

An Open Letter To Pork Producers From National Pork Producers Council

Editor's Note: This open letter from the National Pork Producers Council in reference to the disastrous prices for live hogs was sent to us by Herbert Schick, secretary-treasurer of the Pennsylvania Pork Producers Council with the request to have it published in *Lancaster Farming*. "We appreciate your cooperation in printing this information in your newspaper so that we can be sure all producers and consumers will be aware of the situation as it exists at this time," Schick wrote. Here is the open letter along with a list of the national board of directors. If you have questions or comments, you may contact Schick by phone at (215) 285-6519.

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An Open Letter to Pork Producers from the
Board of Directors of the
National Pork Producers Council (NPPC)

Dear Pork Producer,

The current market for live hogs is a disaster. We recognize the crisis resulting from the current market, and are trying to do everything in our power to remedy the situation.

In this letter, we will attempt to answer the three key questions that every pork producer is asking: 1) Why are live hog prices so low when retail prices for pork remain high?; 2) What is NPPC doing about this economic crisis?; and 3) What can you as an individual pork producer do?

1) Why are prices so low when retail prices for pork remain high?

The present critical situation is primarily supply driven. It is not that we are producing too much pork - domestic consumer demand and exports are actually up significantly compared to 1997. However, we are producing too many hogs for the existing slaughter capacity in the industry. Simply stated, live hog production has gotten so close to slaughter plant capacity and producers have lost bargaining power. Federally inspected slaughter has exceeded more than 2.0 million hogs per week for seven of the last eight weeks. In fact, last week (November 8) was the largest federally inspected hog slaughter in history. Current industry slaughter capacity is estimated at 385,000 head per day. The present slaughter crisis has been further complicated by the loss of approximately 35,000 head of daily slaughter capacity in the last 18 months as a result of the closure of three packing plants (IBP - Council Bluffs, IA, Dakota Pork - Huron, SD; and Thorn Apple Valley - Detroit, Michigan) along with the permanent loss of one shift at Smithfield - Bladen County, NC.

While the present price emergency is primarily supply driven, current margins in the pork chain are troubling. The average retail price in September was \$2.31/lb. retail weight. According to USDA's Economic Research Service, producers received a record low 21% of the retail (consumer) price of pork in September. The following table reflects the September, 1998 shares for producers, packers, and retailers, and the average split for 1986 - 1998.

Sector	September '98 Share %	"Normal" Share 86-98
Producer	21	37
Packer	19	16
Retailers	60	47

It is important to note that while some retailers are not featuring pork, more than 23,000 grocery stores (20 major chains) are aggressively featuring pork and dramatically narrowing margins as part of the Pork The Other White Sale campaign to enhance the movement of pork. Although it is not reflected in today's farm level prices, retail demand for pork is up 7.1 percent versus last year. By comparison no other meat protein (Beef - 0.7%, chicken - 1.5%, turkey - 0.6%) has a positive retail change increase this year.

2) What is NPPC doing to address this economic disaster?

NPPC is aggressively working on the slaughter capacity issue and encouraging packers and retailers to significantly narrow margins to more reasonable levels. Regarding slaughter capacity, NPPC is communicating with every packer in the United States asking them to increase slaughter capacity through increased chain speeds, overtime/second shifts Saturday and/or Sunday kills. We need to achieve the ability to slaughter 2.2 million head per week in the near term. The loss of slaughter capacity during the last 18 months is now haunting us. Regarding margins, NPPC is requesting that every pork packer and processor and retailer participate in a major "Couponing Initiative" on loins and hams. We are asking that packers/processors and retailers cover the redemption cost of the coupon for this effort. This substantial couponing initiative will effectively reduce current price spreads and offer consumers a better value.

In addition, NPPC has a large number of checkoff funded programs in place that are designed to increase the domestic and international demand for pork. Should you want additional information on any of these efforts please contact NPPC at 1-800/456-7675 or your website at www.nppc.org.

Finally, it is important to note the significant success pork producers are having on demand in 1998. For instance:

- ❖ As stated earlier, retail demand is up 7.1 percent in 1998. No other meat protein has had a positive demand at the retail level this year. This has been aided by checkoff funded efforts like The Other White Meat Sale, and the introduction of many new products including the McGrilled Pork Sandwich at McDonald's.
- ❖ U.S. pork exports are up 32 percent in volume compared to a year earlier despite serious challenges resulting from the Asian currency crisis and the devaluation of the Russian ruble. Further, U.S. pork exports have exceeded the previous year's performance for 15 consecutive months. The recent announcement of 50,000 metric tons of pork to Russia in humanitarian aid is a direct result of requests by pork producers across the nation. This single deal is equivalent to 8.8 percent of projected total U.S. pork exports for 1998.
- ❖ Per capita consumption of pork is projected to increase by five pounds per person (CWE) in 1998.
- ❖ Despite an 11 percent increase in slaughter, pork stocks in cold storage through September have actually been reduced.

We fully recognize that these successes do not mean much to pork producers when hogs are under \$20/CWT. It is very important that, in addition to resolving the present slaughter capacity bottleneck, we enhance demand and sell pork profitably.

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