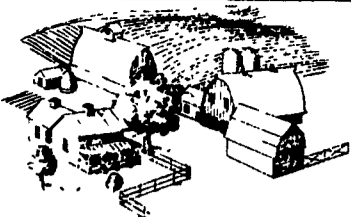


FARM MANAGEMENT



SWINE CONTRACT ALTERNATIVES

Roland P. Freund
Farm Management
Agent

In the past decade there has been a virtual takeover of our swine industry by integrators or "contractors." However, the size and scale of their operations has not made these contractors immune from the problems of the marketplace.

Unfortunately, the "contract" has not protected the farmer from the difficulties, misfortunes, and insolvency of any contractor who has experienced problems. Many farmers have the potential of being left with empty buildings and nobody to stand behind the "contract." This is a major problem for both the farmer and the banker, who could be left holding the mortgage for a substantial balance on

the facilities.

What alternatives do farmers have when they lose their contract?

1. Find another contractor. If other contractors are looking for more producers, it may be possible to join that organization. But they are likely to be very selective in whom they sign on. So it will probably be necessary to have clean and functional facilities, and if possible, a good previous production record to have much chance of being chosen.

2. Go back to being an independent producer. This will probably require substantial operating capital. Bankers may be unwilling, in the light of the industry outlook, to lend more money. But a business plan that is based on past documented performance and realistic assumptions could be convincing to a lender, providing it projects a healthy cash flow and some profitability.

3. Form an association of pro-

ducers. If all the producers laid off by a contractor were to organize themselves into a marketing and buying organization, they would have sufficient clout in the marketplace to make their operations more profitable than they would be as independent operators. This would require trust, cooperation, and strong and effective management and leadership of the farmers involved.

4. Find alternative use for the facility. Single-purpose structures are not easily modified for other livestock applications. It is probably impossible to get them sufficiently manure- and odor-free for use as commercial storage, etc.

5. Liquidate the operation. Selling out may be the only option for some farmers in the light of the swine industry outlook. It is better to sell out while there is still some equity to recover than to continue with operating losses until bankruptcy is forced upon the operation. Unfortunately, swine buildings generally do not enhance the marketability of real estate in southcentral Pennsylvania.

If you wish to evaluate the financial impact of alternatives that you might be considering, contact your extension office and ask for your farm management agent.

We cannot do anything about

the turmoil in the industry, but we can help you to find a solution that should be most beneficial for you in the long run.

Years ago, it was possible to rely upon the cycles in the marketplace to turn around and restore profitability to the swine business. That came about because a whole bunch of small producers cut back or dropped out of production in times of low price.

When the market is dominated by large operations which do not cut back in times of depressed prices, integrators try to hang onto their market share until they are

forced right out of business. So now, the marketplace cannot be expected to "recover" until one or more of these "titans" sinks out of sight, dragging a lot of their farmers with them.

Unfortunately, we can expect that the battle will continue to be fought between the integrators, but at the cost of lower returns to the farmers. It might be a long time before the Northeast region and the national industry stabilizes, and even then it is unlikely that the farmers' margins will have shown any great improvement.

Cooperative Farmers' Market Opens

SCRANTON (Lackawanna Co.) — The Cooperative Farmers' Market will open on July 12 here on Albright Avenue.

The market, open every Monday, Wednesday, and Friday from noon until 7 p.m., provides free parking and a great selection of produce from area growers. The

market will be open from July 12 until Thanksgiving, including Labor Day.

The market is located off the Scranton Expressway from the Providence Road exit onto Albright Avenue.

For more information, contact the market at (717) 563-2258.

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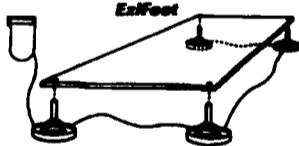
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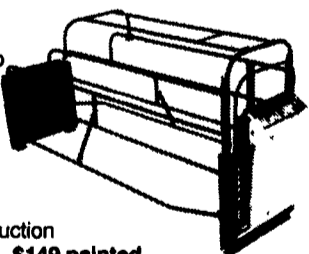
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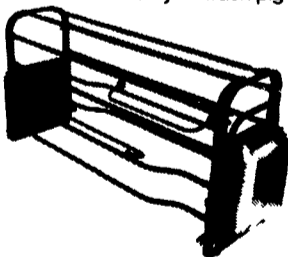


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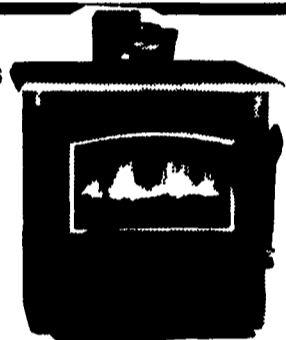
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