

# Who Will Sit Up With The Corporate Sow?



A Report On Vertical Integration  
And Large Scale Hog Production  
In Nebraska

Prepared by the Center for Rural Affairs

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# Who Will Sit Up With The Corporate Sow?

A REPORT ON VERTICAL INTEGRATION AND LARGE SCALE

HOG PRODUCTION IN NEBRASKA

Published in 1974 (Marty & Don's Short Memoir)

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## Summary

This report was prompted by a need to examine trends in vertical integration in the hog industry. Initially, the inquiry was directed toward swine leases promoted by major feed companies. These leases, which shift control of a major production in put to non-farm firms, and which have involved contractual marketing as well, appear to have been on the rise from 1969 to 1972. Since then, there has been a substantial decline in swine leases, and the major lessor, Kleen Leen (A Ralston Purina subsidiary), reports having totally abandoned this program.

Other developments appear, however, which are having a more profound effect on the structure of the hog industry. The ability to control disease in a confined structure has made large scale production possible. However, the capital costs involved in establishing such facilities are prohibitive for a typical hog producer.

As a result, corporate structures capable of amassing the necessary capital are being formed to set up confinement units. This report inventoried 43 non-individually and non-family owned corporations established since 1968 for the purpose of confined hog production. Each is professionally managed by a salaried manager. All but five produce feeder pigs only. Four are limited to finishing hogs. Only one is a complete farrow-to-finish operation. The farrowing units range in size from 165 to 5,000 sows. The finishing units market from 5,000 to 140,000 fattened hogs.

Some of these are cooperatives designed to supply their 20-40 producer-members with a steady supply of high quality feeder pigs which they then fatten and market individually.

However, a far greater number of these corporate confinement units are organized as closely held (10 or fewer shareholders) small business corporations whose members may or may not be hog producers. Because there are fewer shareholders involved in this type of operation, the per-shareholder investment is significantly higher, but the tax shelter advantages of the small business corporation over the cooperative have served to make it more popular for those who can afford it.

In both types of confinement units about half of the capital is supplied by the members (in the case of the co-op) or the investors (in the case of the corporation). The balance is supplied by various types of lenders in the form of secured loans. Production Credit Associations, banks, insurance companies,

and the Small Business Administration have been involved as lenders.

The co-op only serves the purpose of supplying its members with feeder pigs at cost-of-production-prices but the small business corporation is more versatile. While it too may operate on a cost-of-production basis, it can be investor-oriented, or profit making. The tax shelters help make it a profitable investment for high income bracket non-farmers as well as farmers, and varying degrees of non-farmer involvement and control have been noted. The largest operation in the report (and probably the largest single hog plant in operation in the nation) is totally non-farmer owned.

Many of the confinement units have been established outside of traditional hog producing areas of the state far removed from markets. Special marketing arrangements including cooperative marketing, have emerged in these areas.

There is no evidence of any feed contracting for either co-ops or small business corporations. However, the supply of breeding stock genetically designed for confinement has become a highly specialized business, involving mainly very few large commercial breeders. The companies in this emerging breeding stock sector are actively promoting large-scale hog production, primarily through investor owned small business operations. The co-ops tend to purchase inputs competitively and at more local levels.

The implications of these findings are discussed in a concluding section of the report.

## WHO WILL SIT UP WITH THE CORPORATE SOW?

This is a report on developments which are re-shaping hog production in Nebraska.

The general trend in recent years has been for food manufacturers to attempt to control the production of the raw farm products which they process. They do this by owning or directly contracting with the farm operations that produce those products. This is called vertical integration.

Because vertical integration means a loss of cherished independence for the farmer, it has earned a bad reputation. Through vertical integration, some of the world's biggest conglomerate corporations like ITT, Greyhound, Esmark, and others, are muscling into agricultural production.

This concerns not only farmers, but consumers as well who are not pleased with the prospects of relying on vertically integrated giants for food as they now do for petroleum.

The United States Department of Agriculture (USDA) concedes that substantial integration already exists in some food lines (broiler chickens, vegetables, fruits, to name some) but consistently downplays its overall importance, especially in livestock.

For instance, in a recent status report on vertical integration, USDA maintains that it is necessary to use "best judgment" estimates in describing the extent of vertical integration in many commodities, including hogs. They note that occasional flurries in contract production have taken place in the hog industry, but see it as a very small part of the total output. They project no rapid increase in integration due to its slow growth in the 1960-1970 decade. 1

Since 1970, however, new attempts by feed companies and packing houses to integrate hog production have been reported by farmers. Contracts supplying essential production inputs have been viewed with suspicion and the creation of swine leasing operations by some of the larger feed companies has caused more alarm. Fear has been heightened by the recent publicity surrounding a proposed breeding-to-processing, totally integrated operation in Northeastern Missouri that could produce an astounding 2.5 million hogs a year.

The impact of such an operation on hog farmers would be overwhelming. It could produce over half of what all 28,000 producers in Nebraska turned out in 1973.

Recent reports of the collapse of this proposed operation have done little to relieve concern about trends toward concentration of farm production in fewer commercial farms.

Pork has traditionally been a small farm commodity. The pork producer typically has a diversified farm, raising feed grains and cash crops as well as other livestock. He handles every aspect of raising hogs: breeding, farrowing, fattening and marketing. He finances his own operation, marketing about 150 to 200 hogs per year. He makes his own management decisions, runs his own risks in the market place, and sometimes sits up at night with a farrowing sow. Disease susceptibility and the delicate business of farrowing pigs from sows have tended to prevent large scale production.

There are signs that this scenario is undergoing rapid change. If it is, there is more at stake than the independence of hundreds of thousands of pork producers. At stake is the availability of and control over a substantial portion of the daily menu of American families.

In a concentrated industry, where a few firms control the supply of a product, the product is available only on their terms - which means at their price. Their efficiency is relatively less important than their total sales. On the other hand, unlike the hog factory, the struggling independent hog producer matches his wits, his skill, and his dedication with that of his peers. As shifts occur toward large scale production, consumers can begin to worry about the price of pork. After all, who will sit up with the corporate sow?

Are these shifts occurring? This report was prepared in order to provide a view from the ground of the status of hog integration and large scale production in Nebraska.



## Swine Leasing

Most of Nebraska's hog production is in the Northeastern part of the state on the western fringe of the corn belt. Feed grains are plentiful in this area, and major markets in Sioux City and Omaha provide outlets for fattened livestock.

Financing statements registered in County Clerks' offices supplied data for studying contractual integration in seven counties in Northeast Nebraska. These statements are voluntarily filed by lenders to publically record financial arrangements where security is held. The counties surveyed included the state's three largest hog producing counties and four median sized hog producing counties. Data was gathered for the period of 1969 to early 1974.

It was possible to identify only one type of contract in these counties, the swine lease.

The swine lease is a financing arrangement. Its purpose is to give the producer access to breeding stock and management assistance without a cash investment. It does not transfer price or production risk to the contractor - this remains with the producer, except where death of breeding stock is involved. The producer provides labor, buildings and equipment. He may be required to sell all or part of his hogs to the breeding stock leasor under some of these contracts.

In the typical swine lease, the contractor provides the producer with breeding gilts and boars. The producer periodically pays a rent on the animals which is determined by the value of a market weight hog, or he may give the contractor an agreed upon number of offspring. He is frequently required to enter into an agreement concerning feed supply for his hogs, also. The lease usually covers from four to eight litters.

In 1972, 81 farmers had leases in these seven counties. Currently, there are 43. Most of the contractors are feed companies, notably Ralston Purina's subsidiary Kleen Leen, and Wilson Hybrids. Table 1 on the following page summarizes the data on breeding stock leases in seven counties from 1969 to 1974.

