREK THROUGH THE COURTS. IT COST THOSE POTENTIAL ENTREPRENEURS THEIR LIFE SAVINGS, THEIR FARMS AND THEIR DREAMS AND HOPES. YET THAT CORPORATION IS STILL DOING BUSINESS TODAY.

IN TODAY'S WORLD OF FINANCE, WHAT WOULD A SEVEN WEEK DELAY, OR A SEVEN MONTH DELAY, LET ALONE A SEVEN YEAR DELAY, IN JUSTICE, MEAN TO TODAY'S CONTRACTOR OF SERVICE IN A CAPTIVE MARKET TO A "CORPORATE" PROCESSOR?

IF A CORPORATION SUCH AS SEABOARD CONTRACTS WITH A SO-CALLED "PRODUCER" UNDER COST-PLUS CONTRACT TO PROVIDE A "SERVICE" OF RAISING HOGS, IS THAT CONTRACT PROVIDER SELLING THOSE HOGS TO SEABOARD OR IS HE PROVIDING A "SERVICE OF RAISING HOGS" FOR SEABOARD?

IN MY FULL STATEMENT PAGE 5. I ADDRESS THE FREE TRADE ISSUE. THIS RELATES TO THE TAX BREAKS AND BENEFITS THAT WILL BE PASSED ON INDIRECTLY TO THE "CORPORATION", IN THIS CASE SEABOARD, THROUGH THE COST PLUS CONTRACTS WITH THE PROVIDER OF THESE "SERVICES" OF RAISING HOGS.

THESE TWO ISSUES COME TOGETHER UNDER WHAT IS LABELED IN THE FEDERAL REGISTER AS, DESIGNATION OF RURAL EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES, WHICH ALLOWS SUBSIDIES FOR REGIONAL DEVELOPMENT, THAT TRACKS WITH PARTS OF THIS BILL IN 9 THROUGH 12.

ON FEBRUARY 1, THE WALL STREET JOURNAL CARRIED A STORY ABOUT 44 U.S. SENATE REPUBLICANS WHO WERE REPORTED TO BE OPPOSED TO SUBSIDIES FOR REGIONAL DEVELOPMENT OF THIS FORM, BECAUSE AS SENATOR DANFORTH CALLED IT, IT WAS A TURN AWAY FROM FREE TRADE, A MAJOR SHIFT IN U.S. TRADE POLICY

ROM ONE PROMOTING FREE TRADE COMPETITION TO ON_ PROMOTING GOVERNM SUBSIDIES.

THAT IS THE BOTTOM LINE OF THIS ENTIRE ISSUE ON OPEN OR CAPTIVE MARKETS. HOW WILL RURAL COMMUNITIES SURVIVE IN A WORLD OF FREE TRADE DOMINATED BY TRANSNATIONAL CORPORATIONS?

STATEMENT

OF

IVAN W. WYATT, PRESIDENT

KANSAS FARMERS UNION

ON

SENATE BILL 554

CORPORATE HOG BILL

BEFORE

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

FEBRUARY 23, 1994

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I AM IVAN WYATT, PRESIDENT OF THE KANSAS FARMERS UNION.

BEFORE WE GO ANY FURTHER I HAVE TO ADDRESS NEW SECTION 1, PAGE 1, THE SO-CALLED COUNTY OPTION. IT'S NOVELTY IS NEW.

APPARENTLY IT EVEN THREW THE NEWS MEDIA OFF. THEY ARE REPORTING, UNDER SB-554, COUNTIES COULD VOTE TO BRING IN THE CORPORATE HOG IF THEY WANTED IT. SB-554 SAYS IT WILL BE A FACT UNLESS THEY VOTE IT OUT, AND THEY HAVE ONLY A VERY NARROW WINDOW OF TIME TO DO THAT.

I SUPPOSE IT WAS ACCIDENTAL THAT THE TIME OF THE PETITION SIGNING IS ONE OF THE BUSIEST OF TIMES FOR AGRICULTURAL PRODUCERS, ESPECIALLY FOR FAMILY DIVERSIFIED PRODUCERS.

I WOULDN'T THINK THAT THE AUGUST PRIMARY WAS CHOSEN BECAUSE THAT IS THE ELECTION OF LOWEST VOTER PARTICIPATION.

I CAN ONLY SAY, THIS SECTION SETS UP A VERY UNUSUAL PROCEDURE OF PROTECTING COUNTY RIGHTS.

AGAIN WE SEE THE PROMOTERS OF THIS CORPORATE HOG BILL TRYING TO SELL IT AS AN "ECONOMIC DEVELOPMENT" SCHEME. SB-554 IS A PRIME EXAMPLE OF THE "TROJAN HORSE" THEORY. THIS BILL IN FACT SHOULD BE LABELED, "THE TROJAN HOG BILL".

THE PROPONENTS OF THE CORPORATE HOG ISSUE ARE TRYING TO SELL IT AS ECONOMIC ENHANCEMENT OF RURAL COMMUNITIES. ANY IN-DEPTH, UNBIASED OR COMPARISON STUDY WOULD SHOW IT OTHERWISE.

REFERRING TO THE TROJAN HOG BILL PART, BEGINNING WITH SECTION 2, PAGE 2 LINE, LINE 4.

I THINK MOST EVERYONE UNDERSTANDS "PROCESSOR PRODUCTION CONTRACTS" THESE CONTRACTS MAKES THE PRODUCER VIRTUALLY A CAPTIVE OF THE HOLDER OF THE CONTRACT. IN THIS CASE THE PROCESSOR (SEABOARD), BECAUSE OF THE "COST PLUS" PAY-OUT OF THE CONTRACT, ANYTHING THAT LOWERS THE COST OF ANY OF THESE INPURT COSTS, THE SAVINGS FLOW DIRECTLY TO, IN THIS CASE, SEABOARD.

WE HAVE ALL HEARD THE SEABOARD SPOKESPERSON SAY, ALL THE PRODUCTION WILL BE WITH "COST PLUS CONTRACTS."

THEREFORE, THE BOTTOM LINE IS, EVEN THOUGH SENATE BILL 554 HAS THE SO-CALLED PROHIBITION AGAINST THE USE OR BENEFIT OF "REVENUE BONDS TO "THE CORPORATION." SECTION 2, LINE 4, PAGE 2; AND PROPERTY TAX E EMPTION, ETC. SECTION 5, PAGE 8, LINE 26 FOR "AGRICULTURAL LAND" DEFINED ON LINE 3, PAGE 3 FOR "SWINE PRODUCTION FACILITY" PAGE

5, LINE 28 HELD [THE "CORPORATION," THE PR JCTION CONTRACTS ARE SO CONSTRUED THAT ANY OF THESE TAX BREAKS, BENEFITS, ETC. WILL INDIRECTLY BE PASSED ON TO THE BENEFIT OF THE PROCESSING CORPORATION THAT PAYS FOR THE SERVICE OF PROVIDING THE PRODUCTION ON A COST PLUS BASIS CONTRACT.

IN MANY IF NOT ALL CASES THE "CORPORATION" PROVIDES FOR THE FINANCING OF SUCH FACILITIES. THE ENCUMBRANCE SECURITY SECTION, OF THIS BILL, PAGE 6, LINE 8 THAT PROVIDES FOR THE LEGAL TAKING AND OWNERSHIP OF THE FACILITY BY THE CORPORATION IN CASE OF DEFAULT WOULD ALLOW THE CORPORATION TO TAKE LEGAL TITLE OF THE SWINE PRODUCTION FACILITY," AND NO DOUBT
CONTINUE TO ENJOY ALL THE TAX BREAKS AND INCENTIVES PROVIDED IN THIS BILL.

SINCE THE PRODUCTION FACILITIES WE ARE SPEAKING OF HAVE VIRTUALLY NO OTHER USE, THERE WOULD BE VIRTUALLY NO RE-SALE VALUE EXCEPT TO THE PROCESSOR "CORPORATION," OR ANOTHER OF THEIR CONTRACT PRODUCERS.

NEITHER WOULD THERE BE ANOTHER MARKET FOR PRODUCTION OUT OF SUCH A FACILITY SINCE THE MARKET IN THE AREA WOULD BE DOMINATED BY THAT SINGLE "CORPORATE" PROCESSOR.

I SUSPECT THAT A CONTRACT PRODUCER WOULD FIND FINANCING FROM HIS HOME TOWN BANKER RATHER DIFFICULT ON SUCH PROPERTY THAT HAS SUCH A VERY LIMITED USE FOR THE BORROWER, OR THE LENDER IF THEY SHOULD HAVE TO TAKE OVER THE PROPERTY. THEREFORE, EVEN THOUGH THE TROJAN HOG BILL SAYS NO TAX BREAKS OR CREDITS ETC. FOR THE "CORPORATION," THAT "CORPORATION" IDENTIFIED ON PAGE 2, LINE 17 WOULD BE THE ULTIMATE BENEFACTOR OF THE TAX BREAKS, BONDS, ETC.

A RATHER CRUEL HOAX TO PLAY ON THE VOTER AND THE TAXPAYER, ESPECIALLY WHEN A MAJOR PART OF THE BENEFITS PROVIDED WILL FLOW OUT OF THE COMMUNITY, OUT OF THE STATE INTO AN INTERNATIONAL COFFER.

IF YOU TALK TO COUNTY COMMISSIONERS THAT HAVE HAD SIMILAR LARGE FACILITIES, LOCATE IN THEIR COUNTIES, THEY WILL TELL YOU THE COUNTY ENDS UP PAYING OUT HUGE AMOUNTS OF TAX DOLLARS MAINTAINING, AND OR BUILDING ROADS AND BRIDGES FOR THE LARGE TRUCKS SERVING THOSE FACILITIES, WHILE THE COUNTY RECEIVES VERY LITTLE ADDED TAX DOLLARS TO PROVIDE THESE ROADS, BRIDGES, ETC.

NONE OF THIS SOUNDS VERY VOTER OR TAXPAYER FRIENDLY.

WE DON'T WANT TO FORGET THIS BILL ELIMINATES THE "VERTICAL INTEGRATION" PROHIBITION PASSED ONLY A COUPLE OF YEARS AGO. IF SB-554 BECOMES LAW, HOW SOON WILL THERE BE A BILL TO ELIMINATE THE PROHIBITION OF TAX BREAKS, EXEMPTIONS, ETC. TO "CORPORATIONS".

WE ARE BACK TO WHERE WE BEGIN. IT IS OBVIOUS THE HUGE MULTI NATIONAL CORPORATION CAN NOT COMPETE AGAINST THE INDEPENDENT PRODUCER WITHOUT A DIRECT OR INDIRECT TAX BREAK, LOWER INTEREST, NUMEROUS OTHER SUBSIDIES, AND CAPTIVE PRODUCERS.

THE DEBATE OF THIS ISSUE REMINDS ME MUCH OF THE DEBATE OF THE SEVENTIES AND EARLY EIGHTIES OVER WHETHER IT WAS A FINANCIALLY WISE DECISION TO BUILD THE HUGE GENERATING PLANT AT BURLINGTON. EARLY ON CONSUMERS WERE TOLD ELECTRICITY WOULD BE SO CHEAP METERS WOULD NOT BE NEEDED. IN THE END THE CONSUMER LOST, KG & E WON, AS ANY OF THEIR CONSUMERS TODAY THAT HAS TO PAY FOR ELECTRICITY KNOWS.

RECENTLY, THE PRESIDENT OF K G & E WAS QUOTED AS SAYING, "IF

WE HAD IT TO DO ER, WE WOULD NOT BUILD WOL CREEK TODAY." WHEN THAT LEGISLATION WAS GOING THROUGH THE LEGISLATURE, ANYONE WHO OPPOSED THAT LEGISLATION WAS DECLARED OUT OF TOUCH, AGAINST PROGRESS, AND DIDN'T UNDERSTAND THE ECONOMICS OF BIGNESS. MUCH LIKE WE ARE HEARING FROM THE PROPONENTS OF THIS LEGISLATION NOW.

LAST YEAR THIS COUNTRY VOTED ON THE SO-CALLED "NAFTA FREE TRADE."

HAS ANYONE CONSIDERED WHETHER THIS LEGISLATION IS NAFTA COMPATIBLE? HAS ANYONE CONSIDERED HOW THE NAFTA RULES WILL EFFECT GOVERNMENTAL UNITS GIVING TAX ADVANTAGES AND BENEFITS DIRECTLY OR INDIRECTLY TO ANY PRODUCTION THAT IS INVOLVED IN IMPORT AND EXPORT MARKETS? WE DID HEAR THE SEABOARD SPOKESPERSON MENTION EXPORTS NUMEROUS TIMES.

INCIDENTALLY THIS IS THE CORE ISSUE WITH THE CANADIAN-U.S. WHEAT IMPORT DISPUTE, AND THE SO-CALLED INDIRECT "CROW" FREIGHT RATE SUBSIDY FOR CANADIAN GRAIN EXPORTS.

IN THE FEBRUARY 1, 1994 WALL STREET JOURNAL, 44 U.S. SENATE REPUBLICANS WERE REPORTED TO BE OPPOSED TO SUBSIDIES FOR REGIONAL DEVELOPMENT. SENATOR DANFORTH CALLED IT A TURN AWAY FROM FREE TRADE. REGIONAL DEVELOPMENT SUBSIDIES IS WHAT THE LANGUAGE ON PAGES 9 THROUGH 12 IS ALL ABOUT. IT LOOKS LIKE THIS IS A NEAT LITTLE PACKAGE BETWEEN OKLAHOMA AND KANSAS THAT WILL BENEFIT THE ENGLISH ECONOMY THROUGH THE SEABOARD CORPORATION, AT THE EXPENSE OF THE AMERICAN TAXPAYER.

WHEN YOU ASK SOME SUPPORTERS OF THIS LEGISLATION WHAT WILL HAPPEN TO THE KANSAS RURAL COMMUNITY WHOSE EXISTENCE IS DEPENDENT ON

THE WHIM OF A TR/ -NATIONAL CORPORATION'S D' ISION TO POSSIBLY M''E THEIR OPERATIONS SOUTH TO MEXICO TO TAKE ADVANTAGE OF A LESS SEVE.. CLIMATE, ENVIRONMENTAL RULES NOT READILY ENFORCED, AND WORKER SAFETY, AND RIGHTS ARE VIRTUALLY NON-EXISTENT, WHERE FRINGES AND WAGES ARE LOWER AND THE WORLD MARKET THAT WILL SOON BE AS EQUALLY ACCESSIBLE TO THE THEM AS IT IS FOR US NOW. THEIR EXPRESSION IS USUALLY I DON'T WANT TO THINK OF THAT, OR TALK ABOUT IT.

RELATED TO THIS, ON A RECENT TRIP TO MEXICO WE VISITED AN AREA ONLY A TWO HOUR DRIVE BELOW THE BORDER WHERE WE SAW THOUSANDS OF POULTRY HOUSES, WHERE THE TEMPERATURE NEVER GETS ABOVE 80 DEGREES OR BELOW 30 DEGREES. WHERE THE CLIMATE IS DRY, AND THERE IS ABUNDANCE OF RECHARGING UNDERGROUND WATER.

THE AG MINISTER OF NUEVO LEON STATED WHEN CHEAP GRAIN BEGINS TO FLOW INTO MEXICO FROM THE U.S. OR ELSEWHERE, THAT AREA WOULD THEN BE ABLE TO COMPETE WELL WITH AMERICAN PRODUCED MEATS.

UNDER THE SITUATION OF THE RULES OF SO-CALLED "FREE TRADE", THE ONLY WAY RURAL COMMUNITIES MAY BE ABLE TO SURVIVE ECONOMICALLY, OR HAVE ANY SENSE OF CONTROL OF THEIR FUTURE, WILL BE TO USE LOCAL INITIATIVE, LOCAL INVESTMENT, AND LOCAL CONTROL TO ASSURE THIS WON'T HAPPEN. THE PROFITS OF MARKETING, PROCESSING AND PRODUCTION, ALL THREE WILL HAVE TO BE RETAINED AS MUCH AS POSSIBLE IN THE COMMUNITY, IF THEY WISH TO MAINTAIN AN AMERICAN STANDARD OF LIVING.

THIS PROPOSED LEGISLATION (SB-554) WOULD ESTABLISH AN ECONOMIC BASE THAT COULD EASILY MOVE WITHOUT CONSCIENCE OR CONSEQUENCE.

THERE ARE ALTERNATIVES TO HAVING A TRANSNATIONAL CORPORATION BASED IN EUROPE, AFRICA, OR WHERE EVER, CONTROLLING THE LIFE OR

DEATH DECISIONS OF OUR RURAL SOCIETY.

IN KANSAS WE HAVE THE EXAMPLE OF THE PRODUCER-PROCESSOR-MARKETING WHITE WHEAT CO-OP. THE NORTH DAKOTANS ARE RE-INVENTING THE COMMUNITY CO-OP WITH THEIR PASTA AND SUGAR CO-OPS.

YEARS AGO, THE CANADIANS TOOK THE U.S. COMMUNITY CO-OP CONCEPT THAT WE USED TO BUILD OUR THOUSANDS OF COMMUNITY FUNDED CO-OP ELEVATORS. MANY OF WHICH ARE STILL EVIDENT TODAY IN ALMOST EVERY RURAL TOWN OF KANSAS. THE CANADIANS BUILT THEIR DAIRY, PORK, POULTRY, EGG, BEEF INDUSTRY ON THAT COMMUNITY CO-OP CONCEPT RIGHT INTO TODAY'S MODERN WORLD OF PRODUCTION AND MARKETING.

WHEN YOU DRIVE THROUGH RURAL CANADIAN TOWNS, YOU DON'T SEE DEAD OR DYING DOWNTOWN BUSINESSES. YOU SEE PROSPEROUS LOOKING DIVERSIFIED FARMING OPERATIONS. YOU SEE MANY MORE YOUNG FARM FAMILIES, BUSY SCHOOLS AND CHURCHES.

MS. SPRAGUE SPOKE IN SENATE HEARINGS OF THE USE OF COMPETITIVE ELECTRONIC MARKETING OF PORK IN CANADA THAT HAS RESULTED IN A DECLINE IN THE VERTICALLY INTEGRATED PRODUCTION OF PORK, AND AN INCREASE IN PRODUCTION OF PORK BY INDEPENDENT PRODUCERS.

I THINK YOU WOULD HAVE TO SAY THEY HAVE BEEN SUCCESSFUL. TODAY ACCORDING TO THE CANADIAN CENSUS, THE OVER-ALL AVERAGE AGE OF THE CANADIAN FARMER IS 47 YEARS OF AGE, AND IN THE MORE DIVERSIFIED AREAS, OF PORK, POULTRY, ETC. PRODUCTION, THAT AGE IS ABOUT 40 YEARS OF AGE.

WHEN IN JAPAN A COUPLE YEARS AGO I SAW A SIMILAR SUCCESSFUL COMPETITIVE MARKETING SYSTEM IN USE THERE FOR THEIR INDEPENDENT MEAT

PRODUCERS.

I THINK WE ARE BEGINNING TO SEE A RECOGNITION OF ALTERNATIVES TO THE MIND SET THAT ONLY AN OUTSIDE CORPORATION IS THE ANSWER.

THE QUESTION BEFORE US SHOULD BE MORE THAN SIMPLY, DO WE WANT TO GIVE TAX BREAKS AND ASSORTED ADVANTAGES TO A LARGE FOREIGN INVESTOR SO THEY PROSPER AT OUR EXPENSE, AND HAVING CONTROL OF OUR FUTURE, OR SHOULD OUR GOAL BE TO BUILD RURAL ECONOMIES THAT SERVE RURAL COMMUNITIES.

WE ARE TOLD TODAY IN THE ECONOMIC WORLD, THE FUTURE OF AMERICA INTO THE NEXT CENTURY IS NOT WITH THE LARGE TRANS-NATIONAL GIANTS, BUT RATHER WITH THE MEDIUM AND SMALLER ENTREPRENEUR TYPE BUSINESSES. BUSINESSES THAT CAN RESPOND MORE QUICKLY TO THE EVER CHANGING MARKET, RATHER THAN WITH THE TRANS-NATIONAL GIANTS ATTEMPTING TO LOCK IN AND DOMINATE THE MARKET.

THIS IS THE FORK IN THE ROAD. YOU MEMBERS OF THIS COMMITTEE HAVE THAT DECISION TO MAKE.

IF YOU CHOOSE TO MAKE KANSAS AGRICULTURE INTO A CORPORATE MAQUILADORA ZONE, THEN WE SHOULD BEGIN TO DECIDE WHO WILL TURN THE LAST LIGHT OFF IN RURAL KANSAS, AND INFORCE "THE POPPERS" THEY WERE RIGHT.

