Commodity Pricing Hearing

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board of directors, chaired by state Rep. Sheila Miller, a long-time advocate of agriculture in the state.

With the support of the board, Rep. Miller called for a hearing to receive comments on commodity pricing and the effects upon the state's rural community.

The hearing was held in early January, during Farm Show, at the state Farm Show Complex in Harrisburg.

Despite poor road conditions, it was attended by a number of representatives of agricultural organizations with offices in Harrisburg, as well as representatives of the livestock production and processing industry in the southern region of the state, and the state General Assembly's respective agricultural leaders and their representatives.

In addition to Rep. Miller, also representing the Center for Rural Pennsylvania was its secretary, Joe Dudick, who also serves on the Center's board as the representative for Gov. Tom Ridge; and Barry Dank, executive director of the Center.

The hearing was held because of severe declines in livestock and grain producer prices, while consumer prices have not correspondingly fallen.

However, the plight of producers of market hogs dominated testimony.

According to information presented, in Pennsylvania, from November 1997 to November 1998, there was a 22-percent average decline in producer prices.

While all livestock producers received lower prices, independent hog producers received the greatest reduction, with a 50-percent or more decline in price.

During the same time, the price of corn, oats and potatoes, declined by 25 percent.

Rep. Miller said that the effects were not only felt by Pennsylvania producers, but producers nationwide.

She said that from July 1996 to July 1998, producer prices declined 25 percent, while consumer prices increased 8 percent.

In 1980, producers received 37 cents of the retail dollar, while it declined to 23 cents in 1997.

"I'm sure any other industry would not have survived" the decrease in producer prices, she said.

In 1997, producers lost $350 million, or an average of $6,400 per farm, according to Rep. Miller.

Furthermore, she stated that between 1990 and 1997, the state lost 3,000 farms, or an average of one farm per day. In terms of productive farmland, Miller said that during the same time, 400,000 acres of farmland were converted out of agricultural production, which she said equated to a rate of 135 acres per day.

Rep. Miller said that, in light of the severity of the problem facing domestic agricultural producers, the hearing was held in an attempt to gather information that could help identify the causes for the drop in commodity prices; to better quantify the impact of the problem; and to generate suggestions for what state government can do to help.

"It is also important to tell consumers what is happening within the farm community," she said.

David Reinecker, president of the Pennsylvania Pork Producer's Council who raises Yorkshires in Bermudian Springs, and Oscar Manbeck, director of the PPPC, testified first.

Reinecker's son Andrew, a high school student involved with the family farm operation, sat next to his father at the witness table.

Reinecker said the spate of low prices is something, "... the likes of which haven't been experienced since the Great Depression. We are victims of our own success.

"We are simply producing more than the market will bear. It must correct itself through a reduction in national inventory," he said.

As far as what the state could possibly do to help protect the instate industry, he suggested that it create a premium pricing program, which in his description sounded similar to what Pennsylvania has established (and courts have upheld against many challenges) for the dairy production industry through the authorities granted the Pennsylvania Milk Marketing Board.

According to Reinecker, the background of Pennsylvania hog production is that instate producers have had an economic disadvantage in raising hogs when compared to producers in Midwestern states, mainly because corn prices in Pennsylvania are higher than in the Midwestern states.

Reinecker also said that packers in the Midwestern states compete for hogs, and while Pennsylvania hog producers had previously enjoyed about a $2.50 per hundredweight price advantage compared to Midwestern competitors, the margin has been nonexistent for years.

He said the Depression-level producer prices receiving currently by producers are great for two leading instate processor-buyers, Hatfield Quality Meats Inc. and Leidy's. He also noted that those buyers had recently established minimum prices for producers.

"Currently their markets are some of the strongest in the nation," he said.

In addition to suggesting that state government should create a pricing law whereby instate packers are required to pay instate producers more for their hogs, Reinecker said the government should also consider a labor subsidy for hog packers, in the form of tax relief.

To help pay for the tax break, or as a substitute program to add value to instate produced market hogs, it was also suggested that some form of tariff on fuel, or a Pennsylvania Turnpike toll incentive, could help to finance support for instate producers and create a disincentive for packers to purchase out-of-region produced hogs.

