Testimony of Rick Sietsema
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Allendale, Michigan
on Behalf of
The National Turkey Federation
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Good afternoon, Chairwoman Stabenow, Ranking Member Roberts and members of the committee. My name is Rick Sietsema, partner, member, and CFO of Sietsema Farms and our related businesses in Allendale Michigan. I want to thank the committee for inviting me to discuss the state of the U.S. livestock industry today.

Sietsema Farms' production facilities are located throughout West and Central Michigan. We are an integrated agriculture business raising grain crops, livestock, producing feed from our two feed mills, leasing out local retail facilities, and operating a True Value Hardware. We're a multi-generational, family owned business with our roots firmly imbedded in agriculture.

As a member of Michigan Turkey Producers we raise a quarter of the 4.6 million turkeys produced in the state of Michigan and marketed both domestically and internationally. Together as a Co-op of producers we employ over 800 associates with a total payroll exceeding $18 million, and an additional $6 million in benefits. Production inputs of feed stuffs, utilities, and local support for processing, maintenance, shipping, and marketing exceeds $85 million annually. In addition to this are 44 farm production sites with their associated land and tax base. As a whole, Michigan Turkey Producers has an economic impact in excess of $120 million in West Michigan.

Sietsema Farms is also involved in the swine industry, operating production facilities and maintaining several partnerships raising 700,000 head of market hogs and genetic seed stock annually. As a Newsham Genetics supplier, we produce and deliver replacement breeding stock across the Mid-West and Ontario Canada. We employ more than 150 associates and have contract grower relationships with another 100 family owned and operated farms. The economic impact to Michigan and neighboring states, including Ontario, exceeds $135 million, plus that of the additional 100 family owned and operated farms that grow and finish hogs for Sietsema Farms.

With our agricultural focus Sietsema Farms has proactively worked with Natural Resource Conservation Services (NRCS) and its available programs. We are enrolled in the Conservation Security Program (CSP) for crop production across 1,500 acres. We've also enrolled 13 acres of buffer strips (15

feet wide) around productive crop land in the Conservation Reserve Program (CRP), as well as installed several Shallow Water Wildlife Areas to assist in water runoff and sediment capture from productive farm land. The Environmental Quality Incentives Program (EQIP) has been utilized for the construction of several manure storage facilities that safely hold turkey manure for future land application or sales. In the near future turkey litter from our production facilities will be delivered to our new state of the art biomass gasification facility (see attached article). With this facility Sietsema Farms' turkey production will be a closed environmental loop as we produce our own electric and gas needs for the feed production of our turkeys and swine, greatly reducing our carbon foot print.

USDA Rural Development has been a significant resource contributing to our ability to invest great amounts of capital into agriculture. When our market for turkeys was going to be closed when Sara Lee moved out of the state of Michigan in the late 1990s, USDA Rural Development loan guarantees made it possible for the group of growers to get access to the needed credit to facilitate the construction of both a turkey processing facility, and a further processing and cooking plant. USDA Rural Development was also significant in our ability to fund the gasifier facility noted above, which is the first of its kind in the world.

Sietsema Farms has been Michigan Agriculture Environmental Assurance Program (MAEAP) verified for the past 7 years in Livestock Production, Farmstead, and Cropping. We continue to support and encourage Michigan farms to participate in this industry leading, voluntary environmental verification program.

This is the state of our business at Sietsema Farms and where we fit in the industry today. Let me share with you our thoughts, opportunities, and concerns as we move forward in agriculture with the next generation.

Structure of Today's Turkey Industry

Most people would characterize the turkey industry as vertically integrated and while the assessment is relatively accurate, it fails to capture the diversity of operations that make up today's industry of 270 million turkeys raised per year.

The industry is vertically integrated in the sense that the individual processors make the decision about how many turkeys will be raised and marketed, and growers raise birds in accordance with those production plans. In many cases, the vertical integration follows the classical model: the processor, or integrator, owns the turkeys throughout their lifespan. The processor provides turkeys to a grower and

also supplies the feed and health services necessary to raise the bird to maturity. The grower in turn provides the housing and his or her expertise in raising turkeys and is compensated by the processor based on a variety of factors, including weight gain, efficient use of feed, and low mortality rates.

