

HEARING TO REVIEW THE STATE OF THE PORK INDUSTRY

HEARING BEFORE THE SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY OF THE COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES ONE HUNDRED TWELFTH CONGRESS

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HEARING TO REVIEW THE STATE OF THE PORK INDUSTRY

WEDNESDAY, MAY 4, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 2:05 p.m., in Room 1300, Longworth House Office Building, Hon. Thomas J. Rooney [Chairman of the Subcommittee] presiding.

Members present: Representatives Rooney, Goodlatte, DesJarlais, Ribble, Cardoza, Scott, and Schrader.

Staff present: Patricia Barr, John Goldberg, Tamara Hinton, John Konya, Debbie Smith, Pete Thompson, Michelle Weber, Nathaniel B. Fretz, Mary Knigge, and Jamie Mitchell.

OPENING STATEMENT OF HON. THOMAS J. ROONEY, A REPRESENTATIVE IN CONGRESS FROM FLORIDA

The CHAIRMAN. This hearing of the Subcommittee on Livestock, Dairy, and Poultry to review the state of the pork industry will come to order.

Good afternoon and welcome to today's hearing to review the current state of the pork industry. I would like to begin by thanking Ranking Member Cardoza for his help in preparing for today's hearing. I would also like to welcome our witnesses and extend our gratitude to them for being here today to share their time and expertise with our Subcommittee.

This hearing is the third in a series to review the current state of the various sectors of the livestock, dairy, and poultry communities. In today's hearing we will be focusing on the modern pork production sector.

Our witnesses today represent a small farrow-to-finish producer, one of the largest family-owned pork farming networks in the United States, and a packing company.

Pork is the most consumed meat in the world, and U.S. pork producers are doing a tremendous job in meeting the growing demand for this high-quality, safe, and nutritious source of protein.

The trust that global consumers have in U.S. pork is based upon the commitment that our producers have made to responsible animal care, environmental stewardship, and advancements in food safety. I look forward to hearing more about the work each of our witnesses are doing to enhance the quality of pork production in our nation.

Our witnesses have been asked to describe the pork production system from their perspective, discuss current economic conditions, and highlight some of their public policy challenges. In this hearing, as with the other initial hearings we have had, we hope to gain some perspective about the issues we should be focusing on in greater detail later in this Congress.

I appreciate my colleagues' attendance and interest in these initial hearings. I continue to welcome and encourage everyone to offer suggestions as we move forward with our Subcommittee's agenda.

[The prepared statement of Mr. Rooney follows:]

PREPARED STATEMENT OF HON. THOMAS J. ROONEY, A REPRESENTATIVE IN
CONGRESS FROM FLORIDA

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The CHAIRMAN. I would now like to recognize Ranking Member Cardoza for his opening statement.

**OPENING STATEMENT OF HON. DENNIS A. CARDOZA, A
REPRESENTATIVE IN CONGRESS FROM CALIFORNIA**

Mr. CARDOZA. Thank you, Mr. Chairman. It is a pleasure to be here with you again. Thank you to our witnesses for attending today and sharing with us your experience and expertise on the current state of the pork industry.

The industry is vital to the health of our country, and it is vital that we make sure that we keep you strong and healthy and continuing to provide our country with a plentiful supply of your product. Pork production provides nearly 35,000 direct full-time equivalent jobs which helps generate an additional 515,000 indirect jobs. USDA projects that commercial pork production will be at 22.6 billion pounds in 2011, an increase of about half a percent from last year, but this depends largely on the policies developed by this Committee and implemented by USDA.

That is why I am very happy to be working with the Chairman to have this hearing today to discuss pork production and the trends in the industry and the problems this Committee should focus on as we move forward. Our witnesses today will present positive and negative trends faced by producers and packers. These include feed price escalation, animal disease, antibiotic questions, air quality and environmental issues, as well as general Federal over-regulation. As a Committee we will work to help promote policies that will help the pork industry grow and thrive.

A strong pork industry provides affordable, healthy food for our nation and supplies, as I said before, thousands of jobs for our country.

As we continue to listen to agricultural producers, we need to pay special attention to their feedback on which Federal programs are most effective and economically efficient with the industry, and which ones are not working. We are going to have to make some really tough choices as we move forward toward the next farm bill. This Committee must make sure that our resources are focused on initiatives that best help our producers and processors as a whole.

I look forward to your testimony, and I yield back my time.

The CHAIRMAN. I would like to thank the Ranking Member. The chair would also request that other Members submit their opening statements for the record so the witnesses may begin their testimony and to ensure there is ample time for questions.

I would like to now welcome our panel of witnesses to the table: Mr. Doug Wolf, Owner of Wolf L&G Farms, from Lancaster, Wisconsin; Ms. Julie Maschhoff, Vice President, The Maschhoffs, Incorporated, Carlyle, Illinois; and Mr. Rob Brenneman, President and CEO of Seaboard Foods, Shawnee Mission, Kansas.

Mr. Wolf, please begin when you are ready.

**STATEMENT OF DOUG WOLF, OWNER, WOLF L&G FARMS, LLC;
PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL,
LANCASTER, WI**

Mr. WOLF. Good afternoon, Chairman Rooney, Ranking Member Cardoza, and Members of the Subcommittee. I am Doug Wolf, a pork producer from Lancaster, Wisconsin, and President of the National Pork Producers Council. I appreciate the opportunity to appear before you today to testify on behalf of NPPC.

The U.S. pork industry represents a significant value-added activity in the U.S. economy. America's 67,000 pork producers generate nearly \$35 billion of gross national product and help support more than 550,000 mostly rural jobs. The U.S. pork industry can continue to be a leader in food production and meet domestic and world demand for pork as long as exports continue to grow, feed grains are available, and producers are allowed to operate without undue legislative or regulatory burden. I will address each of these factors.

There is no dispute that free trade agreements have been a major reason for the rapid growth of U.S. pork exports over the last 2 decades. The United States is now the lowest-cost pork producer in the world and the U.S. pork industry is the number one global exporter of pork. But the industry will not stay in that position if

competitor countries cut trade deals in key markets and the United States does not.

U.S. pork producers urge Congress to approve free trade agreements with Colombia, Panama, and South Korea. When fully implemented, those FTAs will generate more than \$770 million in additional pork exports, increase hog prices by more than \$11 per head, and create more than 10,000 U.S. pork industry jobs.

While exports have been, and with new FTAs will continue to be, a boon for the U.S. pork industry, they will do little good if domestic policies hamper producers' ability to operate. Hog prices are high now because production is lower relative to just 3 years ago, the results of producers' response to sharply higher cost of production which now averages about \$170 per market hog. That is 20 percent higher than last year and 60 percent higher than the average from 1999 through 2006.

These costs are now being passed along to consumers in the form of higher retail pork prices. The USDA estimates those prices will rise between six and seven percent in 2011.

Certainly other factors are pushing up meat prices, but 65 to 75 percent of pork production costs are for feed, including grain. Those prices also have been rising rapidly because of global shortages and increased demand, particularly from ethanol production. Additionally, feed grain supplies have been getting higher. While producers can deal with higher prices we are concerned about ability of feed for our animals. Despite the third highest corn harvest on record last fall, USDA estimates only about 2 weeks of corn carryover stocks.

Soybean stocks are low. If we have a weather event in the Corn Belt, or if China, for example, makes a major corn purchase, we could see spot feed shortages across the U.S. While DDGs can provide some relief, they have limited use in hog diets and they are not an equal replacement for the corn and soybeans we use. We asked USDA to address these potential feed grain crises, but so far it has taken no action.

Finally, pork producers have real concerns about looming Federal regulations, including ones from EPA, FDA, and USDA that seem to be promulgated without regard to the realities of today's modern food animal production systems. Chief among them is a proposed USDA regulation on buying and selling of livestock and poultry, the GIPSA rule.

As you know, Congress in the 2008 Farm Bill, asked USDA to address five specific issues related to livestock and poultry contracts. Unfortunately, the agency's proposed GIPSA rule goes well beyond those issues. According to a study by Informa Economics, the rule would cost the pork industry alone nearly \$400 million annually. It would create legal uncertainty, raise production cost, lead to more vertical integration in the U.S. pork industry, and could force producers like me out of business.

NPPC wants USDA to write a regulation that sticks to five topics that Congress asked it to address and to do thorough cost-benefit analysis that is available for public comment before it issues an interim or final rule. Not doing so would be reckless and lead to serious questions about the openness and transparency of the rule-making.

Thank you again for inviting me to testify. I would be happy to answer any questions.

[The prepared statement of Mr. Wolf follows:]

PREPARED STATEMENT OF DOUG WOLF, OWNER, WOLF L&G FARMS, LLC; PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL, LANCASTER, WI

Introduction

The National Pork Producers Council (NPPC) is an association of 43 state pork producer organizations and serves as the voice in Washington for the nation's pork producers. The U.S. pork industry represents a significant value-added activity in the agriculture economy and the overall U.S. economy. Nationwide, more than 67,000 pork producers marketed more than 110 million hogs in 2010, and those animals provided total gross receipts of \$15 billion. Overall, an estimated \$21 billion of personal income and \$34.5 billion of gross national product are supported by the U.S. hog industry. Economists Dan Otto and John Lawrence at Iowa State University estimate that the U.S. pork industry is directly responsible for the creation of 34,720 full-time equivalent pork producing jobs and generates 127,492 jobs in the rest of agriculture. It is responsible for 110,665 jobs in the manufacturing sector, mostly in the packing industry, and 65,224 jobs in professional services such as veterinarians, real estate agents and bankers. All told, the U.S. pork industry is responsible for more than 550,000 mostly rural jobs in the U.S.

Exports of pork continue to grow. New technologies have been adopted and productivity has been increased to maintain the U.S. pork industry's international competitiveness. As a result, pork exports have hit new records for 17 of the past 19 years. In 2010, the U.S. exported more than \$4.8 billion of pork, which added \$56 to the price that producers received for each hog marketed. Net exports last year represented about 20 percent of pork production. The U.S. pork industry today provides 21 billion pounds of safe, wholesome and nutritious meat protein to consumers worldwide.

Profile of Today's Pork Industry

Pork production has changed dramatically in this country since the early 1980s. Technology advances and new business models changed operation sizes, production systems, geographic distribution and marketing practices.

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, the business challenges of the modern marketplace and the regulatory environment. Separate sites helped 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 buy in large lots to garner lower input costs. The change in sizes 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, hardly any hogs are sold through terminal markets and auctions, and the vast majority of hogs are delivered directly to plants.

Pricing systems have changed dramatically, too, 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 five percent of all hogs purchased are negotiated on the day of the agreement. All of the other hogs are sold/priced through marketing contracts or packer produced 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.

Robust pork demand in both the domestic and export markets likely will make 2011 a successful year for U.S. hog producers. Pork cutout values and farm-level hog prices are near record highs, and prices of lean hog futures contracts for summer

months exceeded \$100 per hundred pounds carcass-weight until recently. The recovering U.S. economy, the weak U.S. dollar, successful marketing efforts by producer groups, packers and processors and an expanded opportunity for pork sales to South Korea have all contributed to these strong prices.

U.S. Pork Industry Concerns

The demand for meat protein is on the rise in much of the world. Global competitiveness is a function of production economics, regulations, labor costs and productivity. The U.S. pork industry can continue to be a leader in food production and meet the needs of increased consumer demands as long as exports continue to grow, feed grains are available and producers are allowed to operate without undue legislative and regulatory burdens.

Trade

There is considerable global demand for pork and pork products. Pork represents 44 percent of global meat protein intake, far more than beef and poultry. And there is no disputing that free trade agreements have been a major factor in the rapid growth in U.S. pork exports over the last 2 decades. Since the year before the North American Free Trade Agreement was implemented in 1994, for example, U.S. pork exports to Mexico have increased 780 percent to \$986 million last year; since the year before the Australia FTA was implemented, U.S. pork exports to that country have grown by 1,300 percent to \$148 million; since the year before the Central America FTA was implemented, U.S. pork exports to the CAFTA countries have increased by 313 percent to \$119 million; and in the 2 years since the Peru FTA took effect, U.S. pork exports to that South American country have almost doubled to \$1.2 million. The Center for Agriculture and Rural Development at Iowa State University estimates that U.S. pork prices were \$56 per hog higher in 2010 than they would have been in the absence of exports. The U.S. pork industry last year exported more than 1.9 million metric tons of pork valued at \$4.8 billion.

The United States is now the lowest-cost pork producer in the world, and the U.S. pork industry has established itself as the No. 1 global exporter. But the industry will not stay in that position, even as the lowest-cost producer, if competitor countries cut trade deals in key markets and the United States does not.

U.S. pork producers have been and continue to be strong supporters of trade agreements, including the deals with Colombia, Panama and South Korea, which are pending Congressional approval. Iowa State University economist Dermot Hayes estimates that, when fully implemented, those FTAs will generate more than \$770 million in additional pork exports, causing live hog prices to increase by \$11.35 per head and creating more than 10,200 direct pork industry jobs.

The downside of growing exports, of course, is a larger economic impact should there be any disruption in trade. Pork producers understand this dynamic and recognize that it would be devastating for U.S. pork producers and the entire pork industry.

NPPC supports development of risk-management programs that would support producers and packers should U.S. export markets ever be interrupted by a serious animal disease outbreak. This is something NPPC will be working to address in the next farm bill.

As it demands of other countries, the United States must live up to its trade obligations. Bilateral and multilateral trade agreements lay out specific commitments for the signatories, and failure to abide by them can—and often does—lead to disputes that hurt one or more countries.

Such was the case with the trucking provision of the North American Free Trade Agreement among the United States, Canada and Mexico. The United States refused to allow Mexican trucks to haul goods into the country. Mexico took its case to a NAFTA dispute-settlement panel, which ruled that it could retaliate against the United States. In March 2009, the Mexican Government placed tariffs of up to 20 percent on 89 U.S. products worth \$2.4 billion; in August 2010—after no U.S. action to resolve the dispute—it added more products, including pork, to its retaliation list. The duties made U.S. goods going to Mexico less competitive with products from other countries and placed more than 26,000 U.S. jobs in jeopardy.

NPPC is pleased that the U.S. and Mexican Governments finally have resolved the trucking dispute, that the United States will live up to its NAFTA obligation and that Mexico has agreed to suspend the tariffs on U.S. goods. Congress must allow a U.S. pilot program that lets Mexican trucks haul products into the United States to go forward. If it does not, Mexico undoubtedly will reinstate, and possibly raise, the tariffs on pork and other U.S. goods.

Feed Availability

A major reason for higher hog prices is lower production relative to just 3 years ago, the result of producers' responses to sharply higher costs of production. Costs for typical farrow-to-finish producers will average about \$85 per hundred pounds carcass-weight this year based on corn and soybean meal futures on April 1. That figure is 20 percent higher than last year and 60 percent higher than the average for 1999–2006, before the advent of Federal biofuels policies. These costs are now being passed along to consumers in the form of higher retail pork prices, which set six record monthly highs during 2010 and are almost certain to set new highs this year. Indeed, the U.S. Department of Agriculture in its April 25 food inflation forecast projected that retail meat prices will rise six to seven percent this year, the largest jump since 2004.

Certainly, other factors are pushing up meat prices, including increased global demand and higher transportation costs—the result of rising fuel prices. But 65 to 75 percent of pork production costs are for feed, including grains, the prices of which also have been rising rapidly. (Each market pig consumes approximately 10.5 bushels of corn and 4 bushels of soybeans in the form of meal.) Additionally, feed grain supplies, particular corn, have been getting tighter.

Even with the third largest corn crop on record, the projected 2010–2011 year-end stocks-to-use ratios for both corn and soybeans are the lowest ever. USDA recently estimated 2010–2011 crop year corn ending stocks of just 14 days, a historic low. Total corn usage, driven by nearly 5 billion bushels of corn going to ethanol production, is now routinely more than 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 ethanol industry will use more than $\frac{1}{3}$ of this year's corn crop. (As an aside, USDA has overestimated the amount of dried distillers grains with solubles—DDGS, a by-product of ethanol production—that are returned to livestock producers as feed.)

U.S. pork producers are concerned about the impact on the industry of the increased use of corn for ethanol production. The U.S. pork industry strongly believes the country needs a strong renewable energy sector. However, it cannot come at the expense of the U.S. livestock industry. Reducing the use of imported oil—becoming energy independent—and focusing on renewable fuels are laudable, but markets must be neither distorted by subsidies and taxes nor constrained—or compelled—by mandates to the point where they cannot send effective price signals.

Where mandates and subsidies are allowed to exist and distort the market, it is unconscionable that long-established laws would be ignored to drive greater ethanol production. But this is the path the Administration has taken in response to demands to allow an increase to 15 percent (E15) from the current ten percent in the amount of ethanol that can be blended into gasoline. Despite the clear language in the Clean Air Act that fuel additives be safe in—not harm—all vehicles, the U.S. Environmental Protection Agency approved E15 for 2001 and newer model year vehicles. NPPC and other stakeholders filed suit against EPA over its decision. Pork producers obey the rule of law, and they expect the U.S. Government to do the same.

The United States must invest in research and development for other energy alternatives, such as using animal manure and fat and biomass, including switchgrass and corn stover.

The U.S. pork industry wants to emphasize that the right balance is needed to meet the needs of fuel *and* feed security.

The increasing demand for corn has resulted in cash corn prices of more than \$6.50 per bushel and corn futures prices around \$7.50 per bushel. For the most part producers will adjust to higher feed grain prices, but there's not much they can do about a lack of available supplies.

Currently, only about nine percent of corn has been planted this year compared with 46 percent at the same time last year. While NPPC has faith in the American farmers' ability to produce feed grains sufficient to meet demand, it is concerned about factors beyond their control, particularly the weather.

The last real drought in the major corn-growing states happened in 1988, 23 years ago. Of course, too much rain also could cause problems. (Last week, Reuters reported that Texas is experiencing its worst drought in 40 years and that there are widespread crop failures in the state because of it.) Should the Corn Belt suffer a drought or other weather event that reduces the harvest, there will be regional shortages of feed.

Any difficulties with this year's or next year's U.S. corn and soybean crops could be disastrous for U.S. pork producers. Ethical care of animals **requires** producers to feed them even when feed prices are high. But if there are feed shortages, livestock producers cannot simply turn a light switch to stop production and cannot

stop feeding their animals. Taking animals to market before they reach market weight really isn't an option. Such an action likely would severely depress livestock prices, hurting producers' bottom line. Producers will do all in their power to secure feed to care for their animals, but Congress and the Obama Administration also should be contemplating how to address physical feed shortages to avoid any potential welfare issues if such a situation does occur.

Another factor that could affect U.S. feed grain supplies is a major corn purchase by another country. According to the U.S. Grains Council, China's corn reserves are 10 million to 12 million metric tons lower than previously estimated, and it is expected to import an additional 2 million to 3 million metric tons before the end of the current crop year. Such a major purchase would make tight U.S. supplies even tighter.

NPPC has asked USDA to address potential feed-grain shortages, requesting that non-environmentally sensitive farm acres enrolled in the Conservation Reserve Program (CRP) be released early and without penalty so that they may be planted to crops. It also has asked that a contingency plan be developed should corn demand exceed supply. Unfortunately, USDA has declined to consider either option.

Legislation and Regulation

Federal legislation and regulations must not impose unnecessary costs on the U.S. pork industry or restrict it from meeting consumer demands in an economical manner; government intervention must not stand in the way of market-based solutions. The structure of the production and packing sectors should be allowed to change with the demands of the growing global marketplace. This includes allowing producers and packers to change to adopt new technologies and pricing and marketing mechanisms that enable producers to reduce their risks in the current highly volatile markets and allow packers to capture economies of scale. The U.S. pork-packing sector is the envy of the world in terms of efficiency and food safety, and legislation and regulations should not take away or hamper that source of international advantage. Allowing producers and packers the freedom to develop new ways of doing business will only enhance the value of U.S. pork products, at home and abroad, and reduce costs and risks.

Unfortunately, there are several pending Federal regulations that will have the opposite effects.

Chief among them is the proposed USDA regulation on the buying and selling of livestock and poultry—the GIPSA rule. Congress in the 2008 Farm Bill asked USDA to address five specific issues related to production contracts:

- Criteria for determining whether an undue or unreasonable preference or advantage has been given to any producer.
- Whether a poultry dealer or swine contractor has provided sufficient time for a grower to remedy a breach of contract that could result in contract termination.
- Whether a poultry dealer has given reasonable notice of any suspension of delivery of birds to a grower under a contract.
- When a requirement of additional capital investment during the life of a contract constitutes a violation of the Packers and Stockyards Act as an unfair practice.
- The factors that comprise a fair usage of arbitration, including notification and the option for producers to opt out of automatic arbitration to resolve disputes.

The U.S. pork industry was stunned in June 2010 when USDA proposed a rule that not only went well beyond the five issues Congress asked it to address but included provisions considered and clearly rejected by Congress. If implemented as currently drafted, the GIPSA rule would have a devastating impact on livestock producers. 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 meat supplies. All of those effects will harm the U.S. pork industry's international competitiveness, costing U.S. on-farm and pork processing jobs as well as negatively affecting the U.S. balance of trade.

NPPC continues to urge USDA to scrap the current GIPSA rule and to write a regulation that sticks to the five mandates it was given by Congress in the 2008 Farm Bill. It also requests Congress to conduct oversight hearings on the origins

of the rule, the legal and economic analyses used to develop it and the rule's impact on small businesses.

Today, the U.S. pork industry has developed a wide variety of marketing and pricing methods, including contracts, to meet the changing needs of a diverse marketplace. U.S. pork producers will not be well served by having certain types of contracting mechanisms eliminated, actions that only would force livestock markets to revert to an inefficient system used more than half a century ago in which animals were traded in small lots and at prices determined in an open-market bid system. This system was inefficient and makes no economic sense in today's economy.

The U.S. pork industry opposes any legislation or regulations that restrict marketing opportunities or interventions into hog markets unless such actions address a clear, unequivocal instance of market failure or abuse of market power. To date, USDA has not presented any evidence that either is taking place.

Another challenge faced by the U.S. pork industry is the attempt by various activist groups to use the regulatory process to advance their agendas. Currently, for example, Farm Sanctuary, an anti-livestock group, is requesting USDA's Food Safety Inspection Service (FSIS) to amend its *ante mortem* inspection regulations to prohibit the slaughter of all non-ambulatory livestock, including swine.

Such a ban not only would eliminate approximately 66 million pounds of safe and wholesome pork from the food chain—causing meat supply and carcass disposal problems—but would be contrary to the available scientific evidence on non-ambulatory hogs and provide no added benefit to public health, food safety or animal well-being.

Most hogs that become non-ambulatory are fatigued and will recover with adequate rest, and all animals destined for slaughter must be presented for *ante mortem* inspection to FSIS inspectors as directed under the Federal Meat Inspection Act as well as an FSIS directive. Additionally, euthanizing non-ambulatory hogs would weaken the ability to detect animal diseases and eliminate a method of comprehensive disease surveillance.

A second issue involves packing plant disruptions that have taken place over alleged animal welfare problems. Many of these incidents involved FSIS animal welfare inspectors who were newly hired and had minimal training in swine behavior and handling. The disruptions—plant shutdowns—have created the potential for very serious animal welfare issues.

An FSIS directive requires plants to remain closed until a violation is resolved to prevent further inhumane acts. Consequently, shutdowns may result in trucks waiting to offload animals, indirectly causing further inhumane handling issues, including dangerous temperatures for the animals, especially during the summer months.

NPPC wants to ensure that the use of regulatory control actions, including plant shutdowns, for minor, non-egregious handling violations do not lead to secondary animal welfare issues when trucks are not diverted to other plants. It also would like FSIS animal welfare inspectors to be better trained—FSIS has new training materials on animal handling—and, when egregious violations do occur, for inspectors to divert trucks to other plants.

Pork producers also have concerns about a proposed guidance issued in June 2010 by the U.S. Food and Drug Administration. Draft Guidance #209 (*The Judicious Use of Medically Important Antimicrobial Drugs in Food-Producing Animals*) recommends that livestock producers eliminate from food-animal production antibiotics used to promote feed efficiency.

But the majority of the FDA-approved antibiotics that are labeled only as growth promotants actually prevent disease or illness. So eliminating them undoubtedly will lead to an increase in illness and disease in pigs and a corresponding increase in the amount of antibiotics needed to treat illness and disease. Banning antibiotics that are known to prevent illness in livestock has serious animal well-being implications.

While the draft guidance would allow such antibiotics to be used after they are submitted to FDA for re-review and the agency determines they prevent disease or illness, that process is prohibitively expensive and time consuming, typically costing millions of dollars and taking 7 to 10 years to complete.

Although the guidance does not have the force of law, producers are concerned that it may be treated as such by FDA, which is being pressured by opponents of modern animal agriculture and several public health groups to address an increase in antibiotic-resistant illnesses in humans, which they blame on the use of antibiotics in livestock and poultry production. (There is no scientific evidence linking antibiotic use in livestock with antibiotic resistance in people.)

It must be noted that FDA's animal drug approval process requires that products not only be efficacious and safe for animals but also that they do no harm to human health and the environment.

The pork industry's Take Care: Use Antibiotics Responsibly program educates producers on proper uses of animal health products, which are employed as part of an overall herd health plan developed in consultation with veterinarians. Prohibiting the use of any of these important tools will jeopardize animal health, increase production costs and, potentially, lead to higher retail meat prices.

Pork producers take a broad view of what it means to be environmentally responsible farmers and business people and have fully embraced the fact that their operations must protect and conserve the environment and the resources they use and effect. Producers take this responsibility with the utmost seriousness and commitment, and it was in that spirit that they have made major commitments to environmental conservation.

Today, the pork industry is meeting EPA's stringent zero-discharge standards for livestock operations under the Clean Water Act (CWA). Yet, despite that success, EPA continues to pressure the industry.

As an example, in its 2008 CAFO Rule—which includes the zero-discharge standard—EPA, at the urging of environmentalists, ignored the 2005 decision of the U.S. Court of Appeals for the 2nd Circuit in *Waterkeeper* that there was no duty for a producer who was not discharging to apply for a CWA permit. It illegally expanded its jurisdiction to include not just a requirement that operations that are discharging obtain a permit but also that operations that might have discharges in the future obtain them. To make matters worse, EPA also reversed the burden of legal proof and the long-standing due process notion of innocence until proved guilty by demanding that producers prove to the agency that, even though they don't discharge today, they won't discharge 20 years from now.

NPPC led the charge on behalf of all livestock producers against this, and in March the Court of Appeals for the 5th Circuit ruled in *National Pork Producers Council v. EPA* that EPA could only require permits from livestock farms that are actively discharging and that it was unlawful for the agency to speculate about future conditions.

While the *National Pork Producers Council* decision is a major victory over EPA, it has not ended the pressure that producers feel from the agency. Last May, as part of the litigation, EPA entered into a sweetheart settlement agreement with several environmental groups. That settlement resulted in a guidance document being released 2 days later—with no industry input—that stated in clear terms that EPA had decided to regulate dust that has blown out of hog barns through ventilation fans, lands on the ground and mixes with rainwater as a regulated discharge of a pollutant under the Clean Water Act. Furthermore, the deal required EPA to propose by May 25, 2011, that all large livestock operations, with or without a history of actually discharging and without evidence that discharging is occurring, to submit detailed information to EPA about their operations. EPA agreed to post the information in a national database available online and accessible to the general public, including environmental activists. Producers would have to submit nearly all the business data and manure management records that would be required under a CWA permit, including their nutrient management plans.

On the air emission side of the equation, NPPC is proud of its leadership in helping to organize and negotiate the groundbreaking Livestock Air Consent Agreements and the National Air Emissions Monitoring Study (NAEMS). The NAEMS was a multi-year study, funded by livestock producers and carried out by university scientists under protocols and controls developed and overseen by EPA. The purpose of NAEMS was to develop a better scientific understanding of the emissions associated with livestock production, and it included monitoring of a number of species around the country. The data from that study was transmitted to EPA last summer, and the agency is currently in the process of reviewing it and developing species-specific air emissions factors.

After spending a number of years developing and implementing the data collection efforts, and at a cost of millions of producer-contributed dollars, NPPC is deeply concerned that EPA will not commit the resources and expertise needed to develop top quality and sound emissions factors from this data. NPPC is urging EPA to take the time it needs to bring the right personnel to bear on the task of fully understanding the data that was collected and to make use of scientific expertise at USDA as part of that effort. Unfortunately, this has not yet taken place.

Conclusion

The U.S. pork industry is the lowest-cost producer and No. 1 exporter of pork in the world, and U.S. pork producers continue to produce the most abundant, safest,

most nutritious pork in the world. They have proved very resilient, most recently weathering financial crises in 1998–1999 and 2008–2009 as well as the vagaries of a free market economy, all while investing in and adopting new technologies that have promoted animal health, protected the environment and added thousands of jobs and billions in national income to the American economy.

To continue as leaders in the global and domestic economies, the U.S. pork industry requests that Federal policies and regulations support the American farmer and not hinder—as the proposed GIPSA rule would—his or her ability to feed the world.

The CHAIRMAN. Thank you Mr. Wolf.
Ms. Maschhoff.

**STATEMENT OF JULIE MASCHHOFF, VICE PRESIDENT, THE
MASCHHOFFS, INC., CARLYLE, IL**

Ms. MASCHHOFF. Thank you for the opportunity. Good afternoon. Ladies and gentlemen of the Subcommittee, my name is Julie Maschhoff, and I along with my husband Ken Maschhoff, my brother-in-law and sister-in-law Dave and Karen Maschhoff operate The Maschhoffs.

And today I would like to tell you a little bit about our family operation and how it has evolved in the pork industry and our history with this industry. Ken’s parents were pioneers in the industry in many ways.

On your first page of my handout you will see a picture of Ken’s father, Wayne, and his grandfather, Ben. And behind them you will see one of the very first consignment buildings that were put up in the State of Illinois. They have consistently challenged, with each generation, how to bring new technology into this farming operation; and today, five generations later, our family continues that value in bringing forth new technology, and as a result we have become the largest family-owned pork production network in North America.

Our focus has not changed through the years. Our focus is still to raise pork in an efficient, humane, and environmentally responsible manner. But with each generation the definition of those terms change. Grandpa Ben’s definition of environmental responsibility was to allow the pigs to run through the cornfield and salvage corn every fall. Today we have a team of 30 people in our environmental department to make sure that we have the correct nutrient management plans in place, and that manure is always used as a valuable fertilizer, that it needs to be used and recycled into our cropping operations.

Our commitment to humane production is shown by the animal welfare standards that have been developed by our animal care team and that, subsequently, every person in our operation is trained on. And we believe that our farms are still the perfect example of large-scale, sustainable agriculture.

Today we operate in nine different states, primarily in Illinois, Iowa, Missouri and Nebraska, but also with sow farms that are the reproduction centers located in Oklahoma, Indiana, Georgia, Alabama, and South Dakota. Along with 320 other family farmers that we call our production partners, and with the help of 950 employees, we now produce four million pigs a year, which is enough pork to feed ten million consumers here in the U.S. and around the world.

Our business philosophy was handed down through the generations. We still believe it is people that make things work, so we invest heavily in human resources. We have maintained the strong work ethic and the pride in ownership that has been passed down from generation to generation. But today we make decisions based on science and information. We embrace and develop new technology, often testing all of our production methods in our own research farm, named after the great State of Georgia—just an aside—and utilizing our farms, before we ever ask our production partners to adopt a new technology.

And finally, we emphasize communication. We know we have to communicate clearly what we are doing among our employees and our production partners, but we also have to clearly communicate to our allied industry partners and to the consuming public.

But what really makes The Maschhoffs unique is our pig. We are pig geeks—we will admit it—and we think the Maschhoff pig is a very unique animal. We have worked for over 10 years to come up with our own genetically enhanced pig, for lack of a better term, but we have evaluated genetic lines from throughout the world. We have been to Denmark, we have been to Norway, we have looked at England, we have looked at China, and we have tried to take the best of the best to make sure that we have a unique animal that is something that our customers, our friends in the packing industry, will want to use as they satisfy their end-customers.

And, of course, all of our improvements are based on scientific techniques and carried out in cutting-edge facilities under modern animal husbandry practices.

Our pigs' health is another unique aspect of our operation. We locate our breeding herds in very isolated rural areas as much as possible, because that helps us prevent exposure to different diseases in the swine industry. Any use of vaccinations and medications is limited to strict adherence to both FDA guidelines as well as our customer guidelines, and all caregivers are trained to focus on individual pig treatments.

Our pigs' living environment is very different from Grandpa Ben's day. Today, pigs are raised in barns that are designed to provide an optimum climate for pig comfort, so no longer will pigs get sunburned as they did with Grandpa Ben. They will not have to rely on a pond to keep cool, since they cannot sweat. Instead, they are in climate-controlled buildings. And, of course, thanks to our cold winters that we have in Illinois, they are protected during those winter months. Automated feed and watering systems are there to prevent any hunger or thirst issues.

Again, all of our housing practices are designed on science-based standards to ensure that we are doing what is best for the animal's welfare, and we are routinely auditing these environments to ensure we are always in compliance.

Our future challenges are the very things that Mr. Wolf mentioned. Will we be allowed to continue to use the tools in our toolbox with antibiotics; will we be able to—allowed to conduct business, or will GIPSA interfere with our business models and our ability to negotiate and enter into contracts; and how will EPA continue to regulate our business, or will we be free to compete on the world market?

In closing, I would like to thank you for your time and your attention, the opportunity to share with you today, and I will be happy to answer any questions.

[The prepared statement of Ms. Maschhoff follows:]

PREPARED STATEMENT OF JULIE MASCHHOFF, VICE PRESIDENT, THE MASCHHOFFS, INC., CARLYLE, IL

Our History and Mission

Our ancestors arrived in the Carlyle, Illinois area and began farming over 150 years ago. Five generations later, The Maschhoffs is one of the largest family-owned pork production networks in North America. Our Mission Statement is: "Our focus every day is to raise pork in an efficient, humane and environmentally responsible manner." We strive to instill this mission into every one of our employees and production partners on a daily basis.

The Maschhoffs are industry leaders in adopting the latest production technologies, building modern animal facilities, and carrying out research in a specially-designed research facility. Our family is committed to providing for the welfare of our employees and animals, and we believe that pork production today exemplifies sustainable agriculture on a large scale. We employ management strategies and make significant capital investments to reduce odor, protect water resources, and recycle manure to enrich the land and supply needed soil nutrients for crop production.

Since 1979, when Dave and Ken Maschhoff entered into a pork production partnership, the Maschhoffs have continuously adopted new production technologies, expanded the company's reach by building feed mills and adopting contract production, and grown the business from its base in southern Illinois to operations in nine states. Today, The Maschhoffs family business manages 192,000 sows, producing approximately four million market hogs annually. We have more than 950 employees and have created a production network with 320 Production Partners, family farmers who have built modern production facilities and manage the wean-to-finish phase of the pig production cycle.

Our business philosophy centers around: investing in human resources; maintaining a strong work ethic and pride in ownership; making information-based decisions; embracing and developing new technology; and emphasizing communication among employees/partners, suppliers and customers, and the pork-consuming public.

Our Business Model

The Maschhoffs, like many other pork producers in the U.S., is a model of a partially-integrated company. We own reproduction facilities (sow farms) and the sows in the production system, and we utilize both company-owned and Production Partner-owned (contract) facilities for the wean-to-finish stage of production. Baby pigs around 21 days of age are weaned and then placed in the wean-to-finish barn to be raised up to market weights of around 280 pounds. The Maschhoffs do not own pork processing facilities, so we contract with several major pork packing plants to supply market hogs. We also utilize the spot hog market to sell a portion of our pigs.