This type of lease is the basis for widespread concern among hog producers. They fear that these leasing programs could become a dominant factor in modifying the structure of the hog production industry. Indeed, that potential does exist as these leases do shift ownership of a critical production input from the farmer to the feed company. This shift also

Table 1

EXISTING BREEDING STOCK LEASES, 1969-74 (7 COUNTIES)

YEAR	Kleen Leen	Wilson Hybrids	Walnut Grove	Cargill (Nutrena)	Allied Mills (Wayne)	Livestock Leasing Inc.	Feeder Finance Inc.	Comb. Total
1969	10	10	6	3				29
1970	41	12	8	4				65
1971	50	12	3	4	1			70
1972	51	17	7	2	1	2	1	81
1973	36	14	7	2	2	3	1	65
1974	16	13	6	2	2	3	1	43

ties the producer to a particular brand of feed, and may result in required changes in management. As noted above, marketing decisions may also be removed in some cases from producer to contractor.

However, as the chart also seems to indicate, this type of contract is on the decline. Only half as many existed in late 1973 as existed in 1972, only 1/3 for the leading contractor: Ralston Purina's, Kleen Leen.

Contractors interviewed by the Center indicated that leasing programs are too hard to administer, too cumbersome, and not returning enough profit. Kleen Leen has entirely stopped initiating leasing contracts. According to the President of Kleen Leen this was done simply because there was no demand for the program by producers.

Producers we interviewed agreed. They noted several reasons for their disenchantment. They could make more money independently, they disliked the involvement of feed dealers (and the prices of feed they were sometimes required to pay), they felt they received unhealthy and inferior quality hogs, they disliked their loss of marketing independence or were dissatisfied with the cooperation they got from the contractor or its fieldman.

While the breeding stock lease is still a means by which the independent pork producer can acquire expensively bred boars and gilts for a small scale operation, and although the sources of these leases are primarily the large feed companies, there

does not seem to be much evidence of a serious threat that this type of contract alone will ultimately result in the corporate-integrated system of production which exists, for example, in the broiler industry. In fact, these leases seem to be on the wane in the counties surveyed for this report.

These results support findings of other researchers, that leasing contracts are declining. A 1973 Purdue University study found that leasing contracts were not popular. Nearly 44% of those with swine leasing contracts did not plan to renew them, and another 15% probably would not renew. 2

However, swine leasing and other forms of contractual arrangements are not necessarily a dead issue. Trends in swine leasing contracts tend to follow market fluctuations. As the market for hogs goes down, swine contracting increases. According to our survey, the years with the highest number of contracts were 1970 to 1972. The market in 1970 dropped from \$26.70 to \$14.70 per cwt and held below \$20.00 throughout 1971. After market prices moved significantly higher in 1972 and especially in 1973 leasing began to decline. Prices in 1974 have taken a dramatic downturn, falling from early spring prices of \$39.00-\$41.00 to \$22.00-\$24.00 in June. Coupled with high feed costs and inflated operating expenses, many hogmen are nearing the brink of disaster.

It is just this kind of climate that precipitates contracting. A farmer who must utilize his facilities and yet cannot meet the expenses of using them may seek contractual arrangements as his only salvation. Given current conditions, renewed interest in swine leasing and other contracting may occur.

# Confinement

However, there are other indications that the trend in hog production is toward large scale, specialized, and technologically sophisticated systems requiring heavy investment, and this development does have the capacity to destroy or radically reshape the family hog farm enterprise.

The innovation which is leading the way in these directions is "confinement" production, which is the breeding, farrowing and feeding of hogs in enclosed environmentally controlled buildings. Confinement dramatically reduces the labor required in caring for hogs, particularly in the farrowing stage. It also creates conditions which help hogs gain weight more efficiently.

Confinement structures look like factories in the field. The long steel and cement structures impose an impersonal coldness on the landscape and the growing crops that surround them.

Inside, the tightly penned pigs stand on partially slatted cement floors. A water filled pit runs under the slats to collect the waste materials which then flow to a lagoon outside.

The temperature and humidity are regulated for the pigs' comfort. Feeding and watering are highly automated. The environment inside is so carefully monitored that a visitor must take a shower and get a fresh change of clothing to enter. The intensity of the odor usually encourages a shower after leaving as well.

The confinement concept applies to all stages of hog production, but is particularly important as a means of increasing the scale of production at the farrowing level, where the risk of disease is greatest and the labor requirements most demanding.

Consequently, confinement encourages more specialization in the stages of hog production with some producers specializing in confinement breeding and farrowing only.

Finally, inasmuch as confinement facilities are expensive, employing costly equipment and buildings as well as management training and technology, they require large amounts of capital investment. Although confinement is possible on an individual family farm, the capital cost of the larger ones is high enough to discourage single-owner units.

Increasing the scale of production, specialization, and heavy capital investment all imply basic shifts in the hog pro-

duction system. The balance of this report is a closer look at the elements within this shift.

We studied confinement units throughout Nebraska, identifying 43 units in 21 counties. We limited our analysis to non-family incorporated confinement units which are professionally managed by a salaried manager. We did not make an exhaustive survey, but relied on local knowledge, newspaper accounts, and other informal sources to identify units. There are undoubtedly many units that were missed. Personal interviews were conducted with either investors or managers of each of the units in the survey. We did not include planned or prospective units.

Most of the units were farrowing and feeder pig operations. Only five finished hogs. Some or all of the owners of these finishing units were also involved in confinement farrowing and feeder pig production.

The farrowing units were generally designed to farrow 400-800 sows producing around 8,000-17,600 feeder pigs annually. There were four smaller units and one much larger (5,000 sows, producing 90,000 hogs). The five finishing units market from 3,000 to 140,000 hogs annually.

Most of the units were built in 1972, '73, or early '74. The first were operational in 1968. They are located throughout the state in many counties not typically hog producing counties, as well as in the traditional hog areas. With important exceptions, most units were apparently owned or dominated by farmer-shareholders.

This data suggests that the extent of large scale production is much greater than generally believed or officially recognized by USDA. A survey of large scale hog production (4,000 head or more per year) conducted by USDA's Agricultural Research Service for the University of Missouri as late as February, 1974, reported only 13 such units in Nebraska.<sup>3</sup> But this inventory shows that at least 30 units of this size were in operation prior to 1974.

A chart summarizing the data from these interviews appears on the following pages.

\* 1968 \*

<u>NAME</u>	<u>LOCATION</u>	<u>FEED</u>	<u>FINANCING SOURCE</u>	<u>BREEDING STOCK</u>	<u>TYPE</u>	<u>NUMBER OF HOGS FINISHED</u>	<u>NUMBER OF SOWS FARROWED</u>
Bloomfield Feeder Pig Co-op	Bloomfield	Unknown	John Hancock	American Hog	32 member co-op		625

\* 1970 \*

Hastings Pork, Inc.	Hastings	Mix Grind Walnut Grove Supplements	Shareholders	Own Stock	3 members subchapter S	140,000/year	5,000
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\* 1971 \*

Central Nebraska Feeder Pig Co-op	St. Libory	Central Soya	Bank	Platte Hatchery South Dakota	31 members co-op		625
Mideast Nebraska Pig Co-op	North Bend	Felco	P.C.A.	Pure Line	13 members co-op		400
Wisner Farmers Farrowing Co-op	Wisner	Purina	P.C.A.	American Hog	Co-op		700