In other instances, turkeys are raised on a marketing contract. In this situation, the grower owns the turkeys throughout their life cycle and provides the feed and health services, as well as the housing and production expertise. The processor then purchases the turkeys at a previously contracted price. Certain premiums may be paid based on factors outlined in the contract.

Finally, some turkeys are raised on company-owned farms. In this model, the company not only owns the turkeys throughout their life cycle and provides feed and health services; it also provides the housing and employs growers to oversee the production.

Some companies exclusively use one model or another. At Michigan Turkey Producers, we as a Co-op of 16 members have a production plan that is periodically reviewed by a board of members that establishes the quantity of turkeys and an agreed upon pricing model that will allow for appropriate production levels to maximize the Co-op's ability to remain profitable during various industry cycles. However, it also is common in the industry for companies to use multiple production models. Some will raise birds on production and marketing contracts while others will utilize a mixture of production contracts and company-owned farms.

Structure of Today's Pork Industry

Pork production has changed dramatically in this country since the early 1990s. U.S. pork farms have changed from single-site, farrow-to-finish (i.e., birth-to-market) production systems that were generally family-owned and small by today's standards, to multi-site, specialized farms many of which are still family-owned. The changes were driven by the biology of the pig and the business challenges of the modern marketplace. Separate sites have assisted in controlling troublesome and costly diseases and enhanced the effect of specialization. Larger operations can spread overhead costs (such as environmental protection investments and expertise) over more farms and purchase inputs in larger lots to garner lower input costs. This change in size has been the natural result of economies of scale, plain and simple.

Marketing methods have changed as well. As recently as the early 1980s, a significant number of hogs were traded through terminal auction markets. Many producers, though, began to bypass terminal markets and even country buying stations to deliver hogs directly to packing plants to minimize

transportation and other transaction costs. Today, very few hogs are sold through terminal markets and auctions, the vast majority of hogs are delivered directly to plants.

Pricing systems have changed dramatically as well, from live-weight auction prices to today's carcass-weight, negotiated or contracted prices, with lean premiums and discounts paid according to the predicted value of individual carcasses. The shift to lean premiums and discounts was largely responsible for the dramatic increase in leanness in pork seen in the 1990s.

Today, the prices of about 5 percent of all hogs purchased are negotiated on the day of the sale. All of the other hogs are packer-produced or sold through marketing contracts in which prices were not negotiated one lot or load at a time but determined by the price of other hogs sold on a given day, the price of feed ingredients that week, or the price of lean hog futures on the Chicago Mercantile Exchange. These newer risk-management mechanisms are entered into freely and often aggressively by producers and packers alike to ensure a market for and a supply of hogs, respectively, and to reduce the risks faced by one or both parties.

Feed Inputs and Grain Policy

The road to profitability begins with production costs. Feed is the most expensive of these inputs, accounting for 60-70 percent of the cost of raising turkeys and swine. Livestock is fed a mix of corn and soybean meal, with corn accounting for again roughly 60-70 percent of the ration. When feed costs increase dramatically, the industry's profit margins shrink accordingly. If there is an oversupply of turkey, pork, or all meat proteins, or if the general economy cannot support passing the increased feed costs to customers, then the industry begins to lose money rapidly.

This certainly was the case in 2008 and 2009. Corn prices and the resulting feed costs nearly quadrupled in a span of barely two years. Smart hedging strategies kept feed costs manageable for much of 2007, but by the end of that year production costs had reached a point where virtually everyone in the livestock industry, and everyone else who produced/processed/or marketed meat and poultry products, had to pass cost increases along.

For the past decade the livestock industry has been conservative with its growth and expansion of live production. However, when prices rise to a certain point, livestock and poultry producers begin to increase production to take advantage of the strong prices. Economists are fond of saying about the meat and poultry industry that "nothing cures high prices like high prices." The resulting increased production eventually reaches a point where the market has too much meat protein available, or too

much of a certain meat protein, and prices begin to fall. In the mid-1990s feed costs were high then, too, but those high costs were the result of specific global weather events and were relatively short lived. It took the turkey industry, the pork industry and, to a lesser extent, the beef and chicken industry longer to work through the oversupply issue.

The situation in 2008 was different. The industry did not lose its discipline. Real consumer demand for turkey, pork, and all meat proteins had been rising for several years. There was no reason to believe that consumers would not support another year of production increases, so most companies made expansion plans. The year began with most industry observers anticipating an overall production increase of 5 percent or more. It was at that time when the run up in grains due to short supply and ethanol demand became ever more apparent.