KANSAS STATE UNIVERSITY PRESIDENT JON WEFALD RECENTLY STATED, "HISTORY IS NOT IRREVERSIBLE AND WE CAN MAKE A DIFFERENCE. COMMUNITIES DO NOT HAVE TO FADE INTO OBLIVION, BUT THEY MUST AGGRESSIVELY SEIZE CONTROL OVER THEIR OWN DESTINY.

IN CONCLUSI[illegible] A FEW WORDS FROM KANSAS [illegible]C.'S "A KANSAS VISION", PLANNING FOR ECONOMIC DEVELOPMENT COMMUNITIES. "DON'T FOR QUICK FIXES, OR ONE OR TWO INITIATIVES THAT WILL SAVE YOUR COMMUNITY. 'THE OLD WAY'" OF DOING ECONOMIC DEVELOPMENT IS OBSOLETE, AND DON'T MESS WITH FOOT-LOOSE COMPANIES THAT ARE PRONE TO RELOCATE."

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE. THANK YOU.

I am Lloyd Helwig of Columbus. I have an eighty sow farrow-to-finish unit.

Let's look at what Seaboard promises the producer. Their contract I saw guaranties 4200 head of hogs for two years. Let's look at what income we as producers can expect.

Income:

4200 hogs X 240 lb.	=	1,008,000 lb.		
Incoming wt.	=	- 189,000 lb.		
Shrink at 4%	=	- 40,320 lb.		
Total pay wt.	=	778,680 lb.	X $.06 =	$46,720.80

Expense:

Building Cost - $140,000

2 yrs. Depreciation (Straight line-10 yr.)	=	$28,000
2 yrs. interest at 8%	=	21,280
Water-1022000 gal. at $3 thousand	=	3,066
Manure disposal	=	3,500
Electricity	=	?
Taxes	=	?
Labor	=	?
Death loss	=	?
Disposal fee for dead hogs	=	?
Veterinary labor	=	?
		$55,846

Total Income for two years = $9,125.20 loss

If you received 5400 head of hogs the income might be $60,069.60

Additional charge for water and waste disposal and other =- 57,788.00

Income for 2 years work	=	2,281.60
Figure a 2% death loss	=	- 1,201.39
Income for 2 years work	=	$ 1,080.21

If this is economic growth, I think Kansas is better off without it. This doesn't count what a community looses without the individual producer. Think of the school revenue that will be lost as well as other revenue. I'm told corporate revenue turns over twice in the community, and individual revenue turns over five times. Let's keep the family farmer and work with him and not the corporation. Let's make Kansas better - not worse.

Thank you.

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February 22, 1994
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SIERRA CLUB

Kansas Chapter

Testimony on Corporate Hog Bill (S.B. 554)
William J. Craven, Legislative Coordinator
Kansas Sierra Club and
Kansas Natural Resource Council
February 22, 1994
House Economic Development Committee

Thank you, Mr. Chairman, and members of the committee for providing the 4,000 members of the Kansas Sierra Club and the Kansas Natural Resource Council to voice again their opposition to yet another proposed change in the Kansas corporate farming law.

I'm sure many of you are tiring of this issue. This is probably about the tenth time I have testified on this issue in the last two sessions. This is beginning to look like a war of attrition, with the special interests better able to outlast the farmers and independent producers who truly oppose this bill.

I appreciate the amendments which were made by the Senate. However, my main concerns are that corporate farming is economically damaging to family farms and the rural economy of many Kansas communities, leads to greater economic concentration in an industry which is already controlled by too few, and, without adequate safeguards, leads to irreversible environmental damage. Family farms--which I acknowledge can be corporations--are far better suited to diversification, economic efficiencies, and environmental protection. Although I have continued to review this issue, I have found nothing to alter my views.

I want to make it clear that the Sierra Club and KNRC is aware that Kansas unfortunately has lost too many farmers. Those losses can't be regained by this proposal. Instead, this bill would virtually guarantee further losses in the number of family farmers, including those involved in pork production.

The environmental effects of large confined livestock operations are obvious and well-known. The major issues are manure control and wastewater run-off control.

KDHE's abilities to regulate confined livestock operations are already subject to criticism. This regulatory effort now receives about $22,000 of its $440,000 operating budget from fees. That is a paltry percentage compared to the fees other businesses pay for permits in this state, and the

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legislature should re-consider the funding for this program prior to allowing even more permit applications to swamp the agency.