He said that, in his opinion, the current producer-price crisis is "... serious for all producers, large and small. But I recognize the industry is responsible for the prices."

Rep. Miller questioned Reinecker about some of the specific changes and advances made within the pork industry that may be partially responsible for the overproduction for market.

She asked about the number of sows (females producing young) as compared to the number of farms.

It was noted that while there are many times fewer individual hogs operations in the state and nation, they are larger and overall hog production has increased.

While the number of sows producing feeder pigs may have declined, it does not reflect a decrease in feeder hog production. Rather, there has been a dramatic increase in production per sow, in terms of the average number of piglettes in each litter, as well as the number of litters per year.

Production has ballooned because of the advantages of better nutrition, genetics, and husbandry techniques, he said.

At the same time, the animals being produced are not as diverse in carcass composition as in the past, which makes for more consistency, requiring less overhead costs for packers.

Reinecker said the low hog producer prices have created a financial nightmare for farmers who have watched their investments depreciate toward bankruptcy, and has caused bankers to tighten up on loans.

"When prices plummet, banks pull back to guard their assets. Banks are getting very jittery (about their loans) without having assets on the farm to cover them," Reinecker said.

He expressed hope that lenders would be patient with clients who produce hogs, because it is Reinecker's belief that the current price decline is part of a cyclical price movement and that it will rebound.

However, it was noted that when producers are receiving $40 to $50 per animal that normally would bring $250, it is difficult to absorb that kind of loss.

It was reported that, as of early January, some pork producers had already pushed their credit line to the point where they had only enough credit to cover the cost of a week's worth of feed.

"December has been ugly, ugly, ugly for the pork industry," he said.

In response to questions from Dudick and Miller, the representatives of the state's pork producers said that while the 1996 Farm Bill was designed to wean all United States agricultural production away from government support prices, in preparation for eliminating hurdles to creating fair international free trade pacts, the pork production industry, especially in Pennsylvania, has never relied much on government support.

It was said that while this is still the assumed preference of pork producers, several outside causes prompted the plunge in prices — specifically, the failures of the economies of nations to which much of the surplus pork was intended to be exported.

Instead, all that pork that was to be headed for China, etc., was foisted upon the domestic market.

It was also explained by a member of the audience that the major reason wholesale and retail prices have not dropped in response to producer prices is because of a bottleneck in the slaughtering industry.

It was explained that in response to increased federal government rules and regulations of slaughter house and butcher houses (which were created in reaction to incidents involving illnesses and deaths that resulted from the consumption of undercooked, contaminated meats), as well as increased efficiencies, the nation is limited in the number of hogs that can be slaughtered daily.

According to a member of the audience, there are only 380,000 shackles (which hold the killed market hogs) nationally, implying that regardless of the number of hogs waiting to be killed and processed, the nation's plants have been running at full capacity, and the cost of slaughtering and marketing hasn't changed, just the cost of the raw product.

It was estimated that, as a result of the failed exports being dumped on the domestic market, six months worth of additional supply was in the producer-to-market pipeline.

It was also reported that the current glut of market hogs on the domestic market may well result in the failure of a fourth of the nation's producers before the surplus can be absorbed.

"We're not talking months," Reinecker said. "We're talking days and weeks. We need help immediately."

Dudick said that in very short time, China has become a world leader in apple production, pressuring not only Pennsylvania apple growers, but even Washington state apple growers, whose production usually affects Pennsylvania producer prices.

He asked if it were possible for China to adopt United States hog production technology to become a world leader in low-cost pork production.

According to representatives of the PPPC, while it is best to never say "never," the climate of the United States is ideally suited for hog production, whereas there is no comparably sized favorable climate region in China.

While that doesn't necessarily preclude China from becoming a world-leader in hog production, it makes it less likely.

It was explained that hogs have a preferential temperature range of 60 to 70 degrees, and while they can tolerate temporary swings in temperature above and below optimum, they don't do well if the temperature is consistently higher or lower.

(Part II Next Week.)