\* 1972 \*

<u>NAME</u>	<u>LOCATION</u>	<u>FEED</u>	<u>FINANCING SOURCE</u>	<u>BREEDING STOCK</u>	<u>TYPE</u>	<u>NUMBER OF HOGS FINISHED</u>	<u>NUMBER OF SOWS FARROWED</u>
Colfax County Pig Company, Inc.	Schuyler	Purina	Unknown	Pure Line	6 members subchapter S		440 (now expanding to 800)
Husker Pig Co-op	Bloomfield	Super Feeds	Travelers Insurance Company	American Hog	29 members co-op		650
Schuyler Pig Company, Inc.	Schuyler	Purina	Unknown		Unknown	8,000 per year	Finishes for Colfax County Pig, Inc.
Piggyville	O'Neill	Super Sweet	SBA	Midwestern Swine Breeders	2 members subchapter S		165
Pig Palace	Atkinson	Super Sweet	SBA	Midwestern Swine Breeders	2 members subchapter S		165
Queue Quarters	Atkinson	Super Sweet	SBA	Midwestern Swine Breeders	2 members subchapter S		165

\* 1973 \*

<u>NAME</u>	<u>LOCATION</u>	<u>FEED</u>	<u>FINANCING SOURCE</u>	<u>BREEDING STOCK</u>	<u>TYPE</u>	<u>NUMBER OF HOGS FINISHED</u>	<u>NUMBER OF SOWS FALLOWED</u>
Adams County Pig Producers	Roseland	Murphy	PCA	Pure Line	3 members subchapter S		400
Burt County Swine, Inc.	Oakland	Moormans	PCA	Pure Line	10 members subchapter S		400
Centennial Pork, Incorporated	McCook	Purina	Bank	Pure Line	8 members subchapter S		420
DeCla Pig Corporation	Clatonia	Purina	Bank	Kleen Leen	5 members subchapter S		Unknown
Hartington Feeder Pig Co-op	Hartington	Buy Local	John Hancock	Farmers co-op	38 members co-op		640
Humphrey Pig Corporation	Humphrey	Co-op	PCA	Pure Line	10 members subchapter S		400
Loomis Pig Co-op	Loomis	Unknown	John Hancock	Jim & Fred Meyer (Colorado)	30 members co-op		800
Maple Creek Pig Corporation	Hooper	Purina	Bank	Pure Line	10 members subchapter S		400



\* 1973 \*

<u>NAME</u>	<u>LOCATION</u>	<u>FEED</u>	<u>FINANCING SOURCE</u>	<u>BREEDING STOCK</u>	<u>TYPE</u>	<u>NUMBER OF HOGS FINISHED</u>	<u>NUMBER OF SOWS FARROWED</u>
Pork Chop, Inc.	Hooper	Purina	Bank	PureLine	10 members Subchapter S		400
Pork Town	Atkinson	Super Sweet	Share-holders		Subchapter S	3,000	Finishes for 4 units
Red Apple Pork Corporation	Plymouth	Purina	Unknown	PureLine	9 members subchapter S		420
Red Willow Pig Incorporated	McCook	Purina	Bank	PureLine	8 members subchapter S		400
Star Pig Company	David City	Murphys	Bank	Midwestern Swine Breeders (now Pure Line)	9 members subchapter S		500
St. Edward Pig Farrowing Co-op	St. Edward	Co-op	John Hancock	American Hog	33 members co-op		675
Super Hog Co-op	Beemer	Purina	Bank	American Hog	16 members co-op		740
Swine Hut	Atkinson	Super Sweet	SBA	Midwestern Swine Breeders	2 members subchapter S		165

\* 1973 \*

<u>NAME</u>	<u>LOCATION</u>	<u>FEED</u>	<u>FINANCING SOURCE</u>	<u>BREEDING STOCK</u>	<u>TYPE</u>	<u>NUMBER OF HOGS FINISHED</u>	<u>NUMBER OF SOWS FARROWED</u>
Sypco, Inc.	Syracuse	Purina	Bank	PureLine	10 members subchapter S		426
Tri-County Pig Corp.	Lyons	Wayne	John Hancock	Midwestern Swine Breeders	Subchapter S		640
Tri-County Feeder Pig, Inc.	Imperial	Triple "F"	PCA	Royal Lean Pork Assoc. (Colorado)	subchapter S		625
Unicorp	Decatur	Moormans	PCA	PureLine	9 members subchapter S		420
Wausa Pig Co-op	Wausa	Unknown	Unknown	Jacobs Farm	Co-op		725

\* 1974 \*

Auburn Pig Corporation	Auburn	Purina	Bank	PureLine	8 members subchapter S		400
Grandview	Scribner	Purina	Unknown	Unknown	6 members subchapter S	3,000/year	Finishes for Pork Chop, Inc.

\* 1974 \*

<u>NAME</u>	<u>LOCATION</u>	<u>FEED</u>	<u>FINANCING SOURCE</u>	<u>BREEDING STOCK</u>	<u>TYPE</u>	<u>NUMBER OF HOGS FINISHED</u>	<u>NUMBER OF SOWS FARROWED</u>
Greater Northeast Pig Co-op	Wayne	Unknown	Bank	Jacobs Farms Waldo Farms	34 members co-op		640
Hamhocks, Inc.	Beatrice	Purina	PCA	PureLine	9 members subchapter S		400
Humboldt Pig Co.	Humboldt	Purina	PCA	PureLine	6 members subchapter S		472
Pender Pig Co-op	Pender	Walnut Grove	Bank West Point	Mel Westerpohl (Oink, Inc.)	28 members co-op		640
Pigs Unlimited	Falls City	Purina	Unknown	PureLine	8 members subchapter S		400
Pork Royal	Scribner	Purina	Bank	PureLine	10 members subchapter S		420
Verdigre Pig Co-op	Verdigre	Unknown	Bank	Individual Breeder	25 members co-op		400
Hambone, Inc.	David City	Unknown	Unknown		9 members subchapter S	6,000/year	Finishes for Star Pig Co.
Logan Valley Swine Breeders	Lyons	Unknown	Unknown	Midwestern	10 members subchapter S		400

## Corporate Confinement: The Business Structure

Large-scale confinement is a sophisticated method of production, calling for a business organization which can mobilize large amounts of capital.

Corporate confinement units are being organized in two-ways, either as co-ops or as small business corporations. Co-ops (which are owned by actual producer-members), have been used exclusively for the farrowing and raising of feeder pigs (40 lb. pigs). At 40 pounds the pigs are removed by individual producer-members and finished on their own farms.

The first co-op farrowing and feeder pig operation in Northeast Nebraska started in Bloomfield in 1968. The co-op concept has spread rapidly since then. Our survey included thirteen co-ops.

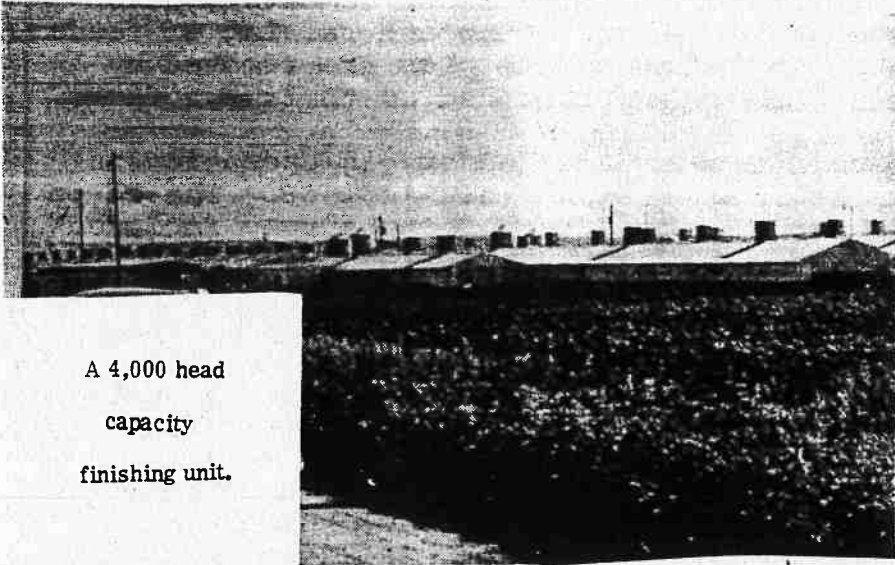
A co-op usually involves 20-40 shareholders. Each operation is a little different, but usually no shareholder can own more than 10% of the entire stock, and each shareholder has one co-op vote regardless of the number of shares he owns. However, each share of stock entitles the member to purchase one feeder pig per year from the co-op. A share of stock sells for between \$15.00 and \$30.00 depending on the amount of the capital outlay for the facility. The member must take delivery of his feeder pigs according to an agreed upon schedule, and he must pay a cost-of-production price determined by the co-op board of directors, regardless of current market prices at the time of delivery. The co-op is not in business to make money, but to supply its members with reduced-cost feeder pigs.

The co-op benefits the producer-members in several ways. Besides the regular benefits of confinement, the co-op organization gives the independent producer-member access to a reliable source of high quality feeder pigs at a reduced cost, and frees him from the heavy labor requirements of farrowing his own sows. This allows him to expand the size of his hog finishing operation or to expand into other areas of farm production.

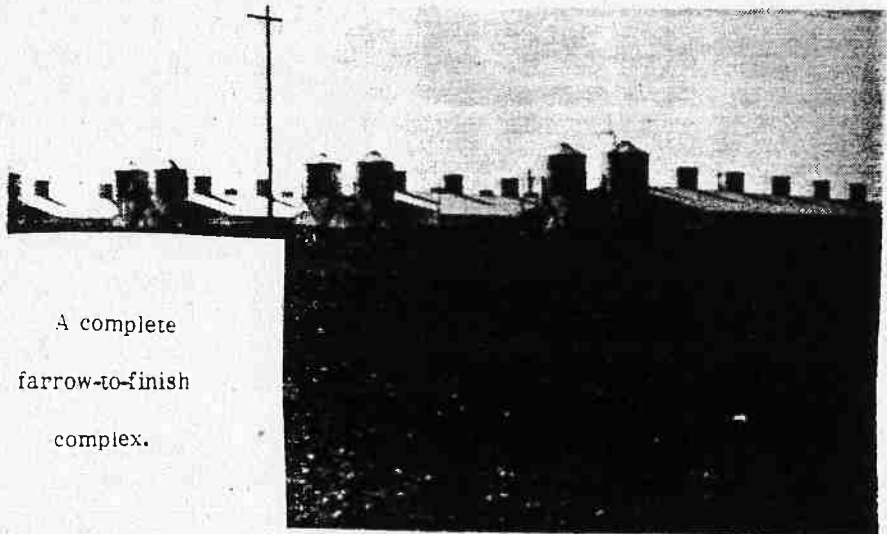
Most important, the costs of confinement are spread among a large number of producer-members, thus reducing the individual investment in fixed capital costs.

Small business corporations on the other hand, are limited to ten shareholders or fewer. Organizationally speaking, it is obviously easier to set up a subchapter S corporation simply because there are fewer people involved. However, the phrase

"subchapter S" refers to the Internal Revenue Code, and it is an attractive type of corporation primarily because of its tax advantages. The subchapter S corporation may be taxed substantially like a partnership rather than a corporation: that is, profits or losses, as well as depreciation benefits, are allowable directly to the shareholder, and not to the corporation itself. It therefore allows accounting losses to be deducted directly from the investor's taxable income.



A 4,000 head  
capacity  
finishing unit.



A complete  
farrow-to-finish  
complex.

Confinement operations employing the subchapter S structure may be either farrowing or finishing operations. They may have all farmer investors, some farmer-investors, or no farmer-investors.

All five of the finishing units and 25 of the 38 farrowing units included in this report are subchapter S corporations.

## Corporate Confinement: The Investment Structure

The initial cost of these large-scale confinement facilities (land, buildings, equipment, management and breeding stock) runs between \$400,000 and \$600,000 (1973 prices).

Both co-ops and subchapter S confinement operations rely heavily on non-members and non-owners for much of their financing. About half of the total financing comes from outside the co-op or corporation, often through a bank, a Production Credit Association, and in some cases from a large insurance company. Surprisingly, substantial financing has also been provided by the Small Business Administration. All the outside financing has been in the form of secured loans.

There is a dramatic difference between the co-op and the subchapter S corporation in the amount of money each shareholder must invest in order to raise the 50% of the initial capital cost. In the co-op, each member's investment depends on the number of feeder pigs he wants to buy from the co-op. One share entitles him to buy one pig. In most cases, his cash outlay is in the area of \$5,000 to \$9,000. For example, there may be 30 co-op members each owning 300 shares at \$30.00 per share, for an individual member investment of \$9,000.00 and a total membership investment of \$270,000. Shares are not necessarily distributed equally among the members, but many co-ops set a limit of 10% of the shares to any member.

In the subchapter S unit, each of the maximum number of ten investors would be required to provide an average of \$27,000 in order to achieve the same investment level.

However, the tax advantages would significantly reduce the typical individual's cost by providing investment credit, depreciation benefits, and other tax deductions not available to co-op members. Such tax advantages are most beneficial to the taxpayer who is in the high tax brackets, and is of less concern to the investor whose main motive is providing himself with a steady supply of quality feeder pigs at a cost-of-production price.

For example, take the high income investor who is in the 50% tax bracket. He invests \$25,000 in a subchapter S corporation. Immediately he gets 7% of this amount - \$1,750.00 written off his final tax bill as an "investment credit". In addition, he is allowed certain deductions from the taxable income on which his taxes are based. Assuming that the investor is eligible for accelerated depreciation and that all of the 25,000 is used for purposes that qualify for investment credit, (land does not) the total depreciation he can claim as a deduction from his taxable income in the first year could exceed 20% of the initial investment. A five thousand dollar deduction (20% of 25,000) for a tax payer

in the 50% bracket means a tax savings of \$2,500.00. Then the interest charge on borrowed money is also deductible.

The investor is also able to defer or delay paying taxes by deducting feed, medical and other costs. These "accounting" losses are taxed later when they show up as profits in pigs sold, but he can continue to defer these taxes year after year as he incurs expenses, until one year he happens to be in a lower tax bracket. When that happens, he can pay the taxes at the lower rate. Finally, if the operation is a farrowing operation for which breeding stock is owned, when the breeding stock have outlived their usefulness as stock animals, they are sold for slaughter. If they have been kept for two years, the income from their sale is taxed at a "capital gains" rate of 25% which is half of this taxpayer's normal tax rate.

A high tax bracket investor then investing \$25,000 in a confinement corporation, gets much of it back immediately in the form of tax breaks. Clever tax specialists have made a science of exploiting these benefits for their rich clients. One reputable agribusiness journal estimates that from one-third to one-half of the initial investment in a confinement operation can be returned in tax benefits in the first year.<sup>4</sup> Obviously, the higher the tax bracket the investor is in, the bigger the tax breaks. These advantages apply only to subchapter S corporations, not to co-ops.

Certainly, this type of tax shelter is attractive to high income non-farmers.

However, there is no way of discovering who the actual investors in a subchapter S corporation are. The state's public record requires identification only of the members of the board of directors and the corporate officers, often a fair, but certainly not a definitive, indication of investors. Relying only on the voluntary information supplied by those managers and investors interviewed, and lacking any refined definition of what a farmer is, it appears that the investors in most subchapter S confinement units are primarily farmers. Whether a minority of non-farmers have substantial or controlling interest in most of these corporations is unknown.

There are important exceptions. These exceptions point out the adaptability of the subchapter S corporate structure to non-farmer ownership and offer insight into the aggressive and original nature of the increasing non-farmer involvement in agriculture.

