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# Making a profit in a regulated environment

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The United States' agriculture industry has long prided itself on its independent nature. Feed grain and livestock producers in many of the traditional agricultural areas of the US have a long history of independent proprietorship and independent decision-making. In years past, this independence in ownership and decision-making occurred in a society that was agriculturally based. A large proportion of the consumer-base had a connection to agriculture and understood the risks and rewards associated with food production.

However, American consumers have become increasingly disconnected from their agricultural heritage. They no longer have a close linkage with one or more suppliers of their daily foods. Their vision of agriculture is greatly influenced by media stories and advocates of particular policies who advertise and/or promote their views in the media.

Consumers have also become less willing to assume food safety risks associated with the supply of food and fiber. As incomes and selection have increased, so has the buying public's demand that the 'system' provide an abundant and safe supply of foodstuffs.

The demand for a 'system' to supply a safe and abundant supply has resulted in producers of food and fiber receiving mixed messages from the consuming public. On one hand, consumers want a safe supply, but they expect this safe supply to be available at a low relative cost to them. They have become accustomed to spending less than 15% of their disposable income on food, with the expectation that the food items purchased will be wholesome and safe.

As a consequence of this expectation of a relatively cheap and safe supply and their dissociation from production agriculture, consumers have increased their reliance on government authorities to provide the assurance links with producers that were in place in past years on a more informal basis. As a consequence of this shift in responsibility from an informal network to a formal network of assurances, government regulations that reflect consumer expectations have expanded.

This shift from an informal network to a formal network is seen by many producers as a threat to their livelihoods. They pride themselves on doing the 'right' thing and trust that the final consumer of their product will instinctively

know that the right thing has been done—whatever the right thing might be.

The consumer's reply to this is

"I no longer have a linkage with you and your production methods. Since I don't know you and don't understand your methods, it's logical for me to assume that mistakes will occur and that some of you will try and cover up your mistakes. These mistakes will have consequences that are not acceptable to me. Thus, I will put into place systems that will reduce the risk of your mistakes leading to undesirable consequences. Since I no longer have a direct linkage, I will place my trust in governmental agencies to enforce my desires."

With so few producers relative to the general population, even neighbors and surrounding communities no longer have a knowledge of swine production based on family experiences. Thus, producers have lost this support group as they face additional regulations on production systems and practices. The US and North American pork industry has failed in its responsibilities to keep the consumer educated. As changing production systems have been adopted, the pork industry has assumed that the public would trust them based on previous experiences; however, there no longer is a history of previous experiences upon which the public can base their decisions.

With the public press readily documenting manure spills, odor complaints, food contamination recalls, and animal activist activities, the spotlight on the risk of mistakes increases. For pork producers in the US and increasingly around the world, the risk of mistakes can be categorized into three primary areas:

- environment/odor,
- food safety, and
- animal and human welfare.

Some of these categories are being implemented with clearly defined scientific basis, and others are being used to support social agendas in addition to concerns about mistakes and consequences.

## Environment/odor

This category of risks and consequences is the hot button for many pork producers and government agencies. In the past, when an 'average' producer in a farrow-finish swine system had 20–40 sows and marketed at most 400 pigs per year, there was limited concern about the consequences of manure storage decisions and land application methods. Manure from all types of livestock enterprises was seen as a valuable fertilizer resource. Every farm in a neighborhood community had a variety of livestock and all shared equally in the generation of 'rural' odors. The linkage between the local production community and the global consequences of local decisions was poorly understood.

However, with the advent of commercial fertilizers and the decrease in the number of farms with livestock, the perceived value of manure has changed from an asset to a liability. The goal became how many acres are needed for disposal of the effluent, rather than how much manure is needed to maximize crop outputs. With fewer farms having livestock, not all rural residents share equally in the generation of 'rural' odors. Society as a whole has a clearer picture of the linkage between local events and their global consequences. While some may argue that this picture is faulty in many instances or is provided without a scientific basis, it is obvious that consumers as a whole view such a linkage as real.

Livestock production systems have changed, not only in size but in the technology employed to produce products for the consumer at a relatively low cost. Without the close linkages the producers had with consumers in previous years, as production systems have changed in response to economic and other pressures, consumers have less knowledge and experience on which to base their evaluations of these systems. Thus, they are seeking increased regulation as one method to minimize perceived environmental risk.

In addition to perceived environmental risk, environmental regulations are being used to advance social agendas. Since the science of odor measurement is poorly developed and the effect of long-term storage and land application practices from newer production systems is often poorly understood, attempts to regulate size of enterprises (often a social issue) are being based loosely on environmental issues.

Voluntary completion of the National Pork Producer Council's Environmental Assurance Program and other public efforts are increasingly becoming part of a good neighbor philosophy that will be critical to the long term sustainability of any pork production system.

## Food safety

The consumer of pork production's end products has increasingly adopted a zero tolerance for mistakes when it comes to food safety. As witnessed by the decline of Hudson Foods, the financial penalties are enormous when even minor mistakes occur.

The introduction and application of HACCP to the food safety system represents a major change in the philosophical approach to food safety. In the past, inspections and safety systems were based in large part on the assumption that problems could be identified and intercepted. This identification and interception was thought by many to be sufficient to minimize consumer risks.

However, consumers have responded by saying they want even fewer risks than those associated with traditional food safety and inspection practices. The government's response to this concern was the adoption of HACCP, a statistical process control and inspection system that drastically overhauls the food inspection system. In addition to traditional inspection processes that involve touch, smell, and see technologies, the new processes are designed to minimize the risks of food safety problems. Packers and processors are being asked to identify those points in their systems where food safety errors might occur and to take steps to minimize the risk of these errors. They must also document the steps taken so that in the event of a failure, a trace back can identify the fault and steps can be taken to further reduce risk.

One of the clearly identified risk points in the slaughter and processing of pigs for human consumption is the pig itself. It becomes logical, and in fact mandatory, for slaughter houses to include pork producers in their chain of responsibilities. Packers are initially writing delivery specifications for all pigs delivered to slaughterhouses with the intent of minimizing drug residues, injuries, and broken needle contaminations. Fortunately for the industry, the National Pork Producer Council has already developed and implemented Pork Quality Assurance, a self directed educational and verification effort targeted at assuring quality in the delivered live animal. At least three major packers (Hormel, Farmland, and IBP) are adopting PQA certification as a mandatory requirement for the sale and delivery of pigs to their slaughterhouses. It is logical to expect other packers to follow this adoption. In addition, as HACCP is fully implemented, it seems reasonable to expect further compliance/certification requirements to be implemented by the packer.

The best way for producers and their advisors to understand the changing face of the food safety issue comes from my conversation with the fresh product director of a major packer who was discussing his company's move into branded product sales. His comment was that when his company's logo was put on a package of meat, the

consumer transferred the expectation of food safety to the company. That is, once his company's logo appeared on a pork chop, the consumer identified that logo as representing that company's assurance of the safety of the pork chop. If his company is going to be asked to assume all food safety risk in return for charging a higher price, it will transfer as much of that risk as possible to its suppliers, in this case pork producers. If pork producers expect to participate in consumer loyalty patterns and increased consumer demand that results from brand name labeling, they must also share in the transferring of food safety risks such loyalty and labeling implies.

## **Animal and human welfare**

As production systems expand in size, they are increasingly falling under the scope of work rights and worker safety issues. When pork production occurred on small farms with at most 1–3 employees, it was pretty easy for regulators concerned with worker safety issues to ignore these sites. However, as production systems have evolved that now employ 20, 30, or more people per site or system, they are increasingly falling under the watchful eye of OSHA and other worker safety regulatory agencies. The challenge for many producers who are in decision-making and ownership positions in these growing systems is to include consideration of worker safety and comfort in the management process. It's one thing to struggle and work in less than desirable conditions when you are the owner and control your destiny; it's quite another to work in the same conditions without hope of financial or other rewards for your labors.

Many owners' definