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COMMENT ON OUTLOOK FOR POULTRY, EGGS, FEED AND LIVESTOCK

[By William A. Haffert, Jr., Executive Vice President, Garden State Publishing Co., Sea Isle City, N.J.[1]]

It isn't often that you folks in USDA deliberately let a fox loose in the chicken coop, but I hope your interests and ours in the poultry industry can benefit from a few moments of truth.

Like you, an editor is deeply involved in the "futures" business, because that is where we must live. It is a privilege to be part of the poultry industry because, in microcosm, it offers a perfect test-tube for the challenges and strains of growing up in agribusiness. It has a $6 billion a year business structure that impacts upon, or is affected by, almost every facet of commercial activity one can imagine.

I'm certainly not going to critique Bill Cathcart's remarks this morning, because I'm not the expert he is, nor as prescient. Besides, we in the poultry industry are prejudiced. We think his shop does a much better job than some others. A few welcome additions by USDA's Statistical Reporting Service, in recent years have been publication of an all-poultry report, the new egg-type primary breeder placement report, improvements in the weekly turkey hatchery report, and so on.

Instead, let me shotgun a few ideas because I don't know exactly what your disciplines are. Let me tell you something about our problems in the feathered industries—turkeys, broilers and eggs—and what we are talking about internally. You may be able to apply a point or two to economic research or to immediate information needs.

Bill Cathcart, I noticed this morning, didn't give his usual projections on per capita consumption of our commodities into the 1980's. I don't blame him, and his talk told why—the tremendous new impact upon the feed-use commodities in agriculture or the workings of the general economy, the availability and prices of feedstuffs and competition from other high protein foods. Believe me, these outside factors have become *our* number one problem!

In time, I want to mention some particular needs of our industries—even become politely critical of some omissions in the reports we now receive on livestock as well as poultry.

Before I do that, however, we in industry deeply compliment all of you in USDA on the vast improvement in the information you are making available to use in decisionmaking. You are being asked, in these critical times, to produce the impossible—yesterday. If you feel discouraged sometimes, look back 3 to 5 years and see how far you've come. You can be proud indeed of the measure of your progress as we meet here today.

[1] Garden State Publishing Co. issues the following monthly periodicals: Egg Industry, Broiler Industry, Poultry Digest, Feed Management, and Petfood Industry.

But I live in the future and you can't put a kid in the candy store—which is sort of how I view the privilege of being with you this morning—without expecting him to ask too much, with too little to pay for it all, especially when competing with Daddy Sugar.

If Secretary Butz goes to Rome with a relatively hard line—to which I happen to subscribe, given the circumstances—he deserves to hold that line until the Russians and the Chinese, for example, begin to give us demand projections instead of mere agricultural statistics, or none at all.

We don't expect you to upstage Arthur Burns as chairman of the Federal Reserve Board, either. He is traveling unchartered waters, too, in our recession/inflation era, and in attempting to anticipate, for example, what the Shah of Iran and his Arab neighbors will try next.

No, we suspect we'll have to turn to internal means of tempering outside demands which is a somewhat controllable situation, but more about that later.

Perhaps the best way to gain a perspective of the needs of our feathered industries would be to review briefly with you some elements of the changing business climate which our poultry businessmen face today. From this, I think you will quickly see how much more interdependent our disciplines and decisions become. I think each of us, in government as well as out, needs to shed our blinkers once in a while, and take a look at the "why" of what we are doing along with the "how." Many of us tend to become too compartmentalized. I know I do, and fight it.

It was traditional in our industry—so vertically structured—to spend most of our time as chief executive officers over the past 25 years in details of operation. How to bring mill and grower and processing plant closer together in function, then ownership and, finally, physically, as microeconomics became a necessity. How to achieve efficiencies through economy of scale.

This still goes on, of course, but the CEO in the past 3 years largely has turned this operations function over to others. He is spending most of his time trying to get the right buys in feed ingredients and in developing new marketing strategies.

Even the smallest poultry company is large by the standards of even 10 years ago, and the success or failure of such a company depends literally upon how well the CEO and his purchasing agent book their grain and beans. Broilers, layers and turkeys essentially *are* corn and soybeans—cost-wise, about 70 percent of total value in today's markets.

To illustrate, futures prices for corn increased two cents over the cash market during the last 10 trading days in September. For a broiler company with only 750,000 pounds of product a week, which is very small, this advance in prices represents added costs of about $25,000 a week. For a very large one, $250,000 a week or more. If the market on corn advances the full 10 cents daily limit and soybean meal the $10 a ton daily limit, it adds a cent a pound to our cost of production.

