

## **Broiler, hog industries save billions from corn**

**By JACQUI FATKA**

LARGE livestock firms are undoubtedly facing higher feed prices. However, a new study from Tufts University sheds light on the vast savings these same firms have benefited from over the last decade due to cheap corn prices.

In the nine years following the passage of the 1996 farm bill (from 1997 to 2005), corn was priced 23% below average production costs, while soybean prices were 15% below farmers' costs. As a result, feed prices were an estimated 21% below production costs for poultry and 26% below costs for the hog industry.

Report authors Timothy Wise and Elanor Starmer estimated cumulative savings to the broiler chicken industry from below-cost feed in those years to be \$11.25 billion, while industrial hog operations saved an estimated \$8.5 billion.

Wise, deputy director of Tufts' Global Development & Environment Institute, explained that because the companies are privately held, the researchers didn't calculate exactly what cost savings were but estimated savings based on market share and market costs.

Given the level of consolidation in the broiler and hog industries, it is significant to look at estimated savings for each company (Table). "It is hard to think of another industry that has one component (feed) that has such a high share in operating expenses where government policy helps drive those costs down," Wise said.

### **Cost savings**

Between 1997 and 2005, the market price of corn -- which makes up 60% of the broiler feed mixture -- averaged \$2/bu., while the average cost of producing corn in the Midwest was \$2.62/bu.

The cost of production for corn has risen closer to \$3/bu. in recent years due to rising input costs and is projected to continue increasing. The researchers projected that the market price of corn will have to be at least \$3/bu. in order for farmers to break even

on corn production without relying on taxpayer subsidies to cover production costs.

"Anything below this level constitutes an implicit subsidy for broiler companies and other bulk commodity purchasers since the difference between lower market prices and higher production costs will be shouldered either by taxpayers or by farmers themselves," the report said.

On the hog side, industrialized hog operations with inventories of more than 5,000 head saved an average of \$652.1 million per year on feed compared to what they would pay if the market price of feed were equal to production costs -- a total of \$5.9 billion in nine years.

Including all hog operations with more than 2,000 head, the industry received a discount averaging \$945.3 million per year for a total of \$8.5 billion over the nine-year period. The discount reduced total operating costs for industrialized hog companies by 15%.

### **Price makers**

Harwood Schaffer, research associate at the University of Tennessee's Agricultural Policy Analysis Center, explained that there are more than 1 million corn producers in the U.S. However, not one of those producers is large enough to affect the market based on his or her actions. "They are a price taker, not a price maker," Schaffer said.

On the other hand, the top animal meat firms have a concentration ratio providing them the ability to affect market prices and are close to being price makers, Schaffer said.

"The top three broiler firms can reduce production and move the market price up," he said. "They have deeper pockets and can more easily weather a storm."

Wise said a future study scheduled to be released later this spring or early summer found that higher corn and soybean prices may actually offset the price advantage vertical operations now enjoy in the hog industry.

"Efficient, diversified family farmers under current price conditions may well be able to compete with industrialized corporations. With prices above production costs, farmers can save money by growing their own feed for their hogs while industrialized operators pay higher prices, not the below-cost prices of recent years, which only made them seem more efficient," he noted.

Both Wise and Schaffer said the upcoming farm bill debate provides an opportunity to reshape government programs to better handle the wild swings and imbalance in

supply and demand.

The paper is at [www.ase.tufts.edu/gdae/Pubs/rp/CompanyFeedSvgsFeb07.pdf](http://www.ase.tufts.edu/gdae/Pubs/rp/CompanyFeedSvgsFeb07.pdf).

<b>Total savings from low feed prices, top four broiler- and hog-producing companies</b>							
	<b>% market</b>	<b>Total savings,</b>	<b>Annual savings,</b>		<b>% market</b>	<b>Total savings,</b>	<b>Annual savings,</b>
<b>Company</b>	<b>share*</b>	<b>\$, 1997-2005**</b>	<b>\$, 1997-2005<sup>1</sup></b>	<b>Company</b>	<b>share*</b>	<b>\$, 1997-2005**</b>	<b>\$, 1997-2005<sup>1</sup></b>
Tyson	23	2.59 billion	288 million	Smithfield	30	2.54 billion	283.6 million
Gold Kist	10	1.13 billion	125 million	Premium Standard	8	680.4 million	75.6 million
Pilgrim's Pride	9	1.01 billion	113 million	Seaboard Corp.	7.5	638.1 million	70.9 million
ConAgra Poultry	8	900 million	100 million	Prestage	5	425.7 million	47.3 million
*Constant 2002 market share for broiler companies, and constant 2003 market share for hog companies.							
**Savings equal to difference between market price of broiler or hog feed and feed priced at full cost of production. Production costs based on U.S. Department of Agriculture/Economic Research Service estimates of total economic costs of production for corn and soybean meal. Between 1997 and 2005, broiler feed was sold on the open market an average of 21% below cost of production (22% for hog feed).							
<sup>1</sup> Average annual savings over nine-year period. Actual savings varied from year to year.							