

**Prepared Remarks for the  
Commodity Futures Trading Commission  
Agricultural Advisory Committee Meeting  
August 5, 2010**

Thank you, Commissioner Dunn and your fellow Commissioners for inviting the Grain Inspection, Packers and Stockyards Administration to join you today to discuss the structural issues in the pork industry.

An examination of the pork production sector shows that producers raising more than 5,000 hogs per year produced 61% of the market hogs in this country. Producers raising more than 2,000 per year produce 85% of the hogs.

We have some truly large producers. In 2009, the top ten producers owned approximately 2.3 million, or 40% of the nation's sows that raised about 46 million pigs. The top twenty producers have 2.8 million sows, or about 48% of the nation's sow herd.

Successful Farming magazine's annual survey of pork producers shows that Smithfield Foods, Smithfield, Virginia, was the largest producer in 2009 with 922,251 sows, which represents about 16% of the US herd. Triumph Foods, St. Joseph, Missouri, was second with 371,500. Seaboard Foods, Shawnee Mission, Kansas was third with 213,600 and Iowa Select, Iowa Falls, Iowa was fourth with 152,500 sows. As a point of reference, each sow produces about 19.5 pigs per year. The top three hog producers are also included in the top 10 pork slaughter firms.

Currently, the top four slaughter firms have a market share of approximately 65%. In alphabetical order these firms are Cargill, Smithfield Foods, JBS Swift, and Tyson Foods.

The hog slaughter industry has become significantly more concentrated over the past 30 years with the majority of the structural changes resulting from mergers and acquisitions in the industry. In 1980, the four-firm ratio was which measures

the total market share of the largest four firms in the industry was 34%. By 1990, the ratio rose to 40% and then to 56% in 2000. By 2003, the four-firm ratio had risen to 64% and has remained relatively steady since that time.

Pork production and slaughter is very geographically concentrated in the Corn-Belt as well as the mid-Atlantic region which is comprised of Virginia and North Carolina. There are other isolated areas of production in Pennsylvania, Utah, Oklahoma, and Texas.

Probably the largest change in the hog industry in the past 15 years is how hogs are marketed. Today a very large percentage of hogs are sold on a formula basis or other type of purchase arrangement as opposed to on a negotiated basis. In 2009, formula or purchase arrangements accounted for 62.2% of all hogs slaughtered. Most of the hogs sold with a formula or purchase arrangement are committed via long-term contracts. The formula basis hogs generally use a publically available price series as a basis for determining their price. The most widely used is the Iowa-Southern Minnesota afternoon report. The popularity of contracts increased significantly after the collapse of the hog market in 1998 – 1999. During this period prices went as low as \$8 per hundredweight (cwt), because there was not sufficient slaughter capacity to handle the supply of market-ready hogs. As a result, many producers were determined not to ever get in a position again where they did not have assurance of shackle space to handle their production. By entering into long-term contracts or agreements, producers are guaranteed shackle space by the packer and like-wise the packer is guaranteed a supply of hogs. A couple of plants were even opened by producer-owned cooperatives. In addition the number of packer owned hogs has increased from 19.5% of all hogs slaughtered to 31% in 2009.

Currently, approximately 3% - 7% of all hogs marketed are on a negotiated basis. Of this amount, approximately one-third are sold on a live weight basis; two-thirds on a carcass weight basis. In 2002, the number of hogs marketed on a negotiated basis was approximately 15%.

In concluding, once again I would like to thank Commissioner Dunn and your fellow Commissioners for allowing GIPSA to come before you today to discuss the current structural issues in the pork industry.