The following section is a closer look at some non-farmer control in the units included in this report.

Corporate Confinement: Non-Farmer Control

Many or most of the corporate confinement operations in this report experience some degree of non-farmer ownership. Three units have substantial non-farmer ownership or control.

Hastings Pork, Inc.

Hastings Pork, Inc., differs from all of the other units noted in this report due to its enormous size and small number of investors.

Its statistics are overwhelming. It farrows 5,000 sows and brings in 1,000 feeder pigs per week bought by the company's buyers in Arkansas, Missouri, Alabama and other states. It markets 140,000 hogs per year, 600 per day making it the largest single-plant hog firm in the nation.

The hogs are housed in old ammunition quonsets on a 1,638 acre abandoned navy depot. There are a total of 1,080 quonsets available for renovation and each year more quonsets are converted into future hog homes. Currently, 240 quonsets are in use.

Forty-five employees (including buyers and construction workers) handle the operation, which involves about 50,000 hogs at a time. Two "house" veterinarians train local women in the techniques of farrowing. Two women handle the daily activities in each of the company's farrowing quonsets.

Hastings Pork maintains its own mixing and grinding facilities, avoiding for the most part reliance on a feed company. Its own truckship the hogs to packing houses in Madison, Sioux City, Omaha and Fremont, Nebraska.

Financing apparently comes from the investors (only 3), themselves independently wealthy. Initial cost of the facilities was in the neighborhood of two million dollars. There is reportedly fifty million behind the operation.

The investor owners of this corporation view this operation not so much in terms of agricultural production, but more in terms of a business venture. Their motivation is that of a commercial corporation: continual growth, expansion, increased market share, internalization of as many functions as possible, and profit. Losses sustained during low price periods (as is the case at this writing, reportedly \$7,000 per day) are written off on individual income tax.

Hastings Pork, Inc., is a fine example of a tightly controlled corporate hog factory.



An interesting sidelight to this corporation is its means of acquiring the ammunition depot.

The original plan was for the city of Hastings to buy the property from the government, issue revenue bonds in accordance with the Industrial Development Act of 1960, and then lease it out. The act originally was initiated to attract industry and manufacturing. When it was rumored the city was going to lease the property to an agricultural corporation, Senator Rasmussen moved in the state legislature that the act be amended to prohibit an agricultural corporation from benefiting from the act. It seemed ludicrous to Senator Rasmussen to publicly support a corporation that would not sufficiently increase employment and would itself be in competition with the local agricultural producer.

The amendment passed but the General Service Administration did sell the property to the city of Hastings who then resold it to Hastings Pork, Inc. This was done without benefit of the Industrial Development Act provisions.

#### Super Pig, Inc.

In Holt County there is a complex of six corporations involved in a farrow-to-finish confinement operation that outwardly appears to be farmer-owned but in reality is dominated by one man. It operates in the following way.

There are four separate farrowing houses farrowing 165 hogs each. Each one is a separate corporation with only 2 shareholders. Charles Peterson is 35% owner in each of the four. A different individual is the other owner in each.

The individuals own the land (or arrange their own financing to buy it), and provide the working capital. The corporations' facilities (buildings and equipment) are financed by the Small Business Administration through the local bank and in the name of the corporation. This amounts to a \$100,000 guaranteed loan. SBA can make this type of loan under guidelines allowing financing for "Operation of a commercial feedyard for cattle or hogs where its income is derived from the service operation of housing and feeding animals either owned by others or purchased from producers solely for the purpose of fattening and resale prior to slaughter". (emphasis supplied) 5

The reason the farrowing houses qualify is because they claim no ownership of the hogs. The hogs are owned by a separate corporation, Super Pig, Inc., owned by Charles Peterson and his deceased father's estate. The breeding stock goes to Super Pig from Mid-

western Swine Breeders.

The farrowing houses are managed by the individuals in the corporation. This manager/owner is really just a custom operator producing feeder pigs. He is paid a formula for feeders based on the Omaha fat hog market.

The owner/manager pays for the feed himself. However, all four farrowing houses happen to use feed from P & P Farm Supply, a Supersweet dealership owned by National Alfalfa Dehydrating and Milling Company, principal shareholder, Charles Peterson.

At 40 pounds the feeder pigs from all four farrowing units usually move down the road to Pork Town, where they are fattened. Pork Town is owned by 2 or 3 stockholders, one of which is Charles Peterson. The facilities are wholly financed by the stockholders.

Pork Town employees one full time manager.

The facility itself consists of 2 confinement structures with a capacity of 1,600 hogs. It is in the process of building two more. When this is accomplished, all of the hogs from all four farrowing houses will go to Pork Town.

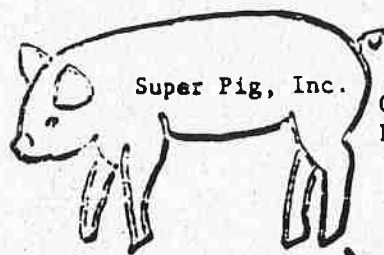
At market weight, the hogs are sold to various packers. Since ownership of the hogs is retained by Super Pig throughout the entire cycle, all marketing decisions are made by Super Pig, specifically an accountant employed by Super Pig.

The unique features of this system are many. The farrowing corporation never owns the stock and the farrower becomes a custom operator. Financing is guaranteed by the U.S. taxpayer. All key decisions in the entire production, management and marketing system are made by Super Pig as owner of the livestock and by Charles Peterson specifically as he is involved financially in every step.

Therefore, although the manager/owners of the farrowing units are farmers, they seem to have very little control over this hog operation. It is Charles Peterson who appears to be in a position to orchestrate and control the entire system. He apparently has invited others to share the risks and provide the labor and plant management. A diagram of the system appears on the following page.

#### Unicorp

Unicorp is the only known feeder pig confinement corporation in which the majority of the shareholders are non-local, non-farmer

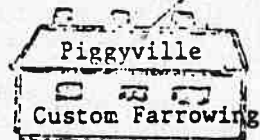


Super Pig, Inc.

Owned by C. Peterson's Estate and C. Peterson

BREEDING STOCK

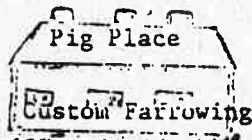
BREEDING STOCK



Piggyville

Custom Farrowing

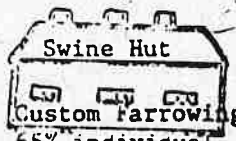
65% individual  
35% C. Peterson  
SBA Financed



Pig Place

Custom Farrowing

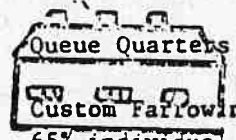
65% individual  
35% C. Peterson  
SBA Financed



Swine Hut

Custom Farrowing

65% individual  
35% C. Peterson  
SBA Financed



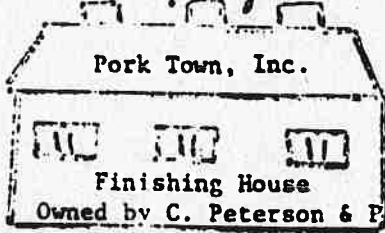
Queue Quarters

Custom Farrowing

65% individual  
35% C. Peterson  
SBA Financed

FEEDER PIGS

FEEDER PIGS



Pork Town, Inc.

Finishing House

Owned by C. Peterson & Partner

Marketed by Super Pig, Inc.

Finished Hogs



Packer

investors. Of the eight involved, three are from Decatur, where the plant is located, three from Omaha, one from Norfolk and one from Iowa. Only one man is a farmer-investor.

The instigator of the corporation is a retired Air Force officer who was based at Offutt Air Force Base in Omaha. Most of the investors are his old Air Force buddies. When asked why there were so few local farmers involved, one investor answered that either no one was interested or they could not come up with the \$12,000 minimum initial investment capital.