Production Partners are family farmers who have entered into production contracts with The Maschhoffs to build wean-to-finish barns, manage those facilities and care for the pigs during that phase of production. The Maschhoffs maintain ownership of the pigs throughout the life cycle, and also supply the feed and veterinary care for the pigs, thereby removing the two main sources of market/price risk (hog market and feed) for the farmers. We typically enter into 10–12 year negotiated contracts with our Production Partners, a period of time long enough for the farm family to get the production facility paid for. The Production Partner is responsible for day-to-day care of the pigs, maintenance of the buildings, utilities and insurance, and management of the valuable manure resource. Typically, the manure is used on the Production Partner's land as a source of soil nutrients for corn production.

This model has worked extremely well in the Upper Midwest for hog production and is greatly supported by the financing community. It is very common for a family's son or daughter who wants to return to the family farm to participate in contract pork production as a way to get started in a career in agriculture. Given today's high land prices and start-up capital costs, being a Production Partner with The Maschhoffs has been a highly viable way for beginning/young farmers to get started and to build equity. In fact, demand for production contracts today far exceeds supply in the Midwest.

Feed Production and Environmental Stewardship

Feed for pigs consists mainly of corn (the energy source) and soybean meal (the protein source), along with vitamins and minerals. In recent years with the rapid growth of the ethanol industry and the resulting competition for corn, we have also adapted the ethanol byproduct distillers grains into pig diets. As such, The Maschhoffs is a major buyer of corn, soybean meal and other feedstuffs in the areas where we operate. Over the years we have constructed two large feed mills and have entered into numerous feed toll milling arrangements with local elevators and cooperatives. It takes about 650 lbs. of feed to grow a weaned pig from 15 lbs. to a market hog weighing 280 lbs. Of that feed, at least 60 percent is corn with the balance being a combination of soybean meal and distillers grains. This year we are going to need 35 million bushels of corn, 165 thousand of tons of soybean meal, and 293 thousand tons of distillers grains to produce enough feed for our production system.

Distillers grains from the ethanol industry represents both a challenge and an opportunity for us in the way we feed pigs. With corn becoming increasingly expensive, we are constantly searching for ways to re-formulate our least-cost feed rations using any and all feedstuffs available. We do utilize a wide array of food industry byproducts as a substitute for corn when the pricing makes sense. And, we feed distillers grains as an energy and protein source, substituting partially for both corn and soybean meal, again when the pricing makes sense. Currently we utilize distillers at an inclusion rate of up to 30 percent in wean-to-finish diets, a rate that changes with different feed rations. The biggest constraints to utilizing distillers grains are: (1) the variability in quality from plant-to-plant and even within a plant from hour-to-hour; and (2) pigs being monogastric (one-stomach) animals, they deposit fat in a such a way that the fatty acids included in distillers grains are directly deposited in the pig; when too much distillers are fed, the pork belly becomes soft due to the type of fat laid down, and the carcass risks rejection from pork processors and their customers. Contrary to what many in the ethanol industry claim, distillers grains is far from an ideal feed for the pork industry—we feed what we can when it makes sense, but there are definite limitations to its use.

Producing feed and raising pigs is one of the oldest, most successful and sustainable ways to add value to the corn and soybean commodities produced in the Midwest. In addition, the manure produced in pork production is entirely recycled into the soil to increase its fertility and to provide much-needed nutrients (nitrogen, phosphorous, potassium and micro-nutrients) for crop production. At The Maschhoffs, we have invested significant resources in personnel, machinery, training and technology to manage the manure resource. In fact, we have more than 30 full-time equivalent employees dedicated to environmental management throughout our production system.

To reduce nutrient excretion by the pig, thereby reducing emissions and odor, we tailor the pig's diet to its nutritional needs at a particular stage of growth, a process called phase feeding. We also use feed additives such as the enzyme *phytase* to increase the absorption of feed phosphorous by the pig, reducing the amount of phosphorous excreted in the manure by 20 to 30 percent.

Food Safety

Food safety is always at the forefront of our thinking at The Maschhoffs. We work closely with our pork processing customers to ensure that food safety at the consumer level is maintained. Food safety at The Maschhoffs begins at the farm level by focusing on maintaining pig health and welfare. Our entire production system is actively involved in the National Pork Board's "Pork Quality Assurance" (PQA-Plus) program, and we work with our trucking partners via the "Transport Quality Assurance" (TQA) program to ensure pigs are handled safely and humanely. We strive to protect consumers by following the strictest feed and medicine traceability protocols to ensure that the pork they eat is safe and nutritious.

Community Outreach

Through our Community Partnership Program, The Maschhoffs makes matching contributions to qualified charities and events in which our employees and Production Partners are involved. Local 4-H clubs, FFA clubs, rural fire departments, churches and schools are just some of the beneficiaries of The Maschhoffs' support.

Government Regulation and Our Business

As a substantial family business involved in agricultural production, The Maschhoffs face a large number of regulations at the local, state and Federal Government levels. I will comment on just a few of the more significant issues here. Let me start on the positive with several highly-beneficial government activities

that directly impact our pork production business. I mentioned how important food safety is for us at The Maschhoffs—we have great confidence in the USDA’s meat inspection system under the Food Safety Inspection Service (FSIS). In fact, FSIS has been highly successful in driving down cases of meat-borne pathogens, as reported by the Centers for Disease Control (CDC). We supported the passage last year of the FDA Food Safety Modernization Act (FSMA), as amended, because we feel the FDA needs more tools to help the agency maintain consumer confidence in the nation’s food supply. Anything that jeopardizes consumer confidence in food is very bad for our business. We are hopeful that the many rules under development now by the FDA under the FSMA will truly help it maintain food safety and not lead to increased bureaucratic interference in our feed and pork production systems. Finally, we at The Maschhoffs have long supported mandatory price reporting for pork, including wholesale cuts. The regulations under development at USDA’s Agricultural Marketing Service will hopefully bring even more transparency into the pork meat price discovery system and benefit producers such as ourselves who rely on many USDA price reports to make day-to-day decisions in marketing our animals.

As you are aware, the U.S. pork industry has been wildly successful over the past 15 years in increasing pork exports—we are now the leading pork exporting country in the world, and year in and year out export around 20 percent of the pork we produce. I would urge you to ratify as soon as possible the three pending free trade agreements (South Korea, Colombia, and Panama) which would be highly beneficial to all of us in the pork industry.

On the other side of the ledger, I need to mention several sets of regulations in place or under development that are of great concern to us. Let me start with the GIPSA rule currently under review at USDA. As presented for comment, the proposed rule would be a great threat to our pork production business model in two main areas: (1) we feel the proposed rule would force us to do away with our system of contracting with production partners, thereby taking away an important economic tool for hundreds of family farm pork producers in the Midwest; and (2) we would be hamstrung in our supply contract negotiations with our pork processor partners. In general terms, the GIPSA rule would, as a colleague recently put it, “put us in a race to mediocrity in pork production”. We hope the USDA will keep in mind that our production contracts and supply contracts are negotiated, business transactions that contain proprietary business information. We have no problem with the several livestock contracting provisions that the Congress called for in the 2008 Farm Bill, but the proposed GIPSA rule goes far beyond Congressional intent and would do great damage to the livestock industry in the U.S.

The EPA, as some on the Agriculture Committee have previously noted, seems to be an agency with a whole lot of solutions to problems that just don’t exist in agriculture. We are most concerned about CAFO regulations, the December 2010 “Clean Water Protection Guidance” that would greatly expand the set of waters subject to jurisdiction under the Clean Water Act, EPA’s misguided attempts to regulate dust in agriculture, and repeated attempts to regulate air emissions from livestock facilities. It is disheartening to those of us who have committed to producing livestock in a sustainable fashion for 150 years to hear government officials talk about manure (or milk) as toxic waste. Perhaps it is our own fault for not educating those same officials as to how we operate, for example, that we store manure below ground in steel-reinforced concrete tanks that do not discharge; that we know the nutrient value and field placement of every single gallon of the millions of gallons of nutrients that we field-apply each year; or that manure is so valuable to corn producers that it is bought and sold as a commodity and that demand far outstrips supply in the areas where we operate.

A rule under development at USDA/FSIS that deals with non-ambulatory animals at processing facilities gives us great concern. As a result of a petitioned rulemaking process, two anti-livestock interest groups, the HSUS and Farm Sanctuary, are asking FSIS to condemn all non-ambulatory animals, including pigs that are temporarily unable to walk due to stress and/or heat exhaustion. Such a rule could cause the pork processing industry to condemn over 60 million pounds of perfectly good meat in a year. We have addressed this issue many times in the past in the Congress, and to date our “downer pig” champion Congressman Boswell has always had the good sense to explain to his colleagues the difference in physiology between pigs and cattle, and that given a little time to rest, almost all non-ambulatory pigs will get up and walk and be perfectly fine for the food supply.

I mentioned earlier in my remarks regarding food safety that we supported the FDA Food Safety Modernization Act. In general, we feel the FDA does a fair job in another of its duties, the review and approval of animal drugs. In fact, FDA’s animal drug approval process requires that the product not only be efficacious and

safe for animals, but also that they do not harm human health or the environment. The FDA's June 2010 draft guidance #209 (*The Judicious Use of Medically Important Antimicrobial Drugs in Food-Producing Animals*), however, concerns us greatly. The draft guidance, by doing away with the use of animal health protection products for animal health maintenance or production, would take away an important tool pork producers have in using FDA-approved products to keep pigs healthy. We fear a situation such as what has occurred in Danish pork production where similar restrictions resulted in more sick pigs and ultimately an increase in the amount of antibiotics needed to treat those pigs. In addition, keeping pigs healthy results in better feed efficiency of the pigs (less feed needed to produce more pork) which is especially important during this time of high corn prices.

Finally, let me comment the impact of ethanol policy on our pork production business. I already pointed out the challenges pork producers face with using distillers grains in pig feed. As significant users of energy and petroleum products, we pork producers are as interested as anyone in finding new, renewable sources of energy to reduce our imports of oil from unstable parts of the world. However, some thought needs to be given to the unintended consequences of the development of those alternatives. In our specific case, an analysis is called for of the impacts that the triple threat of ethanol support in the U.S. (consumption mandates, ethanol import tariffs, and price subsidies) has had on corn prices and in turn costs for livestock producers. We know that there are many world-wide demand and supply factors that have influenced corn prices over the past 5 years—what we need is a recognition that ethanol has played a part in the contraction of the country's livestock industry, that there are and will continue to be implications for meat consumers in the form of higher prices, and ultimately, we need an honest discussion about what our country's strategy is for getting beyond corn-based ethanol.

Our Future

Pork production is a major source of job creation in this country. Iowa State University has estimated that a 100 million gallon ethanol plant in Iowa uses 37 million bushels of corn per year and directly employs 80 people. The same 37 million bushels of corn made into feed and fed to pigs in a farrow-to-finish operation directly employs 800 people! Add to that the hundreds of additional jobs created in the meat packing, processing, food wholesale and retail sectors, and exports, and one realizes the importance of livestock production in producing economic value and creating good jobs in this country.

At The Maschhoffs, we are planning for the sixth generation of family members to carry on the tradition of pork production in the Midwest to support (and grow) the thousands of jobs dependent on livestock and meat production in Illinois and beyond. We are concerned with the many regulations at all levels of government that continue to pose threats to our business. Those include business, income and estate taxes; environmental permitting; legal and regulatory intrusions into business contracting; food safety regulations; compliance with nine state sets of workers' compensation laws; and in some locations, a failing transportation infrastructure. There are other issues as well that we have to deal with on a daily basis: access to affordable capital to finance our business; threats from anti-livestock and strident animal welfare groups; restrictions to free trade; the costs of energy and health care; not to mention the availability and cost of our main input, corn. I joke with my four children that in order to keep this business going, we are going to need them to study law, medicine, business and psychiatry! In spite of the numerous threats to our business, we remain optimistic because we are engaged in agriculture in a part of the country that is best suited to a combination of crops and livestock production. We benefit from a rare combination of soils and climate that are the envy of farmers around the world and that have given us a tremendous comparative advantage in animal agriculture.

