

**Testimony of**  
**Rod K. Brenneman**  
**President and CEO**  
**Seaboard Foods**

**Before the**  
**House Committee on Agriculture Subcommittee on Livestock, Dairy, and Poultry**

**Regarding**  
**Review of Economic Conditions Facing the U.S. Pork Industry**

**October 22, 2009**

Mr. Chairman, Ranking Member, and Members of the Subcommittee, thank you for the honor and privilege to appear before you today. My name is Rod Brenneman and I am the President and CEO of Seaboard Foods. Seaboard Foods would like to express our appreciation to the Subcommittee for holding this hearing on the economic conditions facing the U.S. pork industry.

Seaboard Foods is a vertically integrated pork producer and processor, producing and selling fresh, frozen and processed pork products to further processors, foodservice operators, grocery stores, retail outlets and other distributors in the United States. Internationally, Seaboard sells to those same types of customers in Japan, China, Mexico, Russia, Korea and many other foreign markets. In 2008, the U.S. pork industry exported almost 20 percent of the total pork produced and Seaboard's amounts were in excess of this overall average at approximately 25 percent.

Seaboard Foods' live production facilities are located in Oklahoma, Kansas, Texas and Colorado, and are supported by our six centrally located feed mills. These facilities consist of genetic and commercial breeding, farrowing, nursery and finishing buildings. Seaboard Foods produces approximately 4 million hogs each year, making Seaboard the second largest hog producer in the United States. Our facilities consume more than 40 million bushels of corn and milo and over 350,000 tons of soybean meal per year.

Mr. Chairman, Seaboard Foods has experienced the current economic conditions facing the pork sector first-hand at the production, processing, marketing and international trade level. As the members of this Subcommittee know, there are many challenges facing the economic viability of the pork sector including higher input costs for feed and energy, an over-abundance of supply in the domestic market, weakening demand and international trade barriers.

### **Input Costs**

Higher feed and energy prices shape production decisions and prices paid for feed doubled from 2006 to 2008, mainly due to higher corn and soybean meal prices. Corn is estimated to account for upwards of 70 percent of feed grains in pork production and soybean meal accounts for another 20 percent of the feed. By mid-2008, corn prices were nearly 150 percent above year earlier prices. In addition, soybean meal prices reached record levels during this same time period. While some will say that corn prices have declined in 2009 - and that is true – they are still very high when compared to historical levels. While there are various reasons for the increase in feed prices, certainly one of them has been the determined government policies to promote the use of corn for ethanol. This effort, while seeking a desirable goal which is to lower the U.S. reliance on fossil fuels, has had an unfortunate unintended consequence to the U.S. meat industry and ultimately to consumers. Given not only the inefficient results of converting corn to ethanol but also the impact on food costs and ultimately world hunger, this policy needs to be re-evaluated and in my opinion, completely changed. When roughly one third of the corn crop is used to produce fuel (ethanol) instead of food, it is difficult for anyone to argue that it has not had an impact on food prices. In the current year, USDA is estimating the corn crop to be the second largest crop in the history of the U.S., yet the current prices for corn are at levels well above historical trends. The immediate impact has been a significant cost increase to hog producers, but the ultimate impact will be a food cost increase to all consumers.

The increase in energy prices has also affected the pork sector by increasing costs on producers, processing plants, further processors, and retailers. As you know, meat products require energy-intensive refrigeration. USDA statistics show total pork supplies in cold storage at the end of August 2009 were estimated to be 517.9 million pounds. That number is significant as it is 3 percent higher than last year at this time and – over 19 percent higher than the five year average. To keep pace with rising feed and energy prices, product pricing must also rise. However, prices have not risen at an adequate rate as supply has outpaced demand.

### **Supply**

From a supply side, the productivity of U.S. hog production has continued to increase and the long-term trend is up approximately 1.5 percent per year. In recent years this trend has been even higher. We are producing too much pork to match up with the demand has been weakened due to a number of factors which I will discuss below. While the total volume of pork produced is lower in 2009 than it was in 2008, the reduction is still not enough to return pork producers to profitability. This imbalance between supply and demand has created what some might call “the perfect storm” for pork producers. We will need to “right size” the industry by either a further reduction in supply, an increase in demand, or more likely, some of both.

### **Demand**

From a demand standpoint, this past summer’s economic data on prices paid for hogs and pork cuts continued to languish at year-over-year lower levels at a time of year when prices are typically trending upwards with higher demand. There are several key reasons for these depressed prices. Economic factors facing both domestic and foreign consumers in a recessionary period can be pointed to as one reason for low hog and pork prices and lower export demand. USDA’s Estimated Pork Carcass Cutout for July showed U.S. wholesale pork prices to be almost 18 percent below prices in July 2007 and nearly 27 percent below prices in July 2008. You can imagine the impact on prices when you combine an over-supply of pork with decreased demand and closed market access around the world.

The result is a significant increase in products to be consumed in the domestic market and a corresponding significant amount of downward pressure on pork prices.

### **H1N1**

Another major reason for the drop in hog and pork prices was the outbreak of the novel H1N1 Influenza. Despite the fact that it was a human illness and not a swine illness, this outbreak in April 2009 had a significant and immediate impact on the domestic and international swine and pork markets. Fueled by confusion between a public health and an animal health issue, swine prices dropped and consumers questioned the safety of the pork products they were eating; however, Novel H1N1 is not a flu that was caused or spread by pig production nor is this virus transmitted to humans by consuming pork. In short, this is not a food safety issue at all – but rather it is a human health issue.

Media reports were alarmist and frequently used the inaccurate term “swine flu” to describe this particular strain. And while the novel strain has some genetic markings derived from swine, it also has significant human and avian genetic fingerprints. Unfortunately, early media coverage left that impression, and this was and continues to be disruptive to hog producers and pork processors.

Since April 24, the date Novel H1N1 was made public, the losses incurred by pork producers, processors and retailers has totaled in the hundreds of millions of dollars. Experts are saying that if we project these losses to October 2009, the total will be well over \$1 billion. And, if projected out to the end of 2009 and beyond using the futures prices in effect the day prior to the announcement to today, the true cost of this will not only exceed \$1 billion but may very well exceed \$2 billion.

### **Trade Barriers**

Not only has this issue affected the domestic markets, but the impact of that erroneous association between the novel H1N1 2009 virus, live hogs, and pork products also lead to the enactment

of new trade barriers. Of the 17 countries that banned pork and pork products from the U.S., most notably were Russia and China. Russia banned pork and pork products from 16 states while China banned pork and pork products from the entire U.S. Before the ban, China was our fastest growing market for pork exports, importing \$268 million in 2008, \$147 million in 2007 and \$55 million in 2006. China continues to ban U.S. pork and has only imported \$47 million in the period of January through August of 2009 compared to \$247 million during the same period in 2008.

Russia banned pork and pork products from 16 states and all but Florida can now ship pork products, depending on the eligible shipping date. The 15 states that were once banned began to get re-listed for exports in June and July. Russia was also a good export market for pork and pork products, taking \$390 million in 2008, up from \$184 million in 2007. In 2009, U.S. pork and pork product exports to Russia were only \$143 million in the period of January through August, compared to \$261 million in the same period of 2008.

Total U.S. pork exports world-wide in 2008 reached \$4.4 billion, up from \$2.8 billion in 2007. In the period of January to August 2009, exports were down 13 percent, at \$2.5 billion compared to \$2.9 billion in 2008. Until this year, the U.S. had enjoyed 17 straight years of growth in pork exports. U.S. pork producers, processors and further processors are extremely competitive in the world markets, and we must work hard to maintain open access to all markets and expand into new ones. We need to let the markets work. The government needs to approach this crisis in the pork industry from the standpoint of enhancing demand through purchases of products with and for government programs and work to open market trade access around the world. The government should not approach it by promoting subsidies to producers as the industry must “right size” and the markets will respond and this will occur.

