



**Written Testimony of
National Pork Producers Council
Vice President Scott Hays**

**“A Hearing to Review the State of the Livestock
Industry”**

**Presented Before the
House Committee on Agriculture
October 7, 2021**

Introduction

Chairman Scott, Ranking Member Thompson, and members of the committee, I want to express my deepest gratitude for the invitation to speak to you today on the state of, and on the needs of, our nation's farmers – specifically, our nation's hog farmers.

My name is Scott Hays, and I am a fifth-generation pork producer and CEO of Two Mile Pork, a multi-generational farrow-to-finish farm in Monroe City, MO, with just shy of 40 hard-working employees. I also serve as Vice President of the National Pork Producers Council, the association representing our nation's 60,000 hog farmers. I am also active with the Missouri Pork Association, the Monroe City FFA chapter, and the Missouri Institute of Cooperatives.

Pork production in the United States remains a robust part of American agriculture. In fact, the United States marketed 131 million hogs and exported \$7 billion of pork products last year. This success has been in spite of years of exceptionally difficult circumstances for producers, which included trade retaliation from China and Mexico, animal disease outbreaks, and COVID-19 supply-chain disruptions. Through all of this, producers have worked tirelessly to provide stability for both rural economies and American consumers.

Comments on Announced Funding for ASF Prevention

Before covering the primary topic of the hearing, I would like to first address the \$3 billion in investments announced by Secretary Vilsack last week. Specifically, I would like to thank the Secretary and his staff on behalf of all American pork producers for directing \$500 million toward efforts to stop African Swine Fever before it arrives in the United States. I would also like to thank the Members of this Committee who have raised awareness on this important issue. This funding represents a truly historic commitment by USDA to engage in prevention such as improved monitoring, detection, and depopulation efforts in the ASF-positive countries near our borders and at home if needed. ASF represents the single largest risk to American pork production, and we are extremely grateful for the Administration's proactive measures in this area. Pork producers also appreciate the simultaneous investments in relief from transportation disruptions and assistance for school nutrition.

Background on Hog Marketing

Over the last several decades, there has been a massive shift in the way hogs are marketed to processors. Where once was a robust negotiated market or spot market, now lies an overwhelming use of different marketing agreements and production contracts. This shift did not occur without reason. Volatile market conditions and external shocks to the industry have incentivized producers to seek arrangements that can insulate them from market risk.

The use of production contracts has expanded rapidly since the 1980s. In this arrangement, a pork producer pays a contract grower to house and care for his or her animals. This provides significant benefits to contract growers since the credit of the livestock's owner can be leveraged to make capital improvements that can last beyond the duration of any individual contract all while being paid on a per-pig-space basis that insulates the grower from market risk. To be clear, the pork industry does not utilize a tournament system and contract growers typically have several different livestock owners with whom they can choose to work.

The use of marketing agreements has also expanded rapidly over the last several decades. While initially used by packers to have producers raise hogs with specific attributes, the hog price crash of 1998 drove farmers to utilize them as a means of guaranteeing shackle space at packing plants in volatile market conditions. The prices paid under these agreements are often based on a blend of many inputs, including spot market prices, the lean hog commodity index, or even pork cutout prices.

Attached as an addendum to this statement, please find a paper prepared by Dr. Steve Meyer and Dr. Barry Goodwin that provides much more detail on the structure and operation of the U.S. pork industry.

Livestock Mandatory Reporting

Livestock Mandatory Reporting plays a crucial role in the price discovery process for hog farmers. The ability for any producer to access accurate market data at regular intervals allows farmers to assess the relative strength of their existing contracts with processors and formulate competitive new agreements.

Prior to 2001, livestock and meat price information were collected on a voluntary basis. Throughout the 1990s, the number of hogs sold on a negotiated basis declined and more and more animals were sold or contracted under marketing agreements that were not publicly reported. This made it difficult for farmers to assess "fair" market prices for livestock and eventually led to the adoption of livestock mandatory reporting. In 1999, Congress passed the Livestock Mandatory Reporting Act (LMRA), and over time, amendments to the LMR rules have added important details and wholesale pork as part of the reporting.

As a pork producer, I frequently check the National Daily Hog and Pork Summary and the Daily Slaughter reports and pull those numbers into a spreadsheet. Looking at trends in weights, prices, and volumes helps us negotiate any load of hogs we sell on the cash market. Most of our pigs are sold on marketing agreements, and having daily prices from the LMR reports allows us to look at packer formula offers and how they would have performed in good and tough times.

LMR remains one of the most important tools in the arsenal of hog farmers today. So important, in fact, that I am going to be presenting alongside AMS later this month about the importance and use of the reports. That being said, there are a number of changes to LMR that would make the reports even more helpful to hog farmers, including:

- 1. Amend the definition of "Reporting Day" to ensure that USDA LMR employees are deemed essential in the event of a government shutdown.** LMR data are the lifeblood of the hog and pork markets. Without them, producers, packers, processors, retailers, and foodservice operators are in the dark about the value of hogs and pork products. There simply is no context for commercial decisions affecting thousands of businesses and millions of end-users. Without timely and transparent publicly available data, commerce can be significantly impaired.
- 2. Amend the definition of Non-carcass Merit Premium to include discounts.** This would amend the current definition of "non-carcass merit premium" to also include discounts. Under current law only an increase (premium) from the base price of swine is required. The amendment would also require decreases (discounts). The change provides for the possibility that any pricing mechanism that offers premiums for certain non-carcass characteristics could also involve discounts.
- 3. Amend the definition of "Packer" to require that new packing plants begin reporting LMR data within 6 months of starting operations.** This would have the Secretary of Agriculture require that a new processing plant that meets the definition of packer begin reporting LMR data within 6 months of starting slaughter operations. Under current law, there is no time requirement specified for determining the packer status of a new processing plant or person or requiring the new plant or person to begin reporting. In the past, although USDA had the information needed to make the determination, the process of including new plants in the LMR system lagged.
- 4. Amend the definition of "Swine or Pork Market Formula Purchase" to split swine market purchases from pork market purchases.** This would amend the current definition of "swine or pork market formula purchase" into two distinct definitions of swine market formula purchases (which is based on a market for swine) and pork market formula purchases (which is based on a market for pork or a pork product). This is needed to provide clarity about how formula prices for hogs are derived. When LMR was passed in 1999, swine and pork market formulas were lumped together because (1) there were very few hogs priced off the cutout value or other pork value; (2) negotiated prices and the cutout value were highly correlated; and (3) it simplified reporting in the new program. Under current industry practices, neither 1 nor 2 still apply. The use of cutout value as the base price for hog formulas has grown dramatically in recent years, but the extent of that growth cannot be seen because the number of animals priced off the cutout and the value of those animals is masked by adding them in with swine market formulas.

5. **Expand the daily reporting of Barrows and Gilts of the Prior Day Report.** This would amend the information required from the prior business day of a packer relating to slaughter data for the total number of barrows and gilts slaughtered to include two additional items of information. The first is information concerning the average non-carcass merit premiums or discounts, and the second is information concerning the average net price without the average non-carcass merit premiums or discounts. At the time the Act was passed in 1999, non-carcass merit premiums were generally small and fit into very few categories, primarily transportation, specified genetics, and volume. Today, these premiums/discounts cover characteristics such as gestation stall-free, antibiotic-free, ractopamine-free, among others.
6. **New mandatory reporting of Wholesale Pork Cuts.** This would require the mandatory reporting of carcasses. Under current regulations, the definition of wholesale pork cuts does not include carcasses.

With that said, maintaining the program's authorization and funding are the most crucial aspects of Congress' work on LMR, and we appreciate the committee members' support for a year-long extension. I hope that in the near future these common-sense changes can be incorporated into the program.

Other Issues and Closing

Livestock Mandatory Reporting is far from the only issue on the minds of pork producers right now.

Earlier this year, a federal court struck down a portion of the New Swine Inspection System (NSIS) rule that allowed participating packing plants to run at the higher speeds they've been safely operating at for over 20 years, causing a reduction in national packing capacity by an estimated 2.5%. Hog farmers are looking to policymakers to preserve that program and recover the capacity lost. By way of comparison, even if all 600-plus state and municipal pork harvest facilities in the nation were brought up to federal standards, it would amount to less than 1% of current federally inspected pork harvest capacity. (An analysis on state and municipal harvest capacity is appended to these comments.) Thus, the court decision on line speeds is significant because it shifts market leverage away from hog farmers. As hog farmers, we benefit from more harvest capacity as plants push up prices to attract hogs. Conversely, we lose market leverage when harvest capacity decreases. So, we are pleased that the administration and members of Congress from both sides of the aisle are looking for ways to expand pork harvest capacity. Obviously, rectifying the line speed issue is important. But, beyond that, NPPC has provided USDA with a menu of options in comments recently submitted, which are appended to this statement.

Another priority issue for pork producers is African Swine Fever, which now is in the Western Hemisphere for the first time in decades, with detection of the swine-only disease in the Dominican Republic and Haiti. While producers are thrilled by the quick response the administration has taken to prevent ASF's spread to the United States, it is imperative that Congress maintain open communication with USDA, U.S. Customs and Border Protection, and others to ensure they are doing everything they can to prevent what could be a catastrophic event for our industry. An ASF outbreak in this country would have many devastating effects on U.S. agriculture, including the death of tens of thousands of hogs, significant disposal challenges associated with high volumes of hog mortality and euthanasia, the loss of U.S. pork exports (which account for over 25 percent of pork production and produce over \$7 billion in value for pork producers), a significant reduction in demand for feed grains like corn and soybeans, and a negative impact on the 550,000 mostly rural jobs supported by the pork industry.

Yet another challenge for the U.S. pork industry – indeed for much of agriculture – is workforce availability. A shortage of labor was a problem before COVID-19 and has been exacerbated by it, with some farms facing vacancy rates as high as 30% despite offering record-high wages and benefits. Reforming the existing H-2A visa, which allows temporary seasonal agricultural workers, to include year-round labor, without a cap on the number of visas available, is the only solution given rural America's declining population.

The responsibilities before this committee are and will continue to be of dramatic consequence to our industry and the rest of livestock production. I would be honored to answer any questions this committee may have in pursuit of a successful future for American agriculture.

Appendix

- August 2021: NPPC's Comments to AMS in Response to a Request for Information Titled "Investments and Opportunities for Meat and Poultry Processing Infrastructure"
 - <https://www.regulations.gov/comment/AMS-TM-21-0058-0416>
- June 2021: "Structure and Importance of the U.S. Pork Industry" by Dr. Steve Meyer and Dr. Barry Goodwin
 - [https://nppc.org/wp-content/uploads/2021/06/Competition Paper FINALWD.pdf](https://nppc.org/wp-content/uploads/2021/06/Competition_Paper_FINALWD.pdf)
- July 2021: "The Role of State-Inspected Slaughter in the U.S. Pork Supply Chain: Survey and Analysis" by Holly Cook
 - <https://www.card.iastate.edu/products/publications/pdf/21pb34.pdf>