If you want to see what a perilous game of Russian roulette this can be, take a look at the recent annual reports of some companies that have been heavily involved in poultry production . . . and guessed wrong on futures.

It simply isn't reasonable to expect a knowledgeable executive to be judged a success or failure merely by how good he is at playing the market. It's unrealistic.

The chief executive officer's next biggest concern is marketing—how to develop some differentiation in product or services or both—to fractionally improve his margin of profit, or reduce his margin of loss. In a commodity, as you well know, this is extremely difficult to do until you migrate almost 100 percent away from a raw product into a consumer-ready manufactured product. The successes so far can be counted on two hands—Swift's Butterball turkeys, to name an uncooked product; Kentucky Fried Chicken, to name a cooked one. The notable successes in brand labeling an uncooked product, including eggs are limited, indeed. The chains, as a rule, do it better.

We find that we are investing more of our own money in facilities and product than in the past. If fixed capital requirements were perhaps 25 percent three years ago, they are 30 percent to 40 percent today for a progressive company. And this does *not* include the investment made independently by contract growers, whose own inputs in the totally integrated phases of our industry may be as high as 40 percent. Nor perhaps a 25 percent increase in receivables, which presents an expensive cash flow problem.

Our bankers know our problems, but are forcing even more drain on cash flow than before. Some of our large banks, with very large agribusiness loan portfolios, are telling us in beef and poultry that they no longer will do business with us unless we hedge production.

(Try generating a half million dollars or more additional cash flow to cover futures margins during a month of volative price rises in the grain market!)

We have labor problems—big ones. As a result we are becoming socially conscious. To hold help, we have to! We are striving to move into an industrial society on competitive terms, but it's impossible at present to pay automotive industry wage scales when we can't even inventory most of what we produce profitably. For example, most consumers still resist buying frozen poultry. We simply can't warehouse it until consumer attitudes change, if indeed they will.

Nor have we found a way to precisely automate handling and processing of a biological product, subject to veterinary regulations that are so severe you have to present the same healthy gizzard from the same healthy chicken or turkey or fowl carcass, side by side, to the inspector. With automatic eviscerating equipment, you see, some of those gizzards, or livers or hearts, have a tendency to get lost, or come along later. In short, we're a long way from manufacturing poultry like automobiles.

I haven't time to do more than raise the general question of what may be the economic and social implications of economies of scale, and concentration of ownership. But it will be a dominant issue in the not too distant future. We have a classic test of this nature in progress now in our industry.

As most of you are aware, the Justice Department is involved in an antitrust suit against the National Broiler Marketing Association, a marketing cooperative owned by about 50 broiler companies. NBMA was formed for the purpose of exchanging information on supply and demand factors. No member is compelled to act upon this advice. In that sense, it is not nearly as disciplined as some giant milk, livestock, fruit and vegetable co-ops.

Nonetheless, NBMA was established under bylaws authorized by the Capper-Volstead Act. This Act—as later modified—grants certain exemptions to "farmers" under the Sherman antitrust act. They can at least talk among themselves, as NBMA members do, without going to jail. Private businessmen have been put behind bars for no more than this.

The Justice Department is really attempting to force a revision of this 52-year-old cooperative law to redefine who or what, indeed, is a "farmer" in today's agribusiness society. (Meanwhile, 10 or more States, and even a group of Chicago hotels, have engaged in a collateral civil class action suit against the same plaintiffs, seeking triple damages).

I doubt if Justice can find evidence of substantial and sustained collusion on the part of these companies. If it could, we would have been paying $1 a pound for broilers last August.

The C–V Act was passed, of course, to give the unorganized producer some countervailing power against fewer and larger buyers. I doubt very much whether this attempt to equalize power between buyer and seller has changed much since, other than what C–V itself has been able to accomplish. I believe the advantage is still on the side of the buyer with regard to market intelligence, and certainly with regard to market strategy.

I go into detail about this simply because if time proves that we, as producers of commodities, find the rules of the game made even more restrictive because we no longer are "farmers," the burden well may fall upon you in USDA to help us gain more countervailing power through an improved—perhaps even new—fabric of market intelligence.

As a matter of fact, we need many more immediate types of intelligence today than we are getting, not only on the marketing side but on the input side. (If my language becomes a bit more blunt, it simply is my way of giving a cup of black coffee to that dozing man third row from the rear. I hope it isn't Dr. Paarlberg!)

For one thing, I think we no longer should consider statistical reporting separately from market news information.

When it comes to price reporting are you, indeed, reporting prices "after the fact" or making the quotation? If you are, indeed, establishing a quotation as a result of what you report, refine it and use it as such. Just stop denying that you are not.