In most other respects the corporation follows the pattern of other confinement units. The lack of farmer members however, precipitates a tremendous breakaway in the area of marketing.

Obviously, the feeder pigs do not go to the members' farms to be finished. As a result, all of the feeder pigs are contracted to Schuyler Pig, Inc.

This corporation is a prime example of hog production and marketing completely off the farm and out of the hands of farmers. It is in operation not to give producers economies of scale advantages in feeder pig production, nor a cheap quality supply of feeder pigs. Its reason for being is purely an investment for tax purposes and for profit from the sale of commercial feeder pigs.

A final note on Unicorp. The corporation made local news recently because of an outbreak of pseudorabies. A few hundred baby pigs died as well as several sows. Breeding was discontinued and the entire facility was quarantined. It is currently back in full operation, but it is reported that no feeder pigs have been sold yet. It has been rumored that because of its heavy losses, many investors want to sell out.

Corporate Confinement: Marketing

#### Feeder Pigs

Placement of feeder pigs follows a general basic pattern.

In the case of the farrowing co-op, every stockholder typically finishes the number of hogs at his own farm in accordance with the number of his shares of stock. As long as he takes ownership he may sell them commercially but to the writer's knowledge this is not done.

In the case of the subchapter S corporation, each shareholder is allocated a certain number of hogs in proportion to his investment. If the shareholder is a farmer, he too finishes the hogs at his own farm.

If the shareholder is a non-farmer, or if he farms but has no finishing facilities, the shareholder sells his feeder pigs to another member of the corporation. There were no cases found in which a non-farm individual sold his feeder pigs outside of the corporation.

There are six instances of feeder pigs going directly to finishing units rather than to on-farm finishing. The way this is handled varies.

In some instances, finishing houses are built in close proximity to farrowing houses. In this situation, a new corporation is formed although the stockholders in the farrowing unit are basically the same as those in the finishing unit. The hogs then simply move from the farrowing house to the finishing house. No on-farm finishing takes place.

For example:

Star Pig Company-----→ Hambone, Inc.  
Pork Chop, Inc.-----→ Grandview, Inc.  
Colfax County Pig, Inc.-----→ Schuyler Pig, Inc.

At Unicorp, the members of the finishing unit are not the same as those in the farrowing unit and the hogs are contracted and transported out of the county entirely (from Burt County to Colfax County).

In Holt County, placement of feeder pigs is determined completely by Super Pig, Inc., the corporation which owns all of the livestock. An exception might occur if Midwestern Swine Breeders decided to buy back feeder pigs to be used as breeding stock. The farrowing units, however, play no part in decisions relating to marketing feeder pigs.

Finally, feeder pigs from Hastings Pork, Inc., move to finishing quonsets but this takes place all within the same corporation and on the same premises. The entire farrow-to-finish-to-market operation here is controlled within the same corporation.

#### Slaughter Hogs

Unless hogs from a farrowing unit are also finished in confinement, marketing of slaughter hogs is usually done in accord-

...ance with the personal preferences of the individual who finishes the hogs. His options include terminal markets, auction barns, or interior markets. There are some exceptions. In two instances, the variations are due largely to location in a traditionally non-producing area which does not have local marketing channels. Production in these western counties is due to the new availability of feed grain.

Centennial Pork, Inc., and Red Willow Pig, Inc., are both located near McCook. Their members fatten feeder pigs and market them in Omaha through a livestock commission company. Occasionally, they may market through a local sale barn or in Brush, Colorado. Marketing is still done individually, not collectively.

Tri County Feeder Pig, Inc., is located near Imperial. This farrowing unit was organized by Royal Lean Pork Association from Fort Morgan, Colorado. Royal Lean is a cooperative marketing association. Its purported purpose is to bring a higher price to its members for fat hogs.

The criteria for membership in Royal Lean is the owning of Royal Lean Breeding Stock, and no other. There are currently 120 members. Each member is entitled to one vote in the association. A member can be an individual producer or a member of a confinement farrowing corporation.

Royal Lean has a marketing contract for fat hogs with Loveland Pack in Colorado. Loveland provides a \$.75 bonus per hog over the top Omaha market. The reason Royal Lean is able to secure this is because it guarantees top quality hogs based on its control of the breeding stock.

All of the members of Tri County are members of Royal Lean since Royal Lean breeding stock is used.

As each hog reaches market weight (215 lbs.), the finisher has no marketing options. His hogs are marketed through Royal Lean.

The breeding stock that Royal Lean supplies was originally financed and developed by Eldon Griffith, President of the association. In order to expand breeding facilities, the members have agreed to check off \$.50 per market hog to finance this expansion.

Hogs fattened in the five confinement finishing units in this report are typically marketed directly to packers. Some forward contracting to packers has occurred, at least between Schuyler Pig, Inc., and Hormel. Schuyler Pig reports having discontinued its arrangement with Hormel, however, and now sells fattened gilts back to its breeding supplier, Pure Line. Barrows from Schuyler and all fat hogs from Hastings, Grandview, Hambone, and Super Pig are marketed directly.

## *The Breeding Stock Hustle*

The rapid spread of confinement has not occurred due to casual word of mouth information picked up by isolated groups of local farmers. The advantages of confinement are being promoted wholesale by those with much to gain from its development, notably feed, breeding stock, or construction companies, or a combination of such input suppliers.

It has been noted in the May-June '74 issue of Agri-Finance that Allied Mills is actively involved in promoting and financing confinement. <sup>6</sup>

In Nebraska, the two biggest suppliers of breeding stock for confinement are making local contacts (usually with feed dealers, and occasionally with construction firms) to promote their stock and present the confinement concept in terms of a "package" deal. The owners need only supply the capital; the local contact will arrange (with the breed stock company) the construction, feed, stock and management.

These two suppliers apparently appeal almost exclusively to subchapter S corporations. Co-ops tend to buy feed locally, buy stock from independent breeders, and take several bids for each input, making each decision independently. The package deal seems to appeal to those investors who do not want to be so independent.

It can be surmised then that the rapid spread of the subchapter S confinement structure is largely due to the salesmanship of agribusiness corporations trying to market their product and establish a reputation for confinement services.

Confinement units need initial delivery of between 400 and 800 gilts, plus about 20-25% of the amount for replacement each year. These gilts are specially bred to withstand cement floors, to be disease-free, to produce large litters of a lean and meaty variety of hog that gains weight efficiently. Few independent breeders typically can produce this kind or quantity of breeding stock.

This need for vast numbers of breeding stock genetically adaptable to confinement has produced an industry within an industry. Research, design, and production of this type of stock is expensive. Predictably perhaps, this phase has attracted the heavyweights in agribusiness.

All of the breeding stock furnished to the confinement units

surveyed for this report come from specialized breeders.

The inventory shows three dominant confinement-oriented breeding stock producers. They are American Hog Company from Wiggins, Colorado; Pure Line Hog Company, from Columbus, Nebraska, owned by Herman Tripp, one of the pioneers in hog confinement and breeding stock development; and Midwestern Swine Breeders, a subsidiary of Babcock Industries from Rochester, Minnesota.

American Hog Company not only provides breeding stock but also farrows 850 sows and feeds and markets their offspring to market weight via a production contract to a local packer.

American Hog also manages a 960 sow operation and leases another 140 sow units.

In 1973, American Hog Company merged with Falco, a non-swine leasing company from Raleigh, North Carolina. Prior to the merger, Falco was the major stockholder in American Hog.

American Hog is the only one of the three dominant breeders that furnished breeding stock for co-ops. It has served 5 co-ops, but no subchapter S units.