We love what we do and we are proud to be involved, along with hundreds of Midwestern farm families, in the noble endeavor of feeding people throughout the United States and around the world. We ask that the Congress and the Administration work to maintain a business climate and regulatory environment that allows us to focus on what we do best—producing pork.

The Maschhoffs

- Ancestors arrived in the Carlyle, IL area and began farming over 150 years ago
- Five generations later, The Maschhoffs are one of the largest family-owned pork production networks in North America



Mission Statement: “Our focus every day is to raise pork in an efficient, humane and environmentally responsible manner.”



The Maschhoffs Today

- Presence in nine states
 - IL, IA, MO, NE, OK, IN, GA, AL, SD
- 950+ employees
- Network of more than 320 Production Partners
- 192,000 sows; 4 million pigs annually



The Maschoffs Business Philosophy

- Invest in human resources
- Maintain strong work ethic and pride in ownership
- Make information-based decisions
- Embrace and develop new technology
- Emphasize communication among:
 - Employees/Partners
 - Suppliers and Customers
 - Consuming Public



Our Pig

- Derived from extensive evaluation of pig genetics available throughout the world
- Genetic lines are selected and improved on the basis of integrated pork supply chain economics
- Improvement is based on scientific technique and carried out in cutting edge facilities under modern husbandry practices



Our Pig's Health

- Breeding herds are generally located in isolated geographies throughout the U.S. to prevent disease exposure
- Use of vaccinations and medications is limited to strict adherence of FDA and customer guidelines
- Caregivers focus on individual pig treatment



Our Pig's Living Environment



- Pig barns are designed to provide an optimum climate for pig comfort
- Automated feeding and watering systems aim to prevent hunger and thirst
- Housing practices designed on science-based standards are routinely audited for compliance



Future Challenges

- Antibiotic usage
- GIPSA proposed rule
- EPA regulations



Core Values

WHEREAS,

1. Our most important assets are our employees and Production Partners. We respect each individual, and are committed to training, communicating, and empowering them for success.
2. We believe in the family farm and are committed to hard work, ensuring the well-being of our animals, and stewardship of environmental resources.
3. We are dedicated to innovation and continued progress. Therefore, we will invest in production technology, use sound information for decisions, and boldly face the challenges we encounter.
4. We value our relationship with our customers and are committed to providing a product that exceeds their expectations.

THEREFORE,

We will be the industry's most efficient operator as a result of the success of our people, their commitment to the family farm and our ability to innovate and champion change.



The CHAIRMAN. Thank you very much.
Mr. Brenneman.

**STATEMENT OF ROD K. BRENNEMAN, PRESIDENT AND CHIEF
EXECUTIVE OFFICER, SEABOARD FOODS LLC, SHAWNEE
MISSION, KS**

Mr. BRENNEMAN. Mr. Chairman, Ranking Member, and Members of the Subcommittee, thank you for the opportunity to appear before you today. My name is Rod Brenneman, and I am the President and CEO of Seaboard Foods.

I have provided the Subcommittee with a more detailed testimony for the record. Seaboard Foods is a vertically integrated pork producer and processor, currently ranking as one of the top five pork processors and producers in the United States.

Mr. Chairman, Seaboard Foods has experienced both the up-and-down cycles and the corresponding challenging economic conditions facing the pork sector firsthand at every level: hog production; processing; marketing; and international trade. Many issues threaten the economic viability of the pork sector, among them escalating input cost for feed, artificial and unwarranted barriers that hinder international trade, and increased regulation such as the rule proposed by the Grain Inspection, Packers and Stockyards Administration.

In mid-2008, corn prices were nearly 150 percent above 2007 prices. Some said that 2008 was an anomaly. Unfortunately, today the U.S. pork industry again faces rising input costs, most notably historically high corn prices that are double April 2010 levels and surpassing even 2008 levels. Corn prices have been above \$7 all of April, with no signs of relief. Although there are several reasons for the increase in feed prices, paramount among them is the determined government policies to promote the use of corn for ethanol.

These policies need to be reevaluated and, in my opinion, completely changed. When roughly 40 percent of the corn crop is used to produce fuel instead of animal feed or food production, it is difficult for anyone to argue that the policies have had no impact on food prices, and there are many studies that support this view.

The United States is the world's largest pork exporter and the third largest pork producer, trailing China and the European Union. As one of the most efficient in the world, the U.S. pork industry can be competitive in world markets, but our producers and processors can only do so with a level playing field and the elimination of unjustified barriers to trade. We must resist protectionist sentiment in managing our own trade issues and encourage our trading partners to act in kind.

We do best when markets are allowed to function without market-distorting subsidies, high tariffs and quotas, and non-scientific barriers that inhibit the free flow of products.

In addition to addressing trade barriers, we must take advantage of all prospective trade opportunities. The three pending free trade agreements with Korea, Colombia, and Panama represent significant long-term growth markets for the U.S. meat industry.

Finally I would like to discuss the GIPSA proposed rule, which is the most troubling and problematic government action I have witnessed during my career in the pork industry. Simply put, the

rule, if implemented as proposed, would unravel the substantial progress and innovation achieved by hog producers and the processing industry during the last several decades. In my opinion, this proposed rule goes well beyond the scope of the mandate in the farm bill that was passed by Congress. Much of the proposed progress in the pork sector during this time has come about because of close working relationships that have evolved between hog producers and processors.

At Seaboard, although we are largely vertically integrated, we still have close relationships with producers. Those relationships are the force that drives the innovation that enables the industry to deliver to consumers the products they demand.

It is both ironic and disconcerting that GIPSA would propose a rule that threatens the use of marketing agreements, tools that RTI International, in a study commissioned by GIPSA and completed in 2007, identified as providing substantial benefits for producers, packers, and consumers. The GIPSA rule, however, threatens the use of those agreements because of the legal liability it could impose not only on processors, but also swine contractors who use such agreements.

In conclusion, I have three recommendations for the Subcommittee to consider:

First, encourage the Secretary of Agriculture to provide an opportunity for review and comment on the economic impact analysis currently being done by the Chief Economist regarding the GIPSA rule.

Second, encourage and work with the U.S. Trade Representative to finalize and pass the three pending free trade agreements with Korea, Colombia, and Panama, and work to open export markets to U.S. pork, particularly China, which continues to impose non-science-based restrictions on U.S. pork.

And finally, look critically at eliminating the current Federal support for corn ethanol to ensure the pork industry and consumers are not negatively affected to the benefit of the mature corn ethanol industry.

Thank you for the opportunity to appear before the Subcommittee, and I am happy to answer any questions that you might have.

[The prepared statement of Mr. Brenneman follows:]

PREPARED STATEMENT OF ROD K. BRENNEMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SEABOARD FOODS LLC, SHAWNEE MISSION, KS

Mr. Chairman, Ranking Member, and Members of the Subcommittee, thank you for the opportunity to appear before you today. My name is Rod Brenneman and I am the President and CEO of Seaboard Foods. Seaboard Foods would like to express our appreciation to the Subcommittee for holding this hearing on the state of the U.S. pork industry.

Seaboard Foods is a vertically integrated pork producer and processor, producing and selling fresh, frozen and processed pork products to further processors, food service operators, grocery stores, retail outlets and other distributors in the United States. Internationally, Seaboard sells to those same types of customers in Japan, China, Mexico, Russia, Korea and many other foreign markets. In 2010, the U.S. pork industry exported over 20 percent of the total pork produced and Seaboard's amounts were in excess of this overall average at approximately 27 percent.

The pork processing business is highly competitive and capital intensive. In 1995 Seaboard Foods invested over \$150 million to open a state-of-the-art packing and

processing facility in Guymon, OK. To operate that plant at full capacity requires approximately \$75 million in working capital.

Our processing facility in Oklahoma employs approximately 2,300 people, and we also market all of the product for a similar sized facility that is located in Missouri. These two facilities have a combined processing capacity of over 10 million head per year—representing about nine percent of the U.S. slaughter volume.

Seaboard Foods' live production facilities are located in Oklahoma, Kansas, Texas and Colorado, and are supported by our six centrally located feed mills. These facilities consist of genetic and commercial breeding, farrowing, nursery and finishing buildings. Seaboard Foods raises approximately four million hogs each year, making Seaboard the second largest hog producer in the United States. Our facilities consume more than 40 million bushels of corn and milo and over 350,000 tons of soybean meal per year.

Mr. Chairman, Seaboard Foods has experienced both the up and down cycles and the corresponding challenging economic conditions facing the pork sector first-hand at every level—hog production, processing, marketing, and international trade. Many issues threaten the economic viability of the pork sector, among them escalating input costs for feed and energy, artificial and unwarranted barriers that hinder international trade, and a rule proposed by the Grain Inspection, Packers and Stockyards Administration that would reverse more than 30 years of progress and innovation driven by consumer demand.

Input Costs

The U.S. hog and pork production industry in 2011 is faced with rising input costs, with corn prices at levels that are more than double the price that they were in April 2010, and higher fuel expenses at the pump as you are fully aware.

Corn is estimated to account for upwards of 70 percent of feed grains in pork production and soybean meal accounts for another 20 percent of the feed. In mid-2008, corn prices were nearly 150 percent above 2007 prices. In addition, soybean meal prices reached record levels during that same time period. Some said 2008 was an anomaly. Unfortunately, we find ourselves once again dealing with historic corn prices that have already surpassed 2008 levels. Corn prices remained above \$7.00 for the entire month of April and there are no signs of relief. We estimate our corn feed costs this year will be at least \$85 million dollars above what we paid for corn in 2010.

Last year's corn crop was considered within the top five most productive years, however our supplies are at the lowest levels in 15 years and as I mentioned before corn prices are once again at historical high levels. Although there are several reasons for the increase in feed prices, paramount among them is the determined government policies to promote the use of corn for ethanol. This same phenomena is taking place around the world and is causing concerns to governments in both the developed and developing world and also the World Bank. This effort, while seeking a desirable goal which is to lower the U.S. reliance on fossil fuels, has had an unfortunate unintended consequence to the U.S. meat industry and ultimately to consumers. In fact, there are many people around the world that are being put in a position of not being able to afford to feed themselves and their families as a result of these high prices. These policies need to be reevaluated and in my opinion, completely changed. When roughly 40 percent of the corn crop is used to produce fuel (ethanol) instead of animal feed or food production, it is difficult for anyone to argue that the policies have had no impact on food prices, and there are many studies that support this view.

Trade Overview

The United States is the world's largest pork exporter, and the third largest pork producer, trailing China and the European Union. Export markets have become increasingly important to the viability and economic health of U.S. pork industry as per capita U.S. red meat consumption has declined in recent years. Foreign demand for U.S. pork is growing because economic growth and rising middle class disposable incomes, especially in north Asian markets, are expanding at the same time the U.S. market faces rising food prices amid the recent recession. In this difficult economic environment, U.S. pork exports are increasingly important to maintaining the economic viability of our industry.

In 2010, U.S. pork exports exceeded 1.92 million metric tons, worth \$4.78 billion, only two percent below the 2008 record of 2.05 million metric tons and more than \$4.88 billion. Last year, the U.S. set new export records to Mexico, Australia, Central America, the Philippines, Taiwan, Dominican Republic and New Zealand.

The positive trend for U.S. pork exports continued in February 2011, with an increasingly large portion of total U.S. production going to international customers

while returning more revenue to America's red meat industry. For the month of February, 27 percent of U.S. pork production was sold outside of the United States with the incremental value of exports reaching \$51.48 per head *versus* 25.2 percent and \$43.81 last year. Total pork exports jumped 15 percent in value and eight percent in volume *versus* February 2010 totals. Mexico, Japan, the Hong Kong/China region, South Korea and Canada remain the top five export markets.

The growth leader for U.S. pork exports in February was South Korea, which purchased a record 19,532 metric tons valued at \$49.2 million as that nation continues to deal with product shortages driven by a major outbreak of foot and mouth disease (FMD).