Take a look at USDA's daily egg report. It has so many classifications, I don't see how they can mean the same thing to everyone, everywhere, including your own reporters and statisticians. Can USDA assume leadership in more standardization in this area?

You certainly have more objective tests and conduct more enumerative surveys than ever. Still, we need more precision. Actual numbers are of more importance; trends alone are insufficient. An error of 250 million bushels in a year of lean grain stocks could be a disaster. I know you are planning to use computers and satellites to upgrade your intelligence. You are beginning to make physical inventories. Mail surveys simply will have to go. I just urge to accelerate your efforts.

Census figures are used for benchmarks, but they are so terribly old when released. What can you, and other agencies do, to find a better way?

One of our major complaints is that the folks here in the South Building keep telling us they can't do a particular job or make some change because (1) it's too difficult and/or (2) it costs too much. We wish they would tell us, more often, "yes, we're going to get on that right now, and there *will* be some changes made."

In private business, we must respond to customer's needs or we fail. In government, perhaps a little more "customer" orientation and more of a sense of urgency will help establish priorities and goals . . . cost/benefit ratios, if you will.

We need more long-range research on the demand side, too——

As I said earlier, Bill Cathcart did not project per capita demand assumptions through the next several years, as he usual does. This is entirely understandable, given today's conditions, but it presents a new type of challenge to you who are engaged in long-range forecasting.

Can you, for example, help us more accurately project the effect of dietary trends, consumer spendable income, effect of promotion in switching loyalties from one product to another, or measure the efficacy of mandatory checkoff programs for commodity research and promotion? How about the effects on demand of the added cost of product forced upon us by edicts from USDA, FDA or EPA? Has anyone attempted to measure the cost/benefit ratio of some of these objectives? Are some simply too ideal?

The egg industry will vote this year on a proposed egg checkoff program, already authorized by Congress, to raise up to $10 million for research and promotion. It has lost, I think, about 18 eggs per capita in the past 5 years.

This is due, in part, to changing breakfast habits, but also to a persistent anti-cholesterol attack. The National Commission on Egg Nutrition, privately funded by industry, is engaged in a test case with the Federal Trade Commission over whether or not there is, indeed, any scientific evidence to prove that eating eggs will increase the risk of heart attacks.

The cattle industry, I understand, intends to seek checkoff legislation to raise $30–40 million. Perhaps the cholesterol issue, protein fiber substitutes and the need (perhaps) to educate us to use leaner beef are among the reasons.

Sometimes, as in eggs, with such a dramatic decrease in consumption, perhaps there is no other recourse than a checkoff. But for every commodity that gets a marketing order for this purpose, how soon will it be back, if its efforts are successful, to get a production control order? Guidance, please!

We'd like your opinion, too, as to how the dramatic long-trend upturn in demand for cash crops will affect location of the livestock and poultry industries. Will they move more complexes back into the Corn Belt, or stay and expand on the fringes and on both Coasts?

We produce about 1.7 billion tons of animal and poultry waste a year. FDA shortly will issue proposed regulations governing use of this as a safe feed additive. How will this affect location of poultry/cattle and poultry/sheep complexes? What new social and economic structure does this change offer, perhaps, today's present single commodity contract farmer? Conjectures, please? We'd appreciate them.

If I had one single, immediate and imperative need to convey today, it would be this: give us an *instant count on the number and weight ranges or non-fed cattle slaughter*. Prices and supplies of hogs and cattle have a *tremendous* impact on broiler, turkey and egg prices.

It is imperative that we get a real count instead of a residual count. We need to know how many animals 500 pounds and over are being slaughtered, whether most of them are in the 600, 900, or 1,000 weight range.

We're up against a qualitative problem as much as a quantitative problem.

In the broiler industry, for example, the supermarket buyer uses the entire cattle numbers game against us because of this big recent unknown—the number of non-fed beef that are *really* in the slaughter mix.

We raised the suggestion privately to USDA several weeks ago as to whether your Federal inspectors could help make such information available on the basis of their routine daily inspection counts.

Look how much more equitable a position all of us in the livestock industry would have vis a vis the buyer, if we could get a weekly count or even gross observations! We know that inspectors may not be able to tell us whether carcasses will grade low, choice and good in the median range of weights. But any critter coming in off grass is bound to have yellow fat. And very little fat. Inspectors know whether the carcass weighs 1,000 pounds or 500 pounds or 600 pounds.

If we had just *this* much information, we'd be 1000 percent ahead of the game compared with what we don't now have.

We also need monthly estimates of cattle placements on feed by weight groupings, corresponding to weight groupings presently being used in quarterly reports. Also, semi-annual estimates of steers and heifers over 500 pounds on farms and ranches, in 100-pound increments.