Future Challenges

The biggest reason the industry is not more optimistic in the face of strong prices is feed costs. Corn and other feed prices have begun to rise again, going from less than $4 per bushel for corn to more than $7 per bushel in barely a year.

We can find a lot of economists who give conflicting arguments as to why feed costs have gone up, and I'll quote some of their statistics in a minute, but you really only need old-fashioned common sense to understand that the ethanol policy is driving these cost increases. When the Renewable Fuels Standard (RFS) was implemented in 2006, corn prices were around $2.50 per bushel. By the end of the first year of the RFS, prices were well above $3 per bushel and as the RFS increased, corn prices kept rising, ultimately topping out at $8 per bushel.

I know the arguments that speculative funds were what drove up corn prices, and they played a role. But, what attracted those funds to the corn market in the first place? The knowledge that the federal government had created a guaranteed market for corn-based ethanol. It's as close to a sure thing as you can get when it comes to a commodity investment.

Ultimately, farmers responded by planting more corn, and enjoyed several years of very good harvests. Corn prices settled back a bit, though they operate at a permanently higher plateau where $3.50 per bushel now is the "low end" of the price range. But, there is a major problem with this new dynamic. The market can only absorb the ever-increasing demand for ethanol if we have ever-increasing corn harvests. If the harvest is off only slightly, as was the case with the crop just harvested and projections moving forward, prices have begun to soar once again – this time to record highs. Think about it: we just

harvested the third-largest corn crop in U.S. history, and that hasn't been sufficient to prevent a stocks-to-use ratio that is at or near its record low.

There is one reason and one reason only for that: ethanol. As a percentage of the total crop, feed usage is down considerably. Exports and food consumption are in line with historical levels. But, ethanol's share of the corn crop has increased from less than 10 percent at the beginning of the previous decade to almost 40 percent today. Total corn usage, driven by nearly 5 billion bushels of corn going to ethanol production, is now routinely over 13 billion bushels per year and still growing because of constantly rising renewable fuels mandates and, at least at present, soaring oil and gasoline prices, which make ethanol production more profitable. The increasing demand for corn has resulted in cash corn prices of more than $7.50 per bushel and corn futures prices well over that. Policies that convert food and feed stuffs into fuels and energy will only increase the tax payers cost of providing appropriate nutrition for the family. Be it by direct purchases or through USDA programs for school lunches, WIC, food stamps and the like.

The 2006 to 2008 run up in corn prices cost the turkey industry more than $1 billion. The current run-up in corn prices will have a significant price tag and has undoubtedly laid its toll on several meat companies with more to inevitably follow. The ethanol debate has aroused a lot of emotion on all sides, and I would like to cut through that and get to the essence of the issue:

First, we must quit pretending that ethanol hasn't had an impact on livestock and poultry farmers as well as end consumers. It has and it will continue to have one as long as these federal policies are in place. Any difficulties with this year's or next year's U.S. corn and soybean crops could be disastrous for U.S. livestock producers. We're already off to a poor start with the 2011/2012 crop year, with ever increasing reports of millions of unplanted and flooded acres. Ethical care of livestock requires producers to feed them even when feed prices are high and uneconomical to sustain. Producers cannot quickly stop production and feed usage, and they will do all they can to keep from having to market immature livestock in their care. But such action might be required should poor growing conditions develop over the next few years. The last real drought in our major corn-growing states happened in 1988, 23 years ago. The Corn and Wheat Belt is overdue for a weather shock which would dramatically reduce grain harvest.

Second, the turkey and swine industry isn't seeking to abolish all federal support for ethanol, and I think you will find the same is true for others in the livestock and poultry industry. Some ethanol supports clearly can be abolished. We thank those that voted for the Feinstein-Coburn amendment,

recently, it sent a clear message that blender's tax credit must be allowed to expire. It's hard to understand why we need both a Renewable Fuel Standard (RFS) and a "blender's" tax credit. The RFS did more for ethanol production in 30 days than the blender's credit did in 30 years. Additionally, the livestock and poultry industry have grave concerns about a significant new federal investment in "infrastructure" for ethanol. Food security is as important as fuel security, and our industry receives no infrastructure subsidy from the federal government. With a guaranteed market for their product, it would seem reasonable that the ethanol industry should be profitable enough to begin developing its own infrastructure.