Trade Barriers

The U.S. pork industry can be competitive in world markets but our producers and processors can only do so with a level playing field and the elimination of unjustified barriers to trade. We must resist protectionist sentiment in managing our own trade rules and encourage our trading partners to act in kind. We do best when markets are allowed to function without market distorting subsidies, high tariffs and quotas, and non-scientific barriers that inhibit the free flow of products.

Despite the rebound in U.S. pork exports in 2010 which helped the U.S. meat industry weather the economic downturn at home, significant tariff and non-tariff barriers exist to expansion of U.S. pork exports in key foreign growth markets. For example, some major trading partners threaten to reject USDA export certificates, and demand certification of prescriptive and unscientific standards such as zero tolerance on the FDA approved antibiotic tetracycline. Additionally, these countries often delist U.S. meat plants because of minor clerical errors in export documentation or for alleged residue violations. U.S. pork sales to Russia have plummeted from 203,000 MT in 2008 to 83,000 MT in 2010, largely due to Russia's unfair sanitary and phytosanitary restrictions.

Many promising long-term markets, such as mainland China, Taiwan and the European Union continue to restrict U.S. pork shipments based on unjustified, non-scientific import regulations which ban pork meat containing residues of Ractopamine hydrochloride (a safe feed additive to increase efficiency of pork production approved for use in the United States and 26 other countries) and zero tolerance for pathogens common on raw products. As of June 1, 2011, China will implement a new restrictive labeling law which will significantly increase production costs and in some cases prevent some producers from supplying this growing market. USDA is actively negotiating with Chinese officials to guarantee product traceability and minimize the additional labeling requirements.

There are numerous smaller markets which continue to maintain bans on U.S. pork from several U.S. states because of the A/H1N1 virus despite the clear scientific evidence to indicate that the virus cannot be conveyed to humans through the consumption of U.S. pork. Many other markets require procedures and testing to minimize risks associated with trichinae. In the United States there is a negligible risk of trichinae as a result of high biosecurity protocols and modern production practices.

In addition to addressing trade barriers, we must take advantage of all prospective trade opportunities. The three pending free trade agreements (FTAs) with Korea, Colombia and Panama represent significant, long term growth markets for the U.S. meat industry. Passage and implementation of the three FTAs would represent an additional \$2.3 billion in meat and poultry exports and the potential creation of 29,524 new jobs, according to a white paper prepared by the American Meat Institute (AMI). To benefit from this potential, the Administration and the Congress must act now to pass and implement these agreements. Our competitors are actively working in these markets—if we don't act fast to set the stage for long term export growth and job creation, other countries will.

GIPSA Proposed Rule

The GIPSA proposed rule is the most troubling and problematic government action I have witnessed during my career in the pork industry. Simply put, the rule, if implemented as proposed, would unravel the substantial progress and innovation achieved by hog producers and the packing industry during the last several decades.

Much of the progress in the pork sector during this time has come about because of close working relationships that have evolved between hog producers and the packers. At Seaboard, although we are largely vertically integrated, we still have close relationships with producers. Those relationships, partnerships really, are the force that drives the innovation that enables the industry to deliver to consumers the products they demand. It is both ironic and disconcerting that GIPSA would propose a rule that threatens the use of marketing agreements, tools that RTI Inter-

national in a study done for GIPSA and completed in 2007 identified as providing substantial benefits for producers, packers and consumers. The GIPSA rule, however, threatens the use of those agreements because of the legal liability it could impose not only on packers but also swine contractors who use such agreements.

The GIPSA rule is also troubling for another, more basic reason. I'm not a lawyer. I'm a businessman who runs a pork company. But I am a citizen and basic civics teaches us that there are three branches of government for a reason. I think it is troubling when the Executive Branch blatantly ignores the Judiciary, the branch of government that interprets the laws. And, it is also troubling when the Executive Branch ignores the intent of Congress, indeed, this Committee—when it enacts laws. Simply put, the disdain found in the GIPSA rule for the courts and the Congress is just not good government.

Conclusion

Many factors influence the pork sector and I am confident that we can address these problems and make the industry stronger than ever. If I may, I have three recommendations for the Subcommittee:

- First, encourage the Secretary of Agriculture to provide an opportunity for review and comment on the economic impact analysis currently being done by the Chief Economist regarding the GIPSA rule;
- Second, encourage and work with the U.S. Trade Representative to finalize and pass the three pending free trade agreements with Korea, Colombia and Panama and work to open export markets to U.S. pork, particularly China, which continue to impose non-science-based restrictions on U.S. pork; and
- Finally, look critically at eliminating the current Federal support for corn ethanol to ensure the pork industry and consumers are not negatively affected to the benefit of a mature corn ethanol industry.

Thank you for the opportunity to appear before the Subcommittee. I am happy to answer any questions you may have.

The CHAIRMAN. Thank you, Mr. Brenneman.

We will now move into questions. The chair would like to remind Members that they will be recognized for questions in order of seniority for Members who were here at the start of the hearing. After that, Members will be recognized in order of arrival. I appreciate the Members' understanding of this. I would like to ask the first question, and then we will move on to the Ranking Member and on down the line.

I will direct my question to Mr. Wolf, but if the other two witnesses would like to answer as well, after Mr. Wolf, feel free to chime in.

Mr. Wolf, if we were to reach a critical situation prior to the next harvest where some hog producers could not have enough access to corn to feed their animals, what options would producers have and what kind of chaos would physical feed shortages create?

Mr. WOLF. Thank you, Mr. Chairman, for that question. It is a concern that the industry has been looking at for quite some time, and we feel it is a valid concern. A scenario that has been put to us, or an analogy, is that it is like the bottom of a lake, it isn't smooth and we are going to have pockets. Parts will probably run out of physical availability of feed, not the whole industry.

If we don't know that this is coming, it could be a catastrophe. We could always look at other commodity feeds that we can try to blend in, maybe some wheats or some other products. But the problem is this year we have the perfect storm where we are short on all commodities. So what we are trying to do is ask the Congress and USDA to look ahead as far as they can and anticipate to what degree they can, with the help of the pork industry, to make sure that we don't end up there; because the only availability that we

would have to us if we run out of feed is to go ahead and harvest early at a lighter weight, just to make sure that the animal welfare is good.

The CHAIRMAN. Anybody else?

Mr. BRENNEMAN. I would just comment from a processing standpoint, if pigs were required to come in early, there is a limitation to how small they can be processed. The plants are capable of accommodating some variation in size, but they can't accommodate complete variation in size. So there would also be some limits on the processing side.

The CHAIRMAN. As a follow-up, if you have to harvest early, what does that do to, like, the normal annual cycle of production and then, I guess, the cost or the price?

Mr. BRENNEMAN. Well, I will talk about it from a product standpoint. And if they come in at a much lower weight than what is traditional or expected, it causes a number of concerns. One would be from the consumer standpoint and our customer standpoint. Their expectations are for certain size of products in the marketplace. If the pigs come in early, they are obviously not as heavy and the product sizing would change, so that could have some impact. But, you know, overall, it will have a significant cost impact as well, because when you look at the capital investment required in a processing and a production industry, quite frankly, when you shrink the amount of pounds that go through facilities that were designed for much more poundage, the net cost, the fixed-cost component of that is quite significant.

The CHAIRMAN. Anybody else?

Ms. MASCHHOFF. I was just going to comment on the throughput factor which Mr. Brenneman just stated. When you have a system of our size, and any size it is designed to run, it normally takes 5½ months to bring that pig to the correct market weight. Under a supply contract agreement, which we have, we promise to deliver a certain number of animals at certain weights. We have maybe a 10 pound window. We strive very hard to make sure that we meet that targeted weight for our customers. And all of a sudden, everything gets thrown out of whack and the entire system has to—the ripple effect goes on for a long time.

The CHAIRMAN. Thank you. Mr. Cardoza.

Mr. CARDOZA. Thank you, Mr. Chairman.

I just want to state for the record that I support your views on the GIPSA rule. I think it is of grave concern to the industry, and we are working on it.

With regard to antibiotics, in the last session of Congress I was on the Rules Committee, and the Rules Committee, in my opinion, conducted a hearing outside of its jurisdiction on the question of animal antibiotics. I was opposed to it then, and I remain opposed to it.

I think we came to—or the Committee erred in its judgment in moving in that direction. But I would like to here, in the appropriate committee, explore your views on the dissemination of antibiotics and your views how it affects your product and consumers, and let you all have an opportunity to make a comment on that question. And, as well, you might want to comment on how you feel

it impacts your competitiveness with regard to other countries that have banned antibiotics. So whoever would like to start. Mr. Wolf.

Mr. WOLF. Thank you. I appreciate that question, too. It is another issue that seems very timely today. We have had a lot of discussion looking at it. Antibiotics provide a special place in our toolbox for animal production, livestock production. They are a necessary product to have available from an animal welfare standpoint to assure that these animals are cared for to their maximum potential. We need to have them available, because it also provides a means of increasing efficiency to the animals to protect them so that they don't get unhealthy or get sick, and that will help out as far as our carbon footprint or our cost production, whatever; it is just going to be a good issue there.

So it is important that we have these available, understanding that today the producers are certified through our PQA program that assures that proper use of the antibiotics are done, they are used very judiciously and through a veterinary directive.

So I will stop with that and allow Julie to go from there. Thank you.

Mr. CARDOZA. Are you aware of any knowledge that the antibiotic use in animals is contributing to human resistance to the antibiotic production?

Mr. WOLF. At this time I haven't seen, or our industry hasn't found, any study that can actually attribute that to that—to an animal.

Mr. CARDOZA. Thank you.

Ms. MASCHHOFF. I guess I would agree with Mr. Wolf's comments. Antibiotics are so critical for us. But remember, they are always used under a veterinarian's care. We employ two full-time vets and work with an additional dozen vets in different states, in different areas, to make sure that we are always using antibiotics as a tool to its best advantage and to our animals' advantage.

We participate in a program called Safe Feed/Safe Food, and the bottom line and the whole goal of this program is that the healthier the animal is when it comes to market, the healthier food product is going to be going to our consumers. And ultimately that is our goal. We want to make sure that everything we do produces a safe product in a humane manner for today's consumers, and antibiotics are critical to allow us to do that.

Mr. BRENNEMAN. I would just echo what they have said, but all of our antibiotics are administered under the direction of licensed veterinarians. I am not aware of any studies that connect, as Mr. Wolf said, that connect the use of that with immunity or whatever from humans.

But the other thing, it is a very delicate issue because you get into definitions of therapeutic *versus* subtherapeutic *versus* antibiotics used for growth hormones.

And, the other issue that Mr. Wolf mentioned is the animal welfare issue. We want to make sure we have the tools available to us to be the very best that we can from an animal welfare standpoint, too. I think we need to be careful about drawing too many lines in the sand with tools that are available to us to treat the animals the very best that we can.

Mr. CARDOZA. Thank you. Very briefly, are there alternative feeds that you can employ? In my area, when I was growing up, for our hogs we fed them sweet potatoes, because that is what we had. My grandparents were sweet potato growers. Are there alternatives that you can use in light of this corn shortage as a temporary stop-gap?

Ms. MASCHHOFF. Well, there is a reason you don't see grass-fed pork on anyone's menu. So there are only certain things, because a pig has a single stomach and is a monogastric animal. So there are certain limitations to what we can do with ethanol byproducts. They can only be used to substitute to a very small degree what corn would normally provide. But we are limited. And we don't mind that, because through our extensive research with nutrition, we have found that the carcass requirements do change as you change the feed. And obviously if we want to continue to supply what consumers are looking for, we have to be very cognizant that there are certain feed stuffs that we must continue to use in the pork industry, and corn still remains the feed of choice.

Mr. CARDOZA. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you Mr. Cardoza. We will now move to Mr. DesJarlais.

Mr. DESJARLAIS. Thank you, Mr. Chairman, and thank you to all of our witnesses today for your testimony.

Mr. Wolf, we all hear frequently from our constituents about the burdensome environmental regulations created by local, state and Federal authorities. Could you take a moment and expand on your testimony about how your particular sector is affected?

