Agricultural Policies in the Future

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- Introduction

The steady expansion of governments is having a growing impact on the business of raising hogs. Although increasing taxation and regulation are common for most nations, it has become especially rampant in the U.S. which is the focus of this paper. The primary policy areas which I feel are most crucial for the North American hog industry are: biofuels, environmental, animal rights, pharmaceuticals, international trade, monetary/fiscal, and competition.

- Bio Fuels Policy

The single governmental policy having the greatest impact the North American hog industry is the U.S. government’s biofuels policy. The biofuels policy is diverting a growing share of the grain crop away from feed and into ethanol production, thus driving up feed costs and leading to a smaller livestock herd and poultry flock. The combination of a blenders’ tax credit for buying ethanol and a mandate that gasoline retailers sell it has caused the amount of U.S. corn used to make ethanol to increase from 0.71 billion bushels in 2001-02 to 4.8 billion bushels for the 2010 corn crop. USDA is forecasting that 38% of the 2010 corn crop will be used to make ethanol. More corn for ethanol leaves less for other uses. USDA estimates that less corn will be fed to livestock in the current marketing year than was the case 13 years ago. Less feed dictates fewer livestock. The U.S. mandated use of ethanol for motor fuel increases from 12.6 billion gallons of grain ethanol in 2011 to 15 billion gallons in 2015. Until the U.S. government changes its biofuels policy, annual record crop yields will be needed to keep feed prices from rising even more.
Environmental Policy

The U.S. Clean Air Act of 1970 and the Clean Water Act of 1977 are steadily driving up the cost of doing business in the U.S. As with any open ended objective, the law of diminishing returns applies. At first, these laws achieved great environmental benefits at relatively little cost. Over time, the marginal cost of implementing new requirements steadily increases and the marginal benefit steadily decreases. Thus far, the hog industry has been able to comply with increased environmental regulations at modest cost. Of growing concern is the possibility that crop yields and acres may decline if the U.S. Environmental Protection Agency goes forward with suggested restrictions on allowable runoff of fertilizers and herbicides and dust levels. Environmental regulations are sure to get worse, but hopefully not soon.

Animal Rights

Most people in western societies have little appreciation for the finer details of the process of producing meat, and by and large they don’t want to think about it. When forced to, they are uncomfortable with many of the common practices of animal production and slaughter. This situation is being exploited by several not-for-profit firms, e.g. HSUS and PETA. If western society is able to grow more prosperous, there is good reason to expect increasing regulation on how farm animals are treated.

Pharmaceuticals

The use of antibiotics in livestock/poultry feed is a controversial issue. Concern that antibiotic use in farm animals may lead to human pathogens that are resistant to antibiotics has produced calls to ban antibiotic use at the farm level. The cost of discovering new animal health treatments is going up. The ease of regulatory approval for meat animal drugs is declining. It is reasonable to fear that in the future producers will have fewer options for preventing or treating animal diseases.

International Trade

Most restrictions on international trade of farm products are imposed by the importing nation. There is a natural tendency for nations to try to protect their domestic industries. The U.S. is the world’s largest pork exporter and Canada is the world’s third largest. Open trade is highly beneficial to the North American swine industry. The prolonged period of world economic prosperity
during the 1990s and early 21st century brought with it a general reduction in trade barriers. The weak economic performance of recent years is likely to prove an obstacle to further reduction of trade barriers.

- **Monetary/Fiscal Policy**

Exchange rates are a big factor in international competitiveness. With the U.S. government's huge budget deficits and the Federal Reserve Bank’s aggressive policy of “quantitative easing” there is every reason to expect the value of the U.S. dollar to decline. This should make U.S. exports more competitive, U.S. imports more expensive, and bring high rates of inflation. The Canadian hog industry has fared best when the Canadian dollar was worth considerably less than the U.S. dollar. The Canadian dollar above par with the U.S. dollar for a sustained period cannot be a comforting thought for Canadian hog producers.

- **Competition Policy**

There has been tremendous growth in the average size of the larger hog operations in North America. This has not occurred without objection from persons who wish to see a more traditional hog production system. USDA/GIPSA has proposed a series of new regulations under the Packers and Stockyards Act which will impact the competitive positions of firms in the U.S. meat industry. These new rules, if adopted as proposed, will have a major impact on how livestock and poultry firms transact business with processors and with each other.

Some excerpts from the proposed new GIPSA rules along with my thoughts on their likely impact:

- Section 201.212 (c) – “A packer shall not purchase, acquire, or receive livestock from another packer or another packer’s affiliated companies, including but not limited to, the other packer’s parent company and wholly owned subsidiaries of the packer or its parent company.”