Further expansion in the sale of breed stock has been prohibited for American Hog in the past year due to a problem of infection. They are currently in the process of re-vitalizing their entire herd and plan to finish the process in one more year. They are anxious to complete this project because "the selling of breeding stock is more profitable than farrowing and feeding hogs".<sup>7</sup> None of the five co-ops supplied by American Hog report infection problems.

Herman Tripp's, Pure Line, Inc., from Columbus, Nebraska, stands out due to the large volume of confinement units he services. Pure Line has been easily the most aggressive marketer of confinement. Out of the 38 farrowing units in this study, Pure Line hogs went to 18, all but one a subchapter S unit. It is believed that Mr. Tripp services 50 confinement operations in a 3 state region.

In order to provide such massive number of gilts, Mr. Tripp has a buying arrangement with Schuyler Pig, Inc. He buys all of their gilts at varying weights to fill other confinement operations. He pays for these gilts according to current market prices plus a bonus. Mr. Tripp probably has similar arrangements either with other confinement operations or with individual producers.

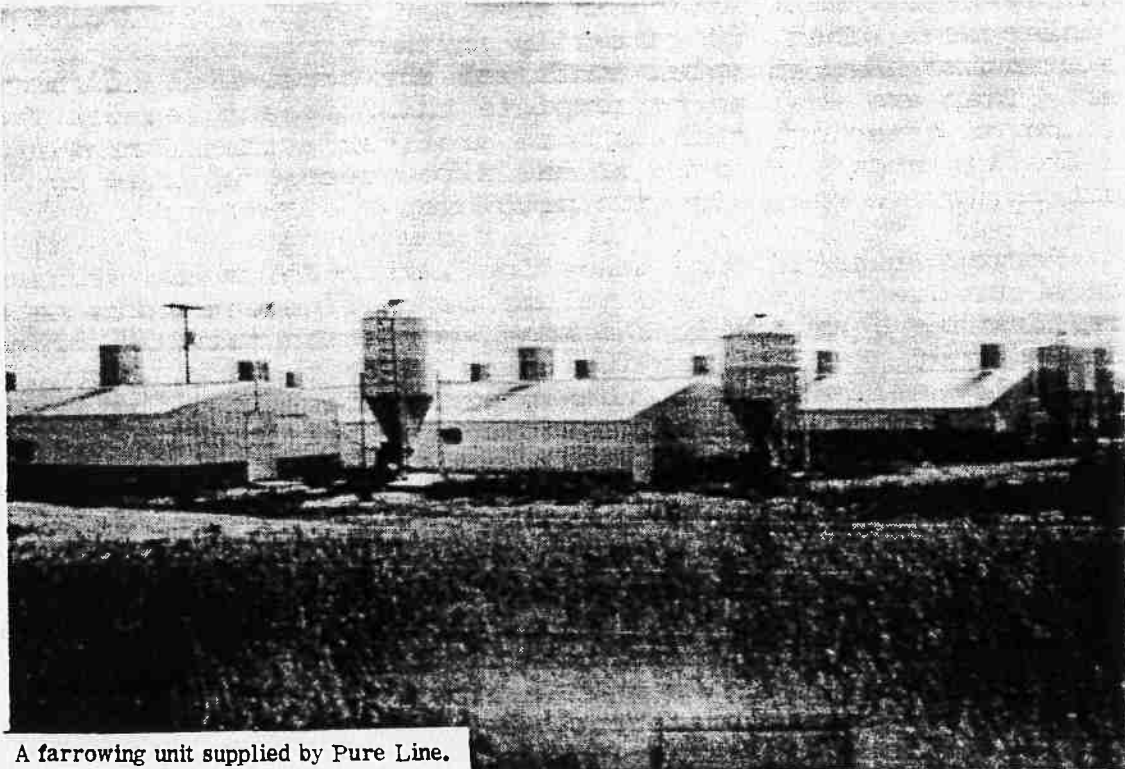
Tripp's apparent preference for subchapter S over co-ops may be built into his marketing strategy. He operates by getting



the support of a local feed dealer (in most cases, a Ralston Purina dealer). The feed dealer then becomes the local organizer of a confinement operation. In many cases the dealer also wants to be a shareholder, in which case the co-op is not an attractive business structure.

The Tripp sales policy is summed up in the following quote, "....since the Tripp-Bilt Hog is specifically bred for confinement production, they (Tripp) would sell and service only large confinement units in multiples of 400 gilts. Through endorsements by major feed companies more than 20 of these 400 sow units were sold in 1973...." <sup>8</sup> Whether the endorsements come from the feed companies or their local dealers is a distinction Tripp may not want to make.

Those units that link up with Pure Line not only have a pre-determined source of breeding stock and feed, but at the same time are lined up with prospective managers and Sand Construction Co., from Columbus, Nebraska, to build the facilities. Mr. Sand is the president of Schuyler Pig Inc., and a director of Colfax County Pig Company, Inc.



A farrowing unit supplied by Pure Line.

Babcock Industries, infamous among producers for its role in corporatizing the poultry industry, is a glamorous new entrant in the swine breeding stock game. In 1971, Babcock acquired

Midwestern Swine Breeders, Inc. Since then it has built an extensive research and development center at Rochester, Minnesota, to "build a better hog". As their annual report says, "The market potential for swine breeding stock is many times that of poultry breeding stock, thus the long term growth outlook is extremely attractive".<sup>9</sup> Hustling up new confinement units is Midwestern's strategy for developing this market potential. Midwestern serviced seven subchapter S units in this report with original breeding stock.

Of course, Midwestern does more than breed swine. It also offers a most complete package of services to confinements. An independent breeding stock producer could never do for new confinement operations what Babcock offers to do.

Once a prospective confinement group decides to buy breeding stock from Midwestern, they also get contract options with three to four feed companies picked according to high nutritional standards, the company's access to diagnostic labs, and other attractive benefits. They are not only lined up with a construction company (Environ Systems, Inc., from Fremont, Nebraska) and an equipment manufacturer, but also an accounting firm, and a manager trained by Midwestern. Midwestern says these services are optional and the corporation can hire its own manager or construction company if it prefers. However, some co-op members interviewed for this



One of two buildings of a farrowing unit supplied by Midwestern Swine Breeders.

report felt Midwestern's package was mandatory.

For an added attraction, Midwestern fieldmen come around every two months to make sure the operation is running smoothly, and to deal with problems relating to the quality and performance of the stock.

Midwestern breeding stock comes primarily through buy back arrangements with feeder pig units which it stocks or contracts with individual producers. There are currently five such producers in Nebraska who use original Midwestern stock, reproduce them, and sell them back to Midwestern for use in confinement farrowing operations.

One former producer was not satisfied with Midwestern terms. This man was using Midwestern parent stock, raising gilts and selling them back to Midwestern. Midwestern gives top market price plus an \$18.00 per head premium. As the price of hogs rose from \$20.00 to \$40.00 and \$50.00 per hundred weight in 1973, the price of the premium never changed. The producer claims that on a gilt that cost him \$45.00 to \$50.00 to produce, he would receive \$104.00 from Midwestern, who would in turn sell the gilt for about \$175.00 to \$225.00. The producer was annoyed at the fact that the salesman, who took 20% off the top, who had no investment in capital or labor, and who took no risk was making almost as much as he.

In order to circumvent such abandonments by individual breeders (other producers interviewed were similarly dissatisfied), Midwestern is now attempting to lock in assured quantities of stock. It is in the process of linking up with a corporate confinement operation (Logan Valley Swine Breeders, Lyons, Nebraska) whose primary purpose will be to produce breeding stock for Midwestern for resale to other confinement operations.

