

The Heartland Spirit

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The Cost of Bringing Home the Bacon

Jefferson County Hog Sales Were \$13 million in 2002

by Nancy Pfoutz | Staff Writer

When an industry critical to the community's vitality undergoes a significant shift in the way it must function, a range of strongly-felt opinions inevitably surface. Hog producers, agricultural researchers and environmentalists speak out in Part 2 in the series on Hog Farming and CAFOs.

Trend Toward Large-scale Production

Twenty years ago in rural Iowa, nearly every farmstead had a few pigs. For small family farmers, hogs were "mortgage lifters", helping to pay off the farm loan.

"People could raise a family on 50 acres of land," said John Estle, who used to own a small hog farm in Fairfield. But now, it's getting harder for the independent hog producer to make a living, and many of them in the last ten years have either retired, quit or formed partnerships to survive. Others have chosen to become "contract growers", raising a large number of hogs, typically 1200-2400 in a Confined Animal Feeding Operation (CAFO) buildings in which the hogs are packed in close proximity in metal and concrete pens until they reach slaughter weight.

"It takes big numbers of hogs to make a profit these days," said Ron Snakenberg, an independent producer who works with Niman Ranch, a niche-market supplier offering hogs raised without antibiotics or hormones and with access to the outdoors. "With the profit margin so slim, the average family farmer can't exist. The smaller, competitive markets and buying stations are

gone, and there's little competitive bidding anymore."

"We used to have 9 or 10 sows, and we never made enough money to cover the labor required to bring them to market, so we quit having animals," said Estle. "These days the equipment is bigger, and there's fewer people on the land. Large agri-business corporations have changed things – there used to be 2-3 equipment dealers in each town, and now you have to drive 50-60 miles just to get a part. Government regulations also have hurt the small farmer," he commented.

What has changed to make hog farming so untenable for the small farmer? State Representative John Whitaker, who has a small farm with 40 sows producing 500 head a year, points to the "conglomerates who have been willing to contract with packers, to guarantee a certain amount of hogs for production – those links have lowered the availability of the market for traditional farmers, making the profession risky."

Mike Duffy is an economist with the Iowa State University (ISU) Leopold Center for Sustainable Agriculture, a research body that looks at alternatives in



agriculture that are profitable while being environmentally sound. Duffy confirmed that the narrow profit margin in the industry has caused farmers to add more hogs to generate the income needed.

"The overall trend is to substitute capital for labor to make life easier," he said. "The number of independent pork producers has dropped precipitously, and the number of pigs per farm has increased dramatically."

Changing demographics also plays a role, says Casey Diehl, 22, a Jefferson County hog farmer north of Fairfield. "Old farmers are retiring, there are less young farmers. No one wants to farm anymore – people don't want to work as much, fight the elements and environmental concerns. The trend is toward bigger, efficient operations versus smaller."

In the ten years between 1992 and 2002

there has been a 113% increase in the average number of hogs per farm in Jefferson County. In 2002, there were 58,000 hogs on 65 farms in the county versus 83,000 hogs on 199 farms in 1992.

Finding a Niché to Survive

With market access an increasing problem for independents (packers often contract 80% of their daily need with large entities), Whitaker feels grateful to have an outlet – Niman Ranch takes a certain number of his hogs per month to use for high-end restaurants and organic produce markets. “I’ve been lucky so far, and haven’t had to go on the open markets,” he said. Snakenberg agrees. “If it weren’t for Niman Ranch, I wouldn’t be in the business. Small independent producers are at the mercy of the packer.”

In light of this economic uncertainty, it’s easy to see why a farmer might be drawn to a contract arrangement with a large corporation or large-scale independent farmer. The corporation owns the hogs, the farmer takes out a loan (as much as \$500,000) to build the CAFO facility and then raise the hogs to “finishing weight” (250 pounds, ready for slaughter). He delivers them to a packing plant with whom the corporation has contracted to receive a set price per head. The farmer assumes responsibility for manure management and environmental compliance. The amount the farmer gets paid for his labor depends on the particular contract arrangement into which he enters.

Diehl wanted to join his dad in the hog business but didn’t think it was financially feasible to farm traditionally. “I have no equity to buy a barn, silos, feed, haulers, support equipment – that’s a huge [expense]. I couldn’t borrow what I needed to get started from a bank, because the hog market today is below the break-even mark. So in building just the barn and taking care of the pigs, I don’t need to worry about [other] costs.”

Currently, about 10% of Iowa’s 10,000 hog operations (ranging from 1 pig to many thousands) is under “production contracts” like Diehl has with Eichelberger Farms, a large family farm producer in Wayland. And 32-35% of all hogs are produced under this kind of arrangement.

Independent Producers Form Partnerships

The other 90% of hog farms are run by independent producers like Steve Burgmeier of Fairfield. He currently owns, in partnership with four other farmers, 1400 sows which produce 4000-6000 head a year. One of his buildings is classified as a CAFO. He raises the pigs to a specified weight, then sells some and keeps 2000 heads to finishing weight.