Another of our chronic complaints is that we'd like to see a separation of commercial egg layers from broiler-breeder flocks on a monthly basis. Why, in heaven's name, does it take 5 or 6 years to get someone to pay attention to a relatively simple request like this?

We sorely need a shell-egg-at-farm price established for reporting purposes. It would not include hatching eggs, retail sales by farmers, etc. The current report as issued misrepresents to bankers and other financial people, as our industry sees it, the true price received by commercial shell egg producers.

Retail margins are a hot item right now. USDA could issue on a weekly basis retail shell egg margins and broiler and beef margins that would be meaningful to consumers as well as industry. There are extreme fluctuations in these margins city to city, too, but when we ask USDA why, no one seems to be able to answer. We in industry and in the supermarket business simply don't think USDA's spreads are accurate enough, or for eggs, to be sure, frequent enough.

The Bureau of Labor Statistics' monthly data for broilers and eggs is based on too small a sampling—what is it, three days a month?—to be meaningful. This function definitely should be given to the Market News Service within USDA. Most of you whom we have talked with individually agree. But at administrative level, between the Labor and Agriculture Department, nothing happens. I suspect it could be done very simply and rapidly.

A monthly report on primary breeder placements for turkeys parallel to that available in broilers, would be very helpful. So would a breakout of the quantity of turkeys under USDA inspection utilized in further processed products. We also need to establish a category for so-called 28-degree poultry, and further refine our reports on cut-up poultry, and where that cutting is taking place.

All of these reports have significance in putting a finger on changing trends, so that long-range planners know sooner what is happening, as well as the economists who need more accurate, immediate information for short-range forecasts.

Turning to the world market situation, we certainly should have in this country a greater knowledge of world egg, broiler and turkey production, with an estimate 6 months in advance. We're competing in a world market, so let's get world facts.

An internal thought for helping to stabilize feed supplies at home when we don't know what will happen outside, just making the rounds in poultry circles: I throw it out for consideration, without judgment because I do not know the subtleties involved with respect to other aspects of our trade relationships with other nations.

The proposal would be to establish a variable levy on feed and food grains which are in short supply. This assumes that the levy should be addressed to price, not quantity, since price allocates supply in a free market system.

A typical Southern integrator, doing some hedging, paid about $1.40 a bushel for corn in 1972, $1.70 in 1973 and $3.30 this year. The average of these would be $2.40.

Let's use this average as a target price to illustrate what some of our poultrymen would like you to consider. Whenever the price would rise above $2.40, the levy for the export share of the market would rise in proportion—say a cent for every cent. Thus, if corn were to reach $3 a bushel at home, the importer would pay $3.60 for American corn.

This isn't a free market anymore, but it *does* represent a compromise in that it would not be an out and out embargo, and price, even though to a much more limited extent, would allocate supply. (This assumed separate treatment of feed-food allocations for have-not Nations).

Or to move to a food grain—rice as an example—one might set the target price at $10 per cwt, then apply a percentage figure above that. For example, if rice were to go to $11, one might apply a 50-cent levy on the exports, at $12, perhaps 75 cents and so on.

I have dwelled at some length on the kinds of problems that now beset the typical poultry executive in the hope that it may help reorient some of you engaged in economic research and statistical reporting to their new needs in the last half of the 1970's. I submit that problem-solving models developed for this particular industry may help you accelerate efforts designed to help other segments of animal agriculture. Generalizations are dangerous, even the stating of them. So let me summarize as follows:

We need more information on what has happened more rapidly. We no longer can rely on individual farmers' opinions, postal card surveys, and county agents' observations with regard to crop reports. We need statistical samples, some of which you have begun. Major commodities must get major emphasis. Smaller commodities must be appraised, probably on major area sampling.

The crop Reporting Service needs to do a major educational job, explaining to the general public the difference between forecasts, estimates and substantive data. The ultimate will be satellite surveys, computer analyses and completely objective reports.

We need more accurate information, faster, on what's out there in the way of competing meats, and that may include, incidentally, more frequent reports on warehouse holdings, particularly with regard to less-than-30-day imported meats whose quantity and price is often known to the larger retail buyer but not to the domestic supplier.

There is a raft of meaningful, useful economic studies that could help us all find our fit in tomorrow's agribusiness world. You are well aware of our need for information on a global scale. We could use a "Manhattan Project" on that kind of market intelligence alone.

You have done a magnificent job to date. I hope I have laid out a few of some old challenges in supply, demand and marketing information needs in a slightly different framework. Perhaps we'd like you to show a wee bit more of that feistiness that the rugged individuals in our industry possess to such a large degree. Their motto, you know, is—

"Do unto the other feller the way he'd like to do unto you . . . and do it fust." Thank you.