

Cheap corn benefits end user

By JACQUI FATKA

FOR the past 10 years, larger, integrated livestock operations have been beneficiaries of farm policies giving them a cost advantage over smaller and midsized operations, but as corn prices have gone up, the tables have turned, taking away cost advantages integrated operations once experienced.

Following the 1996 farm bill, between 1997 and 2005, large livestock firms saved an estimated \$3.9 billion per year, or approximately \$35 billion total over the nine-year period, because they were able to purchase corn and soybeans below the cost of production, according to a new policy brief released by the Global & Sustainable Development Program.

In that period, corn prices averaged 23% below average farm production costs, while soybeans were priced 15% below costs.

The savings reduced overall operating costs by 5-15%, depending on the sector.

Tim Wise, an author of the brief and deputy director of the Global Development & Environment Institute at Tufts University, explained that the overall share of reduced operating costs depended on each sector (Table).

Savings to industrial livestock from low feed prices, 1997-2005				
	Feed	Operating	Annual	Total
	savings	cost savings	savings	savings
Sector	-%-		-mil. \$-	
Hogs	26	15	945	8,505
Broilers	23	13	1,250	11,250
Eggs	22	13	433	3,897
Dairy	14	6	733	6,597
Fed cattle	33	5	501	4,509
Total			3,862	34,758

Note: Broiler and hog estimates from Starmer, Witteman and Wise (2006) and Starmer and Wise (2007), respectively. Egg, cattle and dairy estimates from Union of Concerned Scientists (forthcoming). Dairy estimates based on 2002-03 data.

Wise estimated that the broiler industry was the largest beneficiary of corn and soybean prices being below cost, with feed bills on average 21% lower than if market prices had covered production costs.

Because feed constitutes 60% of total broiler production costs, the feed savings lowered the companies' total costs by 13%. The brief estimated the monetary value of this savings at \$1.25 billion per year between 1997 and 2005, or a cumulative total of \$11.25 billion over nine years. The top four broiler companies saved a combined \$5.6 billion.

Large hog operations saw the price of feed drop to 26% below production costs during the 1997-2005 period. The savings amounted to about 15% of the firms' operating costs. Industrial hog operations housing more than 2,000 animals at a time saved an estimated \$945 million per year, or a total of nearly \$8.5 billion over nine years.

In a competitive environment, a 15% discount on operating costs is a huge discount, Wise said. Even in viewing the fed cattle market, "the 5% savings is a very significant competitive advantage over non-industrialized cattle ranchers," he added.

Hog savings

In a longer analysis, Wise and co-author Elanor Starmer outlined how industrialized hog farms enjoyed a competitive advantage that did not come simply from their economies of size.

Wise said their research found that midsized diversified farms -- those with 500-2,000 hogs fed largely by on-farm crops -- would have comparable production costs to those of industrial producers if the latter had to pay full cost for their feed.

In addition, Wise argued that if those larger operations also had to pay to mitigate pollution costs, midsized diversified farms would actually have had lower costs per hog.

Global Development & Environment Institute researchers estimated that forcing industrial hog farms to internalize the costs of just surface water contamination could have added up to 11% to their operating costs.

The researchers concluded that in an economic climate of full-cost feed and with more stringent environmental regulations, larger hog farms would see their operating costs rise between 17.4 and 25.7%. This could virtually eliminate the apparent cost advantage industrial hog operations have over midsized diversified hog producers.

Wise said he is now hearing from diversified hog operators that they can now make

money when it was hard to do so before. The question remains whether a slowdown will occur in the industrialization of the hog sector.

Implicit savings

The research examines how farm policies affect feed costs and, in turn, affect other sectors.

Although livestock producers are not direct beneficiaries of the farm bill's commodity title, much is at stake with how farm policy is designed and how the policy trickles into other sectors.

Wise explained that although current market conditions make it a moot point on whether or not U.S. farm policy will encourage overproduction and push prices below production costs, "those conditions will not remain forever."

Richard Lobb, National Chicken Council director of communications, defended the idea that livestock producers are not covered by the farm bill as only a handful of row crops received direct subsidies.

"All we do is deal with the consequences, as we are dealing now with the massive diversion of corn into ethanol," he said about the energy bill.

Lobb added that all segments of animal agriculture demand corn and soybeans, not just one segment.

"If prices were low, all of our competitors were paying the same prices. Therefore, we would not be in any position to make windfall profits. Prices for chicken would be held down by competition from the other species. No advantage would result," he said.

Read the report on all sectors, "Feeding at the Trough: Industrial Livestock Firms Saved \$35 billion from Low Feed Prices," at www.ase.tufts.edu/gdae/Pubs/rp/PB07-03FeedingAtTroughDec07.pdf and the longer analysis, "Living High on the Hog: Factory Farms, Federal Policy & the Structural Transformation of Swine Production," at www.ase.tufts.edu/gdae/Pubs/wp/07-04LivingHighOnHog.pdf.