What the livestock industry is looking for is reform of the existing ethanol policy, a safety net that ensures that corn prices and availability will be less volatile in the future.

This goes hand-in-hand with our third point. This isn't about cheap feed. Yes, high prices hurt us, but severe volatility hurts us worse. More importantly, volatility hinders growth in the poultry and livestock industry. I heard an economist say recently that high corn prices won't hurt our industry as much this time around because we're better prepared for it. That's true, up to a point. We're better prepared because we've drastically cut production (even at a time when corn prices were dropping), and production will not ramp back up in any significant way as long as the specter of enormous feed cost swings exist.

Finally, we have to recognize that ethanol is beginning to divide rural America. Each side likes to portray this as a battle of family farmers on their side against corporate interests on the other side. The reality is that it is not just pitting large food companies against large ethanol companies, its pitting family farmers who raise corn against family farmers who raise livestock and poultry. I see it in my own community. I see it in my own operation. The corn farmer in me likes the prices I've been getting in recent years, but the livestock producer in me sees the real economic damage being caused by huge production cutbacks. We have to drop the "us-or-them" mentality and find common ground. The turkey and swine industry has been willing to seek compromise since the RFS first was being debated and the livestock community has put concrete proposals on the table.

A second major challenge is the marketing rule proposed last summer by USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA). Agency officials say the rule is designed to give family farmers a level playing field when negotiating production and marketing contracts. That may have been the intent but the rule as proposed creates long-term dangers for many of the family farmers who raise livestock under contract.

Many of you are familiar with this rule, so I will not address it on a point-by-point basis, but I will call your attention to three aspects of the rule that, taken together, create enormous potential problems for all segments of the industry.

The first is the competitive injury provision that will make it easier to sue or bring regulatory action against livestock and poultry processors. The second is the provision that requires processors to virtually guarantee growers they can recoup 80 percent of their capital investments. The third is a series of provisions that would discourage competitive contracts in which growers can receive premiums or deductions based on the performance of the livestock in their care.

Taken together these provisions create significant new legal and regulatory risk for the livestock and poultry processors. Within the turkey industry about 80 percent of all birds raised are via a production contract with family farmers. The first and most obvious outcome is that contracts will be less competitive and compensation will become more uniform among growers. For some growers this might be good news, but for those who were doing an outstanding job and receiving premiums will justifiably feel cheated as a new regulation forces everyone down to a lower common denominator.

The bigger impact will come in the long term, though. The rule creates greater economic and regulatory risk for the processors who raise livestock under production contracts. These processors will have to find ways to minimize that risk, and since 80 percent of all turkeys and a large majority of other livestock are raised under these contracts, how that risk is managed will have an enormous impact on the industry. One conceivable option for processors could include reducing over time the number of farms on which they raise livestock. It could prove safer to expand operations on those farms with the best track record, and that poses a threat for growers whose performance is far from poor but who may not meet the rigid criteria necessary for processors to operate in a higher-risk world. Another realistic option would be for more processors to raise livestock on company-owned farms. Right now such farms make up only 10 percent of turkey production and a larger proportion of swine production, but it is easy to envision a scenario in which the percentage is much higher a decade from now.

What is especially frustrating is that USDA promulgated this rule without conducting an adequate economic assessment of its impact. A study funded in part by the National Turkey Federation found an impact of over $360 million on the turkey industry alone. Other studies found the impact might be even higher. Another study released by the National Chicken Council concluded that the rule would cost the broiler industry more than $1 billion over the next five years. According to an analysis of the rule conducted by Informa Economics, it would cost the U.S. pork industry nearly $400 million annually.

Industry analysis of the regulation concluded that it likely will have a chilling effect on innovation and flexibility, leading to a race toward mediocrity. It will create legal uncertainty that will drive costs higher and cause an increase in vertical integration in the livestock sector, driving producers out of the business and possibly affecting supplies. Finally, a study conducted by John Dunham and Associates showed job losses to the meat and poultry industry at 104,000 and would reduce the national Gross Domestic Product by $14 billion.

USDA now has agreed to conduct an assessment, and that is a positive development. However, no one at the department has committed to submitting the study for public comment before finalizing the rule. This is an essential step if there is to be any level of confidence that the final rule truly has the interests of family farmers, as opposed to the interests of lawyers who might try to sue on their behalf, at heart.

