Are producer-owned meat packing plants needed?

NEWARK, Del. — Meatpacking — the slaughter and processing of livestock — is an increasingly unsettled industry. Yet it's the critical link between livestock production and meat consumption. "Delaware livestock producers, especially of pork and beef, need to seriously consider the future of meatpacking in this area and explore alternatives, including producer-owned meatpacking plants," says University of Delaware extension economist Gerald F. Vaughn.

Meatpacking operations have changed radically in recent years, the economist says. The trend today is toward fewer and larger packers. Acquisition, merger, bankruptcy, wage concessions, plant closings, plant reopenings and other readjustments have confused the structure of the meatpacking industry.

The full impact of these changes isn't yet clear. Livestock producers fear that large packers will depress livestock prices. Consumers are concerned that large companies, by controlling the market, will drive up wholesale and retail meat prices. And small competing packers worry about being forced out of business.

Delaware's main livestock enterprises, other than poultry and dairy, are hogs and beef cattle. Expanding pork and/or beef production would help diversify the state's agricultural base and supplement farmer income, Vaughn says. But the lack of local slaughter houses and market outlets could prevent this expansion.

For years hogs were a sideline among Delaware farmers, who used the animals to glean fields of fed them low cost home-produced and waste feeds. Production facilities were meager and followed a single litter system. Many farmers still raise a few pigs for home use and extra income, but over the past decade a specialized confinement, continuous pork production system has become well established in the state.

"The long term value of these newer intensive management systems in Delaware is still uncertain," Vaughn says. However, commercializing production has forced farmers to adopt new technology in breeding, nutrition, housing and disease control. "The result has been a much more efficient and competitive hog industry. Yet small-volume producers with full equity, especially if they have a diversified farm business, may withstand current economic stresses better than large-volume farmers who are deeply in debt."

Nationally, hog production is rapidly becoming even more specialized, the economist says. "Full-supply contracts between hog producers and meat processors would seem a logical extension of the integrated production-marketing system so successful with broilers."

In light of this trend, long-run price advantages for hogs, feed and transportation, and size of enterprise may favor increased pork production in the Corn Belt. How will this affect local pork producers?

Despite some drop in Delaware hog production in the early 1980s, Vaughn sees the potential for at least modest expansion, including participation in a regional or national electronic market system. The outlook would be even better, he says, should local corn yields rise dramatically as the result of more extensive irrigation. If this occurs, surplus corn not needed for broilers would likely be best used as swine feed.

Delaware's beef industry consists primarily of small cow-calf or cow-yearling operations. Finishing, a more specialized enterprise, is concentrated mainly on one feedlot run by a large vegetable processor. Beef cattle inventories and marketings in the state fluctuate sharply from year to year.

Vaughn believes current economic conditions favor at least modest expansion of local beef operations. Cattle rising in particular, he says, lends itself to part-time farming by more affluent people who want to own land and live in the country. The climate in Sussex County is mild enough to grow winter forage which can be grazed between September and March or April. And there may be a good market for dairy beef.

With good management, some farmers might be able to supplement their income by raising beef in idle dairy facilities, feeding grain and vegetable crop residues, the economist says. "Profits depend largely on using low cost feeds. But unless managed carefully, cattle operations aren't very competitive in the use of labor and capital."

Loss of area meatpacking plants is the biggest problem for Delaware pork and beef producers. "The Northeast is a pork and beef deficit market," Vaughn says. "Processors receive daily shipments of animals for slaughter from the eastern edge of the Corn Belt and southern states. These animals compete with eastern produced livestock, both in price and consistent quantity and quality."

Northeastern slaughter houses dependent on supplies of live animals from distant production areas have trouble competing with packing plants located in those areas, where live animal prices, as well as labor and operating costs, are lower. As transportation and labor costs rise, the trend in meatpacking has been toward complete breakdown of carcasses into wholesale or consumer cuts and packages (boxed pork or beef) at the place of slaughter.

As midwestern shipments of boxed meat to the East Coast increase, there's always the chance that more nearby slaughtering facilities may go out of business, Vaughn says. If this should happen, many Delaware farmers would probably stop producing hogs or beef. Sheep producers did this when their nearby market outlets closewd.

To keep this from happening, the economist suggests mid-Atlantic livestock producers discuss the situation with processors, farm cooperatives, feed manufacturers, distributors and other related businesses having a vested interest in a strong, competitive local livestock industry.

"Producers of farm commodities often band together to preserve an area market outlet," Vaughn says. "Producer-owned meatpacking facilities, either as cooperatives or privately-held corporations, might be worth considering for Delaware."

In regions with limited livestock production, smaller meatpackers may profitably serve local or specialized markets that large packers can't, he says. Such small plants typically engage in commercial slaughtering; custom slaughtering, processing and freezing; wholesaling meat to local hotels, restaurants, schools, nursing homes and other institutional buyers; and retailing meat to consumers. These plants may actually have an advantage over larger firms in being able to offer special customer services.