Mr. WOLF. Thank you. I appreciate that; the question, too. The regulations that are being forwarded out by EPA are getting stronger all the time, the Clean Water Act and the Clean Air Act that are now coming forward. There are certain limitations to agriculture that just can't be taken care of, and a good example would be the dust rule, the proposed dust rule. Anybody who has been in rural country this time of year, during planting, realizes that you just have no control; that is just part of the factors that are going on. So we feel that there is getting to be some over-burdensome regulation being proposed by EPA, and we are working with the EPA to prevent that from affecting the industry today.

Mr. DESJARLAIS. Would anyone else like to add anything to that?

Mr. BRENNEMAN. No. I guess, just generally speaking, we would be—we want to make sure that any new regulations, of course they all add costs, are based on sound science and not emotional issues or other issues that might be out there.

Ms. MASCHHOFF. I would go so far as to say that regulation should be based on sound science and the courts, because we know that the recent Fifth Circuit Court has ruled that we do not need permits as confined animal feeding operations that do not intend to discharge. And yet in Illinois, we are fighting a battle to not have to pay for very, very expensive permits which the courts have ruled we do not need. And Region 5 seems to feel that they have the right to mandate permits, and we are under a court system that says we do not need the permits.

So as producers we see this type of tug of war going on, and it leaves us with a lot of uncertainty and a lot of frustration in what

EPA is trying to accomplish and what good they are trying to do for American farmers.

Mr. DESJARLAIS. Okay. Thank you. Ms. Maschhoff, you mentioned the Maschhoff super-pig, basically. I will direct this question to you.

Ms. MASCHHOFF. I like that term. I will have to write that down.

Mr. DESJARLAIS. Some groups are advocating a legislative ban on the use of antimicrobials for growth promotion and feed efficiency. What impact would this legislative ban have on development of antimicrobial resistance and what impact would this legislative ban have on animal health?

Ms. MASCHHOFF. Well, let me give you the blond version, because when we talk about antimicrobial resistance, what we are doing when we feed antimicrobials, we are really just trying to regulate the floor in the pig's gut. There is a very nice way to put it, but that is what it does. And what we are doing is, we are allowing that animal to take up feed more efficiently. It is allowing that pig to take all that energy and put it right towards growing. It means they don't have to use it to fight off different diseases, it doesn't sidetrack what that animal is doing as it grows every day. So those antimicrobials are very important in making sure our animals are eating and growing efficiently.

What that means is they need less corn. We have a corn shortage. It reduces our carbon footprint. It just seems to be a win-win situation all around, because there is no negative effect when that animal is harvested.

Mr. DESJARLAIS. Mr. Wolf, you made the statement that the rising costs are due to the competition for grain in the production. The availability and price of feed obviously has a huge impact on the business plan. Do you have a plan to address what many are expecting to be very short supplies on feed later this year?

Mr. WOLF. Thank you. Personally, in my personal situation, we are diversified, so we grow our own grain; so we are fortunate from there. But from an industry standpoint, let me tell you, most of our industry has tried to forward price product, which it works out pretty good until actual physical availability becomes limited. So our concern is today that, although our producers have contracted and protected against a price rise, whether or not the companies can fulfill on the physical delivery of these grains. So there is a real concern there.

And what can you do? There isn't a lot that the industry can do. I mean, if you can't take physical delivery, which most of the industries can't take that kind of quantity, it is just going to be difficult.

Mr. DESJARLAIS. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

Last Congress, when I had the privilege of being the Chairman of this Subcommittee, there were three issues that seemed to dominate the debate. One, of course, was the dairy economy. And I won't get into that today, though, because the last time we did that, we had a bunch of protesters dressed in cow uniforms running through the halls of Congress.

But the other two issues on which we spend a majority of our time have great relevance today. One is the issue of antibiotics and the use of antibiotics; and the other, of course, is the GIPSA rule.

I will begin with the antibiotics issue with you, Mr. Wolf, if you could please explain to the Committee in what ways you use antibiotics in your operation.

Mr. WOLF. Thank you, Mr. Scott. We talked a little bit earlier about the antibiotics being in our toolbox as a tool to use. And the tools that are available, with the whole idea behind our toolbox, is to provide the safe, nutritious product that the pork producers do, so the consumer can be assured that when they buy a pork product, that it is the best in the world. And so the antibiotics that we use in my particular operation are to assure the safety.

Now, whether that is to use it on a preventative basis or to use it to medicate animals that are actually sick, but it is very judicious. The thing to remember is that these antibiotics are expensive.

Mr. SCOTT. Let me ask you, in your estimation, would it cost more to treat an animal after it becomes ill than it would to engage in preventive care?

Mr. WOLF. Yes, sir; yes, sir. An animal, once it becomes sick, not only does it take more antibiotics to bring it around and make it more healthy, but that animal will never recover 100 percent and become as efficient as an animal that never has been sick before. So there is more cost.

Mr. SCOTT. I went over to Europe and looked at the Danish system over there. What effects would you anticipate, either positive or negative, from a move to a system like the Danish implemented several years ago?

Mr. WOLF. Well, the Danish program points out exactly what we have been talking about, the entire group here today, is that they have implemented the non-antibiotics except for under a treatment situation. And what we have seen is that they have actually increased their use of antibiotics. It has taken more antibiotics to treat these animals than if they use them on a proper preventative basis. And from what our studies have shown, too, is they haven't seen any human change after the antibiotics as far as bacterial resistance, so we see that it hasn't done anything.

Mr. SCOTT. So just to make sure we are clear, would you say the Danish system is more positive or more negative?

Mr. WOLF. Negative, sir.

Mr. SCOTT. All right. Very good.

Ms. Maschhoff, I would like to ask you a few questions about GIPSA. I have been rather outspoken on that, and I certainly feel very concerned about that. I stated many times last year, in my opinion it far exceeds the scope of what we mandated in the last farm bill. And we were clear in the House and we were—so, but anyway, I spoke very strongly on that.

It is my understanding that your business model requires you to rely heavily upon contractors; is that correct.

Ms. MASCHHOFF. That is correct, sir.

Mr. SCOTT. And that the rules proposed by GIPSA would have a negative effect on your business; is that correct?

Ms. MASCHHOFF. We believe they would be.

Mr. SCOTT. Can you explain to the Committee how and why that is the case?

Ms. MASCHHOFF. Certainly. Thank you for that opportunity. Under the Maschhoff system, we have worked out a business model where a contract on a production side is entered into, negotiated, and agreed to between another independent family farmer and ourselves. That family farmer constructs a building to our specifications and then raises the animals under our protocols until it is ready for market weight. They have a guaranteed return every month because of their production contract with The Maschhoffs. Because of the strength of that contract, they are allowed to go to their banker, receive the funding necessary to put up a barn, which could cost anywhere from \$800,000 to \$1 million based on the strength of that contract. So that becomes a very important part of their balance sheet and their negotiations with the bank.

In turn, now that we have those animals on feed, so to speak, we have to ensure that we have a home for that Maschhoff super-pig. So we turn around and negotiate with our end-customers in the packing industry. And depending on what each packer needs for their particular customers, our pig is worth a different amount to them, and we enter into a supply contract to ensure that we have a home for that pig. That contract is what allows us to receive financing from the banking community.

If the GIPSA proposed rule goes into effect, all of a sudden the mere fact that you have a contract raises suspicion and you have to defend that contract. And, oh, I don't know, but I bet there is a lawyer out there just somewhere, waiting to create a lawsuit to see if they are really fair or not.

But remember, every contract is negotiated on the strength of what each party brings to the table. We have spent 10 years and over \$10 million to create the genetic material that makes up the Maschhoff pig today. We have invested millions more in making sure that we have barns that allow for the best, most efficient growth environment for those animals. How do we capture that type of investment if we can't negotiate a contract that lets our pig stand alone and become worth perhaps just a bit more to someone in the supply chain?

Mr. SCOTT. Thank you very much. That was a very good answer and very important to get those points out relative to the GIPSA rule and the impact it has in our business. And I concur with you 100 percent.

Mr. Chairman, if I may, I know my time is over, but I just have one more point. And especially I want to ask this point, since Ms. Maschhoff's operations are in my State of Georgia. And I would like to ask you about the corn and the cost of feed, particularly in Georgia, where we don't happen to grow much corn. Can you explain to the Committee the price pressures that you are feeling at present and where you expect that to go in the future?

Ms. MASCHHOFF. Well, as you probably know, Georgia only produces about 35 million bushels of corn, 1/2 of 1 percent of the entire U.S. corn crop. Because of the competing interest of ethanol in the poultry industry, it is very difficult to find corn; and as a result, we typically have to bring it in from other corn states, because Georgia is basically corn-deficit. As the price continues to raise, it

does force us to balance that ration and change it as best we can, while still providing for maximum nutrition and animal welfare. But it is continually a concern, and it does keep us awake at night, as to where the actual commodity will be coming from in the future.

Mr. SCOTT. Thank you. And, Mr. Chairman, thank you for your kindness in giving me that extra time.

The CHAIRMAN. My pleasure, Mr. Scott. We will now move to Mr. Ribble.

Mr. RIBBLE. Thank you, Mr. Chairman. Thank you to the panel.

As a former business owner myself, it is always good to talk to some other business owners. So thanks for being here, thanks for taking time away from your companies to come and talk to us today. It is really important that you are here, and I wanted you to know how much I appreciate it.

Mr. Wolf, since you are from the grand State of Wisconsin, as I am, I would just like to address my first question to you. Hog production in Wisconsin has dropped by over 1 million head. Can you talk to us a little bit about what has caused that drop-off and what the economic impact has been?

Mr. WOLF. Well, thank you, Mr. Ribble. I appreciate you being here from Wisconsin, too, and taking time away from your business to run and represent us here. It is a great honor. In Wisconsin, there was a time when I started 35 years ago, that we were a large pork production state. A number of things have happened over the years. Number one, of course, we lost our packing industry. It has become more efficient, and of course we understand that.

But the second part of it is the competitive disadvantage that regulation has put Wisconsin in as far as pork producers, coming down from the EPA and DNR as far as costs that other states around us don't have to compete with; and therefore, it has just been unfavorable for producers to locate in Wisconsin.

Mr. RIBBLE. Okay. When you talk about the EPA, can you maybe cite some specific examples?

Mr. WOLF. Well, the only couple that come right to the top of my head is that as far as our nutrient content is established at a little different rate than other ones are. As far as determining CAFO numbers, they count them at a different rate. So there are a number of issues like that that just makes it—on a competitive nature, if you had your choice and you are going to run a business, which you have, you are going to go to the one place that has less regulation.

Mr. RIBBLE. Very good. Thank you.

Ms. Maschhoff, six generations, that is impressive. Not a lot of family businesses stay around for that long, so congratulations to your family.

You mentioned in your testimony that there have been—one of the threats to your business have come from anti-livestock and strident animal rights groups. Can you talk to us a little bit about—you mentioned it briefly in your testimony, but I would like you to go a little bit further—on the difference today on how you are treating animals than maybe three generations ago, and what the improvements have been in the quality and safety of your pigs?

Ms. MASCHHOFF. Well, every aspect of animal care has changed. This is not your grandpa's farm anymore. Just like every other industry in this country, we have moved forward, thanks to technology and science-based decision-making. So our housing has changed based on science, our nutrition requirements have changed.

One example, which I think is very unique, is as we study how the genetic lines that we use grow, we actually ultrasound that animal every week of its life. So we actually have a model of how it grows every single week; how much weight it gains; where the back fat is deposited; how much muscle is being maintained, *et cetera*. Based on that type of technology, we create 27 different rations to feed that animal over the course of the 5½ months that it is growing. And one ration may last 3 days, one ration may last 2 weeks, depending on what that animal needs at every stage of its growth curve.

That is the way science has guided and changed the way we raise animals in this day and age. And that is one of the things that we think makes The Maschhoff system unique, the fact that we are not afraid to invest in technology, because we believe those changes will allow us to be more competitive in the marketplace.

Mr. RIBBLE. Well, why do you suppose the animal welfare groups are so concerned, then? Is there a communication problem, is there a lack of understanding?

Ms. MASCHHOFF. There is a lack of people eating meat, from their perspective probably. But in terms of a—there probably is a communication issue. We need to continue to have opportunities to explain that everything we do is guided by science. Sometimes those technical answers aren't the most entertaining and so they get lost in the shuffle of everyday news. But we obviously do need to do a better job communicating. But there are a great many people who try to use the banner of animal welfare when, really, they are just actually people who believe in animal rights and believe in taking away the consumer's choice to have meat in their diet.

Mr. RIBBLE. Okay. Thank you very much.

Mr. Brenneman, thanks for being here. In your testimony you said, "I am not a lawyer, I am a businessman. But I am a citizen, and basic civics teaches us that there are three branches of government for a reason. I think it is troubling when the Executive Branch blatantly ignores the Judiciary, the branch of government that interprets the laws. And it is also troubling when the Executive Branch ignores the intent of Congress, indeed this Committee, when it enacts laws. Simply put, the disdain found in the GIPSA rule for the courts and the Congress is not good government." Congratulations for writing that paragraph. I wish I had said it so accurately and so correctly. Welcome to my world.

My question, though, really relates—I just wanted to congratulate you on that statement. My question relates to trade. What is the cost of waiting? What is the big deal if some of these agreements take a little bit longer so that their—as the Administration would tell us, more thoroughly conceived?

Mr. BRENNEMAN. Well, it is hard to put a number on the cost, and I apologize that I can't do that. Each one of them would be looked at slightly different. But the export markets are increas-

ingly important to the pork business today, more so than any other time. We rely on the export markets. When we see one or more export markets close, such as we did back in 2009 when H1N1 hit, it had a significant impact on the U.S. pork industry. So while I can't give you an exact number I know there are a lot of statistics out there, and each one of the agreements would be different. It is—there is no doubt it is extremely significant to our industry.

Mr. RIBBLE. Well, thank you very much for your testimony. And, Mr. Chairman, I apologize for going over a little bit.

The CHAIRMAN. That is okay. Mr. Schrader.

Mr. SCHRADER. Thank you, Mr. Chairman. A pleasure to be at the hearing.

As a veterinarian, it is nice to hear the livestock industry is alive and doing fairly well, *albeit* with some challenges. And I associate myself with the remarks of most of the Members of the Committee on many of the issues you face, whether it is trade or GIPSA rule and antibiotic issues. I guess as a veterinarian, just a quick line of questioning. And maybe, Ms. Maschhoff, you could respond if that is all right. You already talked about the life cycle of the pig from birth to the packer is what?

Ms. MASCHHOFF. I am sorry, what is the question?

Mr. SCHRADER. The life cycle of your pig is?

Ms. MASCHHOFF. Five and a half months to 6 months.

Mr. SCHRADER. And you also testified that that animal is in pretty good shape. You even get that ration fine-tuned to maximize that individual's well-being, I assume.

Ms. MASCHHOFF. They definitely get more vitamins than I do, probably.

Mr. SCHRADER. I suspect they eat better than I do.

Ms. MASCHHOFF. They probably do, unless you have a personal chef like our pigs have.

Mr. SCHRADER. Exactly. I think that is a very good point. If we ate as well as our animal friends, we all would be less obese and in better shape, quite frankly, at the end of the day.

The antibiotics are misconstrued, oftentimes, by people as they talk about it as a growth promoter, and people immediately jump to steroids, people immediately anthropomorphize about what you are doing. I think you testified pretty well, but the antibiotics are to decrease the stress and improve the life quality of that animal while it is here on this planet; isn't that correct?

Ms. MASCHHOFF. That is absolutely correct.

Mr. SCHRADER. An animal that is stressed and upset, do they gain weight, do they feel good?

Ms. MASCHHOFF. No. They basically go off feed and water. And by walking those pens every day, you can immediately tell which animals need attention.

Mr. SCHRADER. And so your goal in your operation is to minimize that stress, not just from a financial standpoint, but for the well-being of that animal, I assume?

Ms. MASCHHOFF. Yes.

Mr. SCHRADER. What antibiotics do you use on your farm, what type of range in the course of your operation, if I may ask?

Ms. MASCHHOFF. It is a very broad spectrum, and I rely on our veterinarians to prescribe everything for the herd health.

Mr. SCHRADER. What is the withdrawal—is there withdrawal times in your industry?

Ms. MASCHHOFF. Yes. Virtually every substance that is prescribed by a veterinarian would have a withdrawal period which we adhere to.

Mr. SCHRADER. And what is the range in that withdrawal time?

Ms. MASCHHOFF. It could be anywhere from 10 days to 21 to 28 days. It varies, depending on the pharmaceutical we are using.

Mr. SCHRADER. So that seems like a pretty reasonable amount of time. I think the public needs to understand that the reason we have those withdrawal times is to ensure the safety of that product when it hits their dinner table. The idea that we are going to induce antibiotic resistance borders on the absurd when we look at the facts and how these antibiotics are actually fairly judiciously used.

In your own herd or your operation, I know there is a huge turnover given the life cycle we are talking about here. What sort of antibiotic resistance have you seen, if you will? You are using a line of antibiotics. Are you having problems in that regard?

Ms. MASCHHOFF. We are not having a problem with antibiotics.

Mr. SCHRADER. So the fact that we are not having any problems in the immediate population with antibiotic resistance would tell this country boy that maybe if you are not having it with the immediate population, it is kind of unlikely we are going to have it in the human population. The consumer is not even exposed to the actual antibiotic which is broken down and withdrawn from the animal system or from the operation long before it hits that person's dinner table?

Ms. MASCHHOFF. That would be logical.

Mr. SCHRADER. Shifting real quick to the farm bill—I mean, it is coming up—we do have some issues and we are in a tough budget environment. I think the Ranking Member and the Chairman of our full Committee are committed to trying to have agriculture do its part. I am sure the direct payments will come under siege again, and that is a topic for another discussion, I guess. But what areas is the pork industry most concerned about that we need to be making sure stay in the farm bill to help this industry grow and thrive? Anybody.

Mr. WOLF. Thank you. And I appreciate that question because I am Chairman of our Farm Bill Task Force for the National Pork Producer Council, and we are looking forward to that one. Probably the issues that come up with the pork producers are going to be the ones we discussed today; is the fairness and equal regulation so that we don't get over-regulated. That, if anything, we go back to 2008 and get the five things that were requested out of GIPSA and get those done right; and let's move on, and enough is enough on that.

But from a forward standpoint as something that we may be looking at in the future is feed availability to assure that the livestock has feed availability, physical availability. And that is something that the grain industry has done a fantastic job of creating demand. I envy them. They have done a great job. But they have done a job beyond the support of supplies that we can do.

We have limited, limited land and areas that we can produce these grains, but we just over-created demand for grain. So now we are going to ask the government to help and assure that we don't have the welfare concerns of the livestock industry.

Mr. SCHRADER. Good. Thank you. I yield back.

The CHAIRMAN. I now recognize the former Chairman of the Committee on Agriculture, Mr. Goodlatte.

Mr. GOODLATTE. Thank you, Mr. Chairman. I appreciate your holding this hearing.

Ms. MASCHHOFF, your written testimony mentions regulatory efforts to impose requirements for the treatment of non-ambulatory livestock at processing facilities. Can you take a few moments and expand on that subject and describe how the pork sector would be affected?

Ms. MASCHHOFF. Yes, thank you. In the pork industry when a pig moves off of a truck, if it gets winded, if it gets tired, it needs to lay down and rest. It doesn't have any—there really is no correlation between that animal resting and that animal's health; it just gets tired. And studies have shown over and over and over that when that animal is allowed to rest that 30 minutes, or whatever the case may be, it is fine.

The current regulation that Representative Goodlatte is referring to would mandate that if that animal lays down to rest, it is non-ambulatory permanently and therefore should be removed from the food supply. This would erase 6 million pounds of pork out of the food supply, just like that, with no compensation to the farmers. That is not exactly based on sound science. So that is a proposed area that has us greatly concerned.

Mr. GOODLATTE. And no risk whatsoever to consumers because the meat is in no way tainted or affected by any kind of illness. So you would advocate, as would I, that there would have to be some kind of diagnosis of an illness before the animal would be—

Ms. MASCHHOFF. That is correct. If there was presence of a fever, an elevated temperature, for example, that shows that that animal—a physical symptom that a veterinarian can say, yes, this animal is sick. But simply resting is not an indication of being sick.

Mr. GOODLATTE. Do you utilize any government programs to help you manage the environmental challenges that you face? As we reprioritize our budget allocations, can you tell us more about those programs, including the application process and the usefulness or value of the programs?

Ms. MASCHHOFF. Currently we do not use any government programs. However about 12 years ago when the EQIP, Environmental Quality Incentive Program, was allowed, we did participate in that program. That was a cost-share program that allowed us to install various equipment and improve our processes for handling the environmental aspects of our operation.

Today our production partners have become more reliant on that program as our operations are fully in place now. So it has become more important to our production partners than to our immediate concerns at The Maschhoff headquarters.

Mr. GOODLATTE. I understand that some groups—this is directed at Mr. Brenneman—I understand that some groups that may be perceived as anti-agriculture have requested the Food Safety In-

spection Service to amend its regulations to prohibit the slaughter of all non-ambulatory swine, especially pigs that aren't walking, no matter the reason, no matter how briefly.

So I wonder if you could expand on what Ms. Maschhoff has said and explain what the practical and economic consequences to such a rule would be from your standpoint.

Mr. BRENNEMAN. Certainly. As Mrs. Maschhoff said, it is many times just an animal that needs a rest. These are not sick animals and, quite frankly, they don't threaten the safety of the food. And that is the one piece that I would add on to everything that she said before; that this is not really—we need to be careful not to confuse this with food safety issues and create a food safety issue out of this, because it has no impact on the safety of the food unless there is clearly an illness or something there.

From a cost standpoint, it would be a significant cost to producers and, quite frankly, to processors to have to deal with that as well, because you have animals that come in that need the rest. You potentially then have an open shackle that goes—because you don't—you wouldn't be planning for those animals to go down.

Mr. GOODLATTE. Mr. Wolf, another issue that concerns—I don't have a lot of pork production in my district, very little if any, but I have a lot of poultry and beef cattle and dairy. And I hear a lot from those producers concerned about the impact that government-subsidized ethanol programs have on them. And one of the byproducts, as you probably know, of ethanol is dry distillers grains, which those promoting ethanol promote as a byproduct that helps to offset the loss of some of the corn from the market that my constituents argue drives up the price of animal feed.

How do you respond to those who assert that DDGs are a viable feed source in place of corn? Does it work in your business? Does it work with pork in general, with hogs in general?

Mr. WOLF. Thank you. It brings up an important factor that, yes, we have been able to bring the DDGs back to the swine market, although it is a limited basis on where, how much you can use it. It affects carcass quality, which, here again, our whole thing is on food safety and food nutrition integrity, so we want to be careful that we don't do that. Some livestock species can incorporate it better. Beef can incorporate it better.

The thing to remember is that out of that 56 pound bushel of corn, we are going to get back 17 pounds of DDGs. So the difference in numbers there is just gone. And today, even with modern ethanol production, they are telling me that they are even able to get more of it than that, so we are down under 17 pounds of return. So even though that part of it can be utilized, and it does work out okay to a limited source, it is not going to replace what is being used.

Mr. GOODLATTE. Mr. Chairman, thank you very much.

The CHAIRMAN. Thank you. And Mr. Schrader do you have any other questions?

Mr. SCHRADER. I am good. Thank you, sir.

The CHAIRMAN. I would like to thank the witnesses for their participation in this process today and for coming out and helping us understand the pork industry a little bit better. I hope all of you will consider coming back as we delve more into some of the spe-

cific issues that we touched on today. And again, on behalf of the Committee, I appreciate your testimony and your answering of our questions.

Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any question posed by a Member.

This hearing of the Subcommittee on Livestock, Dairy, and Poultry is adjourned.

[Whereupon, at 3:10 p.m., the Subcommittee was adjourned.]