I want to strongly urge each member of this Sub-committee to continue to work to keep open the markets we currently have, re-open the markets that we previously exported products to that are

currently closed, and seek to open up trade channels with new countries around the world. We cannot allow trade barriers to be put in place against U.S. exports and similarly, we should not take a “protectionist” posture against our trade partners.

### **Conclusion**

Many factors are influencing the current state of affairs in the pork sector and I am confident that we can address these problems and make the industry stronger than ever. Two areas I would recommend that this committee pursue immediately are:

To encourage and work with the Secretary of Agriculture to immediately make available Section 32 funds for additional purchases of pork for various federal food programs with a maximum emphasis on purchasing meat from sows with the objective to reduce breeding stock to reduce hog numbers; and,

Encourage and work with the U.S. Trade Representative to open export markets to U.S. pork, particularly China, which continues to impose non-science-based restrictions on U.S. pork since the outbreak of Novel H1N1.

I know many members of this Subcommittee and of the full Agriculture Committee have been working on both of these recommendations and I would like to thank you for your effort's and encourage you to stay the course. Also, I would like to commend Congress for recently taking the steps necessary to end the ban on allowing USDA to perform a risk analysis and issue a final rule on processed poultry products from China that has been included in recent Agriculture Appropriations bills.

China has continuously pointed to this ban as a reason not to revisit opening their market to our pork products and now that issue has been addressed. Chairman Scott, I am aware of your position on this issue and of the letter you wrote to Appropriators urging them to address this issue and – I am grateful for your support.

Thank you for the opportunity to appear before the Subcommittee. I am happy to respond to any questions that the member's of the Subcommittee may have regarding my testimony.

## **Rod K. Brenneman Biography**

Mr. Brenneman began his career at Seaboard Corporation in 1989. He has served the Company in various financial management capacities, including Director of Tax and Business Development. He has also been involved in working on many of the Company's acquisitions and joint ventures. In 1994, Mr. Brenneman was named Vice President – Finance and Administration of Seaboard Foods, and was instrumental in building this company from its start-up to be one of the top hog production and pork processing companies in the United States. In 1996, he was named Senior Vice President, Live Production for Seaboard Foods where he was in charge of all of the live production operations for the Company. Mr. Brenneman was named to his current position as President and Chief Executive Officer of Seaboard Foods in 2001. His previous experience includes several years with Arthur Andersen. Mr. Brenneman is a CPA and graduated from Wichita State University.

Mr. Brenneman also serves on several Board of Directors including the American Meat Institute where he is also on the Executive Committee and is currently the Chairman of this organization. He is also on the Board of A. Duda and Sons where he serves on the audit and compensation committees of the Board, and is on the Board of Directors of CrossFirst Bank in Kansas City.



Committee on Agriculture  
U.S. House of Representatives  
Required Witness Disclosure Form

House Rules requires nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2006.

Name: Rod Brenneman

Address: 9000 W. 67th St., Suite 200

Telephone: 913-261-2600

Organization you represent (if any): Seaboard Foods LLC

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2006, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: NONE Amount:

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2006, as well as the source and the amount of each grant or contract:

Source: Approx 7 USDA contracts for farm ground enrolled in the Federal Conservation Reserve Program. Amount: \$0 (all payments have been assigned to others)

SEE BELOW

Please check here if this form is NOT applicable to you:

Signature: Rod K. B.

Rod Brenneman for Seaboard Foods LLC

\* Rule XI, clause 2(e)(4) of the U.S. House of Representatives provides: Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a certificate of disclosure of the amount and source (by agency and program) of each Federal grant or subgrant thereoff or contract (or subgrant thereoff) received during the current fiscal year and/or any of the two previous fiscal years by the witness or by any entity represented by the witness.

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

Contract with USDA under Advanced  
Biofuel Producer Program

\$341,182.77 (reserved but  
not yet paid)