"Under the right conditions," says Vaughn, "a producer-owned packing plant could help Delaware livestock producers market their meat. It's certainly an alternative worth exploring."

Carefully examine the pros and cons of meat-packing operations

NEWARK, Del. — In some cases livestock producers in Delaware and other mid-Atlantic states may benefit by establishing producer-owned packing plants, either as cooperatives or privately-held corporations, says University of Delaware extension economist Gerald Vaughn.

"Such operations can have several possible advantages," says the economist. "A producer-owned plant can enjoy a dependable livestock supply. At the same time, its owners reduce the risk of not having a market for the animals they raise. They're also assured a fair price with prompt payment, though realistically they shouldn't expect more than the market price."

Before deciding to get into the meatpacking business, however, Vaughn urges livestock producers to take a close look at the factors involved.

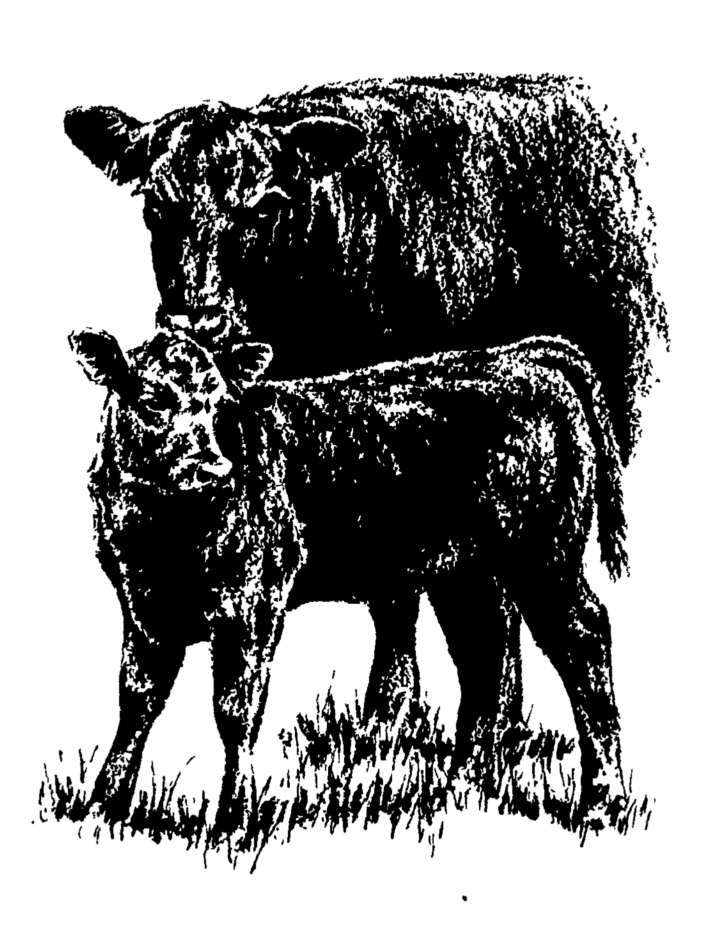
Investigate marketing opportunities available to such a plant. Is this the appropriate solution to an area's marketing problem? Look at current and future marketing conditions. Analyze likely costs and benefits from a producer-owned plant. Consult with existing packers and others knowledgeable about the industry.

If the outlook is favorable, be prepared to commit livestock, money and time to the enterprise. This means agreeing to grow the type of meat the plant's customers want. It also means delivering livestock for slaughter when promised.

"Clement Ward, an extension livestock marketing specialist at Oklahoma State University, has done considerable research on producer-owned meatpacking operations," Vaughn says. "He points out that producers must also be willing to commit themselves financially. This means putting up the equity capital to buy or build a plant. Capital contributions may be proportional to the volume of each member's expected marketings at the plant. Larger growers would pay more in total, though investment per head of livestock would be the same for small or large growers."

There's also a time commitment to consider when looking at a producer-owned operation. Most of the organization's leadership must come from producers. This means attending annual meetings, serving on committees and the board of directors, and working well with management.

Be prepared to pay for high quality management. Good management is the most important key to success, Vaughn says. It's expensive, but usually worth the price. Management and the board of directors have specific responsibilities. Each must carry these out with help from the other, but without interference.



Consider various possible forms of ownership - for example, a cooperative vs. a privately-held corporation. Compare advantages in financing, taxes, and securing members and capital.

Decide on the function of the plant (slaughter only vs. slaughter plus various types of further processing). Other considerations are size of plant, livestock species to be handled, and number of producers investing. This helps determine the amount of capital needed and the obligation of each producer.

Don't expect instant success or large profits. Producer-owned packing plants cannot guarantee higher prices or profits. There may be problems to solve involving environmental concerns (wastewater, sewage treatment, air pollution), labor relations or government regulations.

"By considering these factors from the start, a producer-owned meatpacking venture stands a better chance of succeeding," Vaughn says.