Section B

Industry and Government Response
Responses

- Government response—try to solve the problem
  - Subsidies

- Industry response—seek opportunities to make profit in other parts of the system (not the growing of the animals)
  - Vertical integration
  - Ramsey pricing
Industry Response

- Vertical integration of all agricultural processes
- Small number of integrators who control entire animal agricultural process
- Ramsey pricing
  - Buy and sell products to entities within the same corporation (i.e., from and to yourself)
  - Excludes smaller producers that do not work within this larger system
Example of Ramsay Pricing

- Hog integrator—owns all aspects of hog production, from growing to supermarket
- Buy your hogs from your own producers
- Sell those hogs to your own processor
- Processors sells it to your own distributor
- Distributor markets it in the grocery store
- Entire profit to the company occurs at the last transaction
How Is the Small Producer Affected?

- Difficult to get hogs slaughtered as they are unlikely to meet the uniform 260 lbs standard

- Price is what integrator offers as there is no alternative (virtually all processing is now controlled by corporate agriculture)

- Price offered is what integrator is paying itself
Packers and Stockyards Act (PSA), 1921

- Prohibited captive supplies
  PSA “... designed to assure effective competition and integrity in livestock, meat, and poultry markets. It was enacted in response to concerns that the "Big Five" large meat packers—Swift & Company, Armour & Company, Cudahy Packing Company, Wilson & Company, and Morris & Company—had engaged in anticompetitive practices that had a deleterious effect on producers and consumers.”
  - http://www.nationalaglawcenter.org/readingrooms/packersandstockyards/

- Simply not enforced
IFAP Model Is Built on Assumptions

- Low energy costs
  - Transportation of large numbers of animals and supplies on and off CAFO requires fuel

- Low feed costs
  - Animals confined inside of buildings require constant supply of food

- Plentiful water supplies at low cost
  - A single dairy cow requires approximately 70 gallons of water per day

- Capital and investment costs are low
  - Fixed costs such as buildings and equipment are low
The Assumptions Are False

- Result—many animal agriculture operations are going bankrupt

- Model has failed in period of economic stress—2009
Subsidies are a political response to an economic problem
IFAP Now Asks for Help

- Corporate animal production operations
  - Designed around an idea of economies of scale, not true for the actual growing of the animals
  - Operating under a model of high fixed costs that is inherently faulty
  - Assume cheap variable inputs; false

- Now look to the government for help based on their importance to the rural economy
Types of Subsidies

- “Revealed” subsidies
  - Subsidized price of feed grains (i.e., corn and soy)
  - Subsidized power
  - Subsidized water

- “Hidden” subsidies
  - Failure to enforce regulations
  - Costs shifted to others
  - Pollution of air and water
  - Undetected emissions
Effects of Subsidies

- Subsidies provide incentives for agriculture “organizations” to become eligible for the subsidies that are available.

- Example: Methane digesters for energy production
  - Not economical
  - Being built by large agricultural processors *only* because of big up-front government subsidy.
Failure of IFAP Is Inevitable

- If you go to market with an inferior product you are going to lose
Next Steps for Corporate Ag

- Two choices
  - Change methods of production
  - Change location of production to a place where your assumptions are correct, i.e., moving overseas
Relocating U.S.-Owned IFAP Overseas

- CAFOs are being built in low- and middle-income countries with fewer regulations, lower labor costs, and cheap power
  - Brazil
  - Argentina
  - China
  - Poland

- Exporting product back to the U.S. requires low energy costs
Migration of IFAP in USA

- As southern states become hotter and more arid, IFAP operations are migrating further north where water is more available and can still satisfy the underlying assumptions
  - Pennsylvania
  - Indiana
  - Minnesota
Possible Alternative Scenario

- Other governments may establish their own industrial food production systems in order to control the export of food from their country
- U.S. companies will be excluded
Livestock concentrations in Northern European countries (Germany, Belgium, Netherlands) led to high levels of nitrogen.

To solve the problem, governments began paying dairy farmers to stop farming in their country.

Larger companies moved dairy operations to the U.S. because of subsidies and lack of regulations.
What Next?

- What can be done to address or avoid the problems of IFAP?

- Answer: Address the fundamental problem
  - Abandon the high-fixed-cost model of IFAP that is unsustainable in a cyclic world
  - Return to the conventional model of animal agriculture
Challenges in Returning to Conventional Animal Agriculture

- **Challenge 1**
  - Processing facilities are now concentrated in a few large facilities in a few locations
  - Now very few small facilities for animal processing

- **Challenge 2**
  - Exclusive distribution networks controlled by corporate agriculture
  - No alternatives
Toward Sustainable Food Animal Production

- Working toward a sustainable food animal production system

Photo source: SRAP.

Pasture-raised laying hens
Addressing Financial Issues

- Transition producers back to a broader and more flexible schedule of animal production and sales
  - Producers currently paid on 12-month cycle
  - “Finishing” the cattle (keeping cattle on the farm to full maturity at 18 months) means producers are not paid until 18 months
  - This financial gap will need to be addressed by assisting producers to change farm practices so production of animals (and income) is spread throughout the year
Diversified, Economical Animal Production Model

- Diversify animal production farms to more natural, self-sufficient, economical system
  - Reduce fuel and transportation costs
  - Reduce costs of feed—raise feed on your own land
  - Reduce need for antibiotics—less crowding of animals
  - Reduce veterinary bills—less disease due to overcrowding
  - Reduce cost of manure/waste handling—manure/waste is spread on the land by the animals
  - Reduce processing costs with mobile processing units
Mobile Processing Units

- Avoid all the transportation costs
  - Processing facility comes to the farm
  - Offal buried in the field
  - Small cut-and-wrap facility with flash freezing and packaging

- Better meat products
  - Animal not stressed by transportation
Better Distribution System

- Produce and sell locally
- More, smaller animal production facilities
- Reduce shipping costs
Cost Comparison

- Sustainable animal production could be less expensive than the current industrial system—especially if access is gained to institutional markets to sell cheaper cuts of meat.

- Current industrial food animal production is more expensive if the real costs are included.
Is this sustainable model of animal production realistic?

- Transition from industrial food animal production to conventional food animal production is possible
- Cannot be done quickly due to the financial constraints on the producer
- Federal subsidies must be shifted from corporate agriculture to the marketing and distribution infrastructure needed for sustainable food animal production
Mobile meat processing truck

Photo source: SRAP.
The end goal is an animal agriculture system that is environmentally sustainable, economically viable for farmers, sustains communities, and produces a healthier food product for consumers.