Last year, approximately 7% of barrows and gilts and 35% of sows were sold from one packer to another. A number of cattle also are sold between packers. Fortunately, there appears to a logical and obvious workaround for this proposed new regulation. Packers with animals they are unable to slaughter sell them to a dealer who immediately resells them to another packer. The benefit to the marketing system of this change is difficult to fathom.
• Section 201.212 (a) – “Dealers who operate as packer buyers must purchase livestock only for the packer that identifies that dealer as its packer buyer.”

There are a number of small livestock auctions around the country that sell a wide variety of animals each week. A country sale barn might sell feeder cattle, fed cattle, cull cows, cull bulls, bred cows, sheep, goats, and hogs in any given week. Since the volume of sales in certain categories is very small, it is not unusual for a buyer (sometimes the barn owner) to buy animals for more than one packer. The new rule would prohibit this. The sales company can avoid this problem by reducing the kinds of animals it handles. For producers it is likely to mean a longer haul to sell certain types of animals.

• Section 201.94 (b) – “A packer, swine contractor or live poultry dealer must maintain written records that provide justification for differential pricing or any deviation from standard price or contract terms offered to poultry growers, swine production contract growers, or livestock producers.”

If you start the day bidding 80 cents and find that you are getting more animals bought than you expected, what type of records are needed to justify your cutting the bid price to 77 cents?

• Section 201.2 (u) – Expands the definition of the “likelihood of competitive injury” to include a packer, contractor or live poultry dealer who “wrongfully depresses prices paid to a producer or grower below market value, or impairs a producer’s or grower’s ability to compete with other producers or growers or to impair a producer’s or grower’s ability to receive the reasonable expected full economic value from a transaction in the market channel or marketplace.”

Suppose a cattle buyer is told by the plant to not pay more than 95 cents per pound for choice quality slaughter steers. The cattle buyer stops by a feedlot and offers the owner 93 cents per pound for a pen of cattle. The owner asks for 97 cents. They haggle for a few minutes and finally agree on a sale at 95 cents. The cattle buyer then drives on to another feedlot where he again offers the owner 93 cents per pound for a pen of cattle. The owner asks for 95 cents. They haggle a few minutes and agree on a sale at 94 cents per pound. Did the cattle buyer just “wrongfully depress prices paid to a producer or grower below market value”? If not, why not?

• Section 201.210 (a) (6) – Termination – “If the live poultry dealer or swine contractor believes that a poultry grower or swine producer is in violation, the live poultry dealer or swine contractor must immediately report the alleged violation to the relevant law
enforcement authorities if they wish to use this alleged violation as grounds for termination.”

Under current practice, when contractors see an environmental or animal care problem, they typically tell the grower to fix the problem quick before the government finds out and they terminate the grower’s contract. Under the new rule, when contractors see an environmental or animal care problem, they will tell the grower I have to report you to the government and if they find a problem we will terminate your contract. This proposed new rule turns contractors into spies for the government.

- Section 201.211 – Undue or unreasonable preferences or advantages: “Whether information regarding acquiring, handling, processing, and quality of livestock is disclosed to all producers when it is disclosed to one or more producers.”

Will it be a violation of the Packers and Stockyards Act if a packer buyer says to a producer, “We are full up on our kill for this week and I am only buying for delivery after next Tuesday” without the packer first posting that information on its website?

- Section 201.210 (a) (4) – The term “unfair, unjustly discriminatory and deceptive practice or device” includes “An action or attempt to limit by contract a poultry grower’s, swine production contract grower’s, or livestock producer’s legal rights and remedies afforded by law, including, but not limited to the following:” the right to trial by jury, right to all damages, the right to attorney’s fees and the right to a local jury.

The ability to sue a large out-of-state corporation in front of a local jury is something long desired by many small growers. It is something many large contractors have believed would bring unacceptable risk. The key unknown should this proposal go through is whether large corporations will still be willing to contract with small producers, or will they decide they can only afford to contract with other large firms, or perhaps that they have to stop contracting altogether and raise the livestock/poultry internally within their firm.

I fear these proposed new rules will turn out to be an example of the law of unintended consequences. The only clear winners I see from these proposals are accountants and lawyers. The public comment period on these proposed new rules ended on November 22, 2010. USDA is expected to issue the final rules in early 2011, whereupon a considerable number of lawsuits are expected.
Conclusion

As governments expand, businesses are ever more at their mercy. A study reported last year in the Wall Street Journal concluded that the most profitable type of investment by U.S. businesses was hiring lobbyists.