Although hardly noticeable in this report, Ralston Purina is not out of the contest entirely. In fact, it has shifted its emphasis entirely from swine leasing to selling breeding stock. According to the President of Kleen Leen, placements of breeding stock in 1973 exceeded those of the leasing program of the prior year. About 80-85% of Kleen Leen's breeding stock is currently going to independent producers, many of these former leasees. The company estimates that half of this stock is used for individually owned confinement operations of one kind or another. The remaining 15-25% of the stock they will sell goes directly to co-op or subchapter S confinement operations. Only one confinement unit in this report however, used Kleen Leen stock.

In conclusion, confinement requires a large quantity of high quality stock to maintain efficiency. Although there are a few independent breeders serving confinement, the majority of this stock has come from a few large, specialized breeders who have assigned marketing strategies around the promotion of corporate confinement.

## Implications

People who suspect that a rapid expansion in large scale hog production is taking place will have their suspicions confirmed by this report. The implication is that hog production will become more specialized, capital intensive, and dependent on sophisticated technology. The role of the individual producer will diminish.

The evidence presented here shows an amazing mushrooming in large scale corporate confinement, especially in feeder pig production in the past 3 years. The 39 farrowing units inventoried in this report alone farrow over 22,000 sows (more than 7% of the sows farrowed in Nebraska in 1973), equivalent to the production of 1600 average individual producers. Two thirds of these were added in the past 18 months. Moreover, most managers indicate an intent to expand, even as hog prices dip to catastrophic lows in mid 1974.

In fact, the dramatic and sudden intrusion of corporate confinement in Nebraska signals the removal of feeder pig production from the farm to the factory in relatively few years. If current trends continue, feeder pig production on family farms will be as rare in 1980 as broiler chicken production is today.

The development of specialization in the breeding stock business is even more pronounced. Obviously, these companies are promoting confinement operations as a marketing strategy for their breeding stock business. They sense an opportunity to get an inside position on what promises to be the wave of the future in hog production technology.

But beyond that, the apparent preference of the two most aggressive breeders promoting confinement for subchapter S structures over co-ops implies that their marketing strategy involves basic changes in the structure of the pork industry. They are confident that confinement will attract new and inexperienced money into hog production through subchapter S corporations and therein lies their best market for breeding stock. Their strategy is to sell a whole range of services to these new "producers" - management, construction, planning consultations, and other services which the investment oriented shareholder who wants to minimize his own decision-making finds attractive or necessary. Of course, this package is most attractive to the non-farmer whose experience is nil, but it is also useful to the farmer for whom feeder pig production is a new operation.

The reluctance of co-ops to utilize these breeder-offered packages indicates also that these plans represent a significant loss of independence for them.

Overall, the emerging breeding stock industry is a hustle which confinement has made possible.

It is significant that a number of confinement units identified here are well outside of traditional hog producing areas. This partly reflects the potential of confinement for accomodating livestock production to environmentally harsh areas.

It also reflects the "movement" of the corn belt to the west, where irrigation, hybrids, and chemical fertilization have made increased feed grain production possible in Plains states. This has created isolated grain markets and cheap corn, a natural attraction to big, new livestock business.

As livestock moves into these areas however, it moves farther away from major hog markets, increasing price risks and transportation costs. This has implications for marketing methods. The tendency in such cases is to forward contract, to sell direct to packers on pre-arranged terms, and to adopt other marketing practices that reduce risks. Reliable, large scale producers are attractive to packers, too. This is visible in the Royal Lean system. As a result, terminal and auction markets will be further eroded.

The combination of breeding stock specialization, large scale production and movement into new areas, all point to more loss of producer independence.

The most aggravated loss of independence is present in the SBA - financed "custom" operations that provide services to Super Pig, Inc.

These "small businesses" are required by the terms of their SBA loans to farrow only other people's hogs on a custom basis. Since Holt County is one of the "new hog areas" it is unlikely that these four custom operators could secure other customers of the same size if Super Pig, Inc., were to abandon them. The combined effect of being isolated from markets and being limited to custom operations makes these "producers" little more than hired laborers with their own investment at stake as well as their jobs. Moreover, 35% ownership of their facilities by the principal in Super Pig adds to their compromising position. The parallels between this type of operation and the integration of the broiler industry are powerful.

In fact, the presence of one dominant figure in each phase of this coordinated operation suggests that the entire set up is an effective scheme for getting public financing for a vertically integrated corporate farming operation.

The use of publicly subsidized financing for this purpose should be questioned. In the first place, SBA does not finance the independent producers who must compete against these pork hotels. In the second place, SBA financing of custom operations only gives corporate integrators the means by which to entice individuals into financial and contractual relationships which obligate them to the integrator. Once their investment is poured into these expensive facilities, their options are few. They are not unlike indentured servants, a condition of labor this country purported to repudiate over one hundred years ago.

Even more disconcerting than SBA financing is the appearance of tax shelter gimmicks in hog production. These have been justified for cattle feeding and other agricultural operations as a method of attracting the capital by which the industry expands and becomes more efficient. Until confinement made large scale hog production feasible however, there was no need to attract these large amounts of capital.

Obviously, the conditions now exist by which tax shelters can be used extensively in hog production. The predominance of subchapter S units over co-ops suggest that the tax laws are already being used extensively to attract equity capital - both farm and non-farm - into hog production. The fact that expansion of existing subchapter S corporations continues despite fluctuating markets, implies an incentive besides efficiencies of size.

In fact, most of the new growth in large scale confinement can be expected to occur in subchapter S units rather than cooperatives for just this reason. Operationally speaking, the co-op is just as efficient as the subchapter S, and if the level of agricultural knowledge of the owners is a factor, the co-ops are likely to be technically even more efficient. However, the competitiveness of the subchapter S unit has been written into the tax laws. With the tax break for big money, the subchapter S can amass capital more easily than the co-op. It tends therefore also to attract better heeled investors, and especially those with assets outside of agriculture. This makes securing additional financing easier. All things considered, the subchapter S corporation has artificial advantages over the co-op which are not related to efficiency.

These are principal factors in the erosion of independent production, even when independents ban together in legitimate co-ops.

Furthermore, as confidence in large scale production spreads, more sophisticated tax investment methods such as limited partnership schemes can be expected to develop. These developments will hasten a shift in production to the commercial companies like the giants in the cattle feeding business, where less than one half of one per cent of the firms produce over half of the cattle. There is nothing at this point that suggests that these events will not occur, nor is there any substantial climate of opinion which provides hope that a political solution will be offered that will protect the independent producer or producer co-ops.

There are additional questions raised that have not been addressed in this report.

One question is the environmental impact of large scale confinement. Regarding waste management, Thomas J. Mulligan of Hydrosience, Inc., and J.C. Hesler of Greyhound Corporation recently reported the following to a Cornell Conference on Waste Management: "This waste disposal problem is of relatively recent origin. In the past, animal raising was conducted on relatively large areas where the animal wastes were readily assimilated by the land. However, current advances in nutrition of livestock, in the development of improved agricultural practices, and in the effective control of disease have fostered the confined raising of animals, so that individual, small farm operations are declining and the number of large scale raising facilities are increasing. All of these advances have significantly increased the quantity and quality of animals produced, but not without increased environmental problems". 10

This implies that there are unaccounted for costs, direct and indirect, that society must pay for this type of production.

The direct cost is the actual capital that must be spent to protect the environment from the pollution of animal wastes.

Lee R. Schuster of Schuster Farms, Inc., summed it up when he said in Proceedings of the 1972 Cornell Agricultural Waste Management Conference, "Eventually I have no doubt but that society will pay for pollution control through higher costs of retail". 11

The indirect costs are the social costs of industrializing the agricultural economy. We also need to question the increasing trend toward scientifically, genetically constructed hogs that become vulnerable to life outside of confinement.

Finally, questions need to be raised as to the future quality of confined pork and the possible effects on human consumption of massive doses of antibiotics in feed and other chemicals used in confinement hog production.

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