An additional challenge that is continuing to impact the industry more and more each year is the removal of health products from livestock production. Along with good animal husbandry, the appropriate use of antibiotics is one of the reasons why the U.S. food supply is the safest and among the most affordable in the world. Without the proper use of antibiotics in production agriculture, the risk of disease in livestock is higher, which will raise the cost of production, waste production resources, and bring to market less healthy turkeys and swine. This in turn will have an impact on food costs at a time when many Americans cannot afford the additional expense. The responsible use of antibiotics helps advance public health, food safety, animal health and animal well-being. Banning properly managed antibiotic use in livestock will have a significant impact on the turkey and swine industry.

How Government Can Help

Though most people in the livestock industry prefer minimal government involvement, there are ways Congress and the Executive Branch have been helping and can continue to help ensure the continued economic viability of the industry.

A prime example would be in the work USDA's Natural Resources Conservation Service had done with regard to the Chesapeake Bay. Their research has demonstrated the significant flaws in the EPA's modeling for the Bay and could serve as the basis for a more balanced regulatory approach that truly enhances the Bay. Furthermore, continued funding of the Environmental Quality Incentives Program (EQIP) is imperative for our industry's ability to implement conservation practices. First, we are pleased that the 2008 Farm Bill kept 60% of the funds for animal agriculture and would hope those

funds would be continued in the next farm bill. Second, flexibility to the existing EQIP program in the types of environmental stewardship projects that would be available would be a positive development, additionally making it easier for livestock and poultry farmers to access such funding is critical. Farms should not be restricted from accessing these resources based upon size, financial benchmarks, or animal units.

As American farmers work to meet a growing world population, national farm policy should shift from funding reserve type conservation programs like the Conservation Reserve Program (CRP) to investing in working lands conservation programs. While programs like the Conservation Stewardship Program (CSP) provide opportunities to recognize excellent environmental stewardship, national farm policy has an opportunity to collaborate with innovative state approaches as a means of increasing enrollment and minimizing federal program paperwork. In Michigan, agriculture has worked in partnership with state, federal, academic and conservation partners to create the Michigan Agriculture Environmental Assurance Program or MAEAP. MAEAP is an industry led voluntary third party environmental "certainty" program for working lands on farms. After over 11 years of program development using federal and state standards, the program was codified into Michigan law this year. Nearly 1000 farms are MAEAP verified as determined by the Michigan Department of Agriculture and over 10,000 farms are in the process. Re-verification of farm participants happens every three years to ensure continued compliance with environmental regulations. MAEAP was developed to assist farmers in taking a voluntary approach to reducing agriculture's environmental impact in the state of Michigan, while continuing to maintain sustainable business operations. Over the past 7 years, our family farms have been involved in the MAEAP program. With Michigan being one of the most agriculturally diverse states, a one size fits all approach to environmental protection simply does not work on all Michigan farms. The MAEAP program encompasses three systems designed to help livestock producers evaluate the environmental risks associated with their operation. Each system (livestock, farmstead, and cropping) examines a different aspect of a farm, as each has different environmental impacts. Through each phase, producers develop and implement economically feasible, effective and environmentally sound production practices. At Sietsema Farms, we have implemented many projects including crop field buffers and filter strips, grass waterways, conservation/minimum tillage and residue management, Shallow Water Wildlife projects, Native Pollinator plantings, irrigation water management, drainage management, runoff and sediment capture, nutrient and pest management, fertilizer containment, and fuel storage security and management.

Lastly, our partnership with the federal government on food safety is vital for consumer confidence in our food supply. While the industry and regulators don't always see eye-to-eye, the government's growing commitment to working cooperatively with processors on a science-based, risk-based inspection system has helped enhance the microbial profile of our food supply, reduced food borne illness and maintained consumer confidence in what continues to be the world's safest food supply.

As technology advances and new business models change operation sizes, production systems, geographic distribution, and marketing practices, we continue to look forward to a bright future in agriculture. The demand for meat protein is on the rise in much of the world. Global competitiveness is a function of production economics, environmental regulation, labor costs and productivity. The United States can continue to be a leader in food production and meet the needs of increased consumer demands as long as exports continue to grow and producers are allowed to operate without undue or unjustifiable legislative and regulatory burdens.

Thank you again for the opportunity to discuss the state of the turkey and swine industry. I will be happy to answer any questions you may have.