Although he owns a CAFO, he is still co-owner of the hogs, not contracting with a corporate entity. He also joined with 123 other farmers who have opened their own processing plant, Majestic Food Group in Le Mars, Iowa this past November. Among independent producers, 60% of the hogs are sold on “market contracts”, where the farmer finds a buyer and signs a contract ahead of time (5 years, for example) for a set amount per head. It’s a risk management technique to minimize market fluctuations. About 40% of “independent” hogs are still sold on the open market, according to John Lawrence, Professor of Economics at ISU, specializing in livestock economics.

Environmental Health vs. Economic Viability

Advocates of confinement structures, Burgmeier included, see certain advantages to their use. They say CAFOs save on labor costs, there is better control of the environment with the technological equipment keeping the quarters clean, and vaccinations cut down on disease. The manure from CAFOs is pumped underground, applied as fertilizer to cropland, whereas when hogs are outside, the manure can cause run-off problems, Burgmeier said.

Yet environmental groups assert that manure leaks and spills from CAFOs have caused surface and ground water contamination and have killed at least 2.6 million fish. The groups insist that the Iowa Department of Natural Resources (DNR) has “failed to implement and enforce the Clean Water Act for livestock operations” (Environmental Integrity Project, May 2004).

“Large corporate production of pork

produces a more consistent product that consumers want,” said Colin Johnson of the Extension Program of the Iowa Pork Industry Center at ISU. “There’s a health advantage, a bio-security factor that comes from controlling the genetic base. The indoor pigs have less exposure to disease than outdoor pigs.

Johnson also feels that the DNR has done a good job in monitoring the environmental impact of CAFOs. This view is in opposition to that of the Environmental Protection Agency (EPA) which this week delivered an ultimatum to the Iowa DNR to force factory farms to comply with the 30-year-old Clean Water Act by April 15, 2005 (see story on page 2).

As to the health advantage of CAFOs, local farmer Francis Thicke of the Environmental Protection Commission in Iowa disagrees, contending that confinement hogs are raised in a sterile environment, not an ecologically natural system for an animal. “Without access to diseases, the hogs build no immunity, and immunity will be bred out of them. Over time, we’ll see a shift in the gene pool to animals who can’t adapt to natural environments. And when and if they do get sick, all the pigs will get it, raising the need for more antibiotics, if they work at all.”

Phil Gevock, president of the Farm Bureau, feels that large producers are in a better position to uphold environmental regulations than the small independent farmer, because they can afford to invest in technology to solve waste disposal problems, for example. “Even tax policies encourage consolidation into bigger entities,” Gevock said. “Some individuals want to use environmental concerns to do battle with large producers, when actually it’s the smaller producer they [might have more problems with].”

Thicke, however, says that both large and small producers can manage manure appropriately, but large farms cause a much larger disaster when it’s mismanaged.”

Profitability of Corporate Farming Versus Independents

Although Burgmeier sees some advantages of corporate farming, he questions its viability and thinks it is doomed to fail-

ure. He tried a contract arrangement in 1992-94, raising 2000 hogs for a large corporation, and found it neither fulfilling nor profitable. He is particularly opposed to corporate ownership of the hogs, feeling that farmers are more dedicated to the animals if they own them. "It's kind of like raising a kid or owning a business – you don't want to put that work into it if it isn't yours.

So who's making a profit in hogs these days? Independents take a greater risk than contract producers, but can take advantage of upturns in the market; the CAFO farmer has security but his income is set. From 1998-2002, for example, contract growers came out with more equity than independents, but 2004 was very profitable for independents and 2005 looks good as well.

Diehl feels that the CAFO offers secu-

rity. "It's not going to make me rich, but I can stay on the family farm."

Burgmeier had a different response. "We've never seen the potential income with contracting out that we have with our own ownership. I would never advocate that type of arrangement. It has all of the work but none of the advantage of the upmarket."

Economist Duffy noted that profitability in hog farming depends on the particular arrangement a farmer has, his facilities, costs, management, and luck. He added that an efficiently run independent unit can have costs as low as a CAFO.

In the changing landscape of hog farming, creative solutions seem to be essential if independent producers are to survive. Yet Johnson of ISU insists that "The independent producer will always be the base of our industry. The industry

offers potential for many types of production and sizes of producers."

Johnson and Lawrence both see three opportunities that will continue: large producers working with CAFO contract-style growers, large independent producers (the family farm expanded, with employees or partnerships), and the smaller niche markets producing specialized products. The way this potential is realized may largely depend on the priorities of individual farmers and the communities in which they live.

Next week, Part 3 in the series will discuss more alternatives to CAFO contract production, future trends in hog farming, and action steps for those wanting to influence the direction the industry will take in Jefferson County.