The risk of water pollution from confined feedlot operations is not mythical. In one survey, Kansas ranks 50 of all 50 states in terms of the numbers of our rivers and streams which support their designated uses. Only 7 percent of Kansas rivers and streams fully support their designated uses, and feedlots and animal wastes contribute to the use impairment of more than 11,000 miles of Kansas streams and rivers. More than half the streams in this state are unsafe even for wading or swimming. Water quality across the state is often impaired by fecal coliform, sediment, and nitrates. Fecal coliform is strongly linked to confined livestock operations, and the other two can be, depending on the situation.

Among the things that should be required is an environmental and community assessment conducted by KDHE, and paid for by the applicant, before any corporate pork production is allowed in this state. There should be an opportunity for public comment and even public hearings at both the state and the county level. Also, the legislation should spell out in detail exactly what factors should be looked at. At a minimum, these would be the quality of the jobs created, the benefits provided workers, the supply of water and energy, odor control, wastewater management, manure supply and control, and measures for enforcing these regulations. It might also be wise to require large confined livestock operations to have certain insurance limits in case environmental remediation of water supplies is required.

This issue is one in which the Sierra Club hopes the legislature reaches conclusions which support family farmers and the environment. Farms which operate on a smaller scale, and which are not essentially industrial-style production units, are usually better for the environment. Equally important, family farms can help re-create a rural economic base in Kansas. Family farms contribute to the state's social mix, and small farm communities spend more money for household supplies and building equipment. Schools, churches, newspapers, parks, and civic organizations survive in towns with a broad-based family farm economy.

Thank you for considering the Sierra Club's views on this important issue.

KANSAS GRAIN AND FEED ASSOCIATION

STATEMENT OF THE

KANSAS GRAIN AND FEED ASSOCIATION

TO THE

HOUSE ECONOMIC DEVELOPMENT COMMITTEE

REP. BOB MEAD, CHAIRMAN

REGARDING S.B. 554

FEBRUARY 22, 1994

The following statement is filed on behalf of the more than 1200 members of the Kansas Grain and Feed Association (KGFA). Association members are involved in the handling, storage and merchandizing of grain, as well as feed manufacturing. We appreciate the opportunity to express our support for changes in the Corporate Farming Law.

S.B. 554 would allow corporations the same rights in Kansas relative to swine production as they currently have with beef, poultry and rabbit production. Kansas agriculture is part of a global marketplace. Therefore, preventing corporate swine production in Kansas does not prevent it elsewhere and simply makes Kansas hogs less competitive by encouraging the establishment of swine processing and related industries in other states where more hogs produced.

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P.O. BOX 2429 ● Topeka, KS 66601-2429 ● (913) 234-0461 ● FAX (913) 234-2930

However, KGFA does not whole-heartedly support the county option proposed in S.B. 554. This subdivides the state and puts producers in opt-out counties at a further disadvantage. Also, the precedent set by the bill -- allowing a vote to determine who can and cannot do business in a county -- may not be wise. In 1992, the Legislature passed a FIFRA pre-emption bill that prohibits local units of government from selectively banning agricultural chemicals approved for use by the state and federal government. The same principle holds in the case of corporate swine production.

This concern aside, Kansas needs the jobs and the revenue which will accompany increased hog numbers. More hogs will increase the feed grain demand, a plus for Kansas farmers, grain elevators and feed manufacturing facilities. For example in Southwest Kansas, in our opinion, the feed grain production would be less than it is today if the beef feedlot industry did not exist. Whether we like it or not, all of agriculture has seen many changes in the past decade. Fewer farms are producing more with fewer grain elevators and feed manufacturing facilities operating in the marketplace and it seems that this trend will continue.

KGFA also believes a change in the law would benefit our farmer customers. We believe changes in the Corporate Farming Law will open up new opportunities for farmers by allowing them to spread their risk through contract farming.

We must all remember that the move to open the corporate farming law is driven by the marketplace and consumers demand for a lean and consistent pork product. Vertical integration in corporate swine production should not displace current hogs in the marketplace because they are being grown for a specific destination and a specific consumer product. The success of a lean and consistent product could also increase consumption of pork and thereby benefit all swine producers.

KGFA believes that expanding the Corporate Farming Law is good for Kansas in the long term. If you have any questions, you may contact Jamie Clover Adams, Director of Legislative and Regulatory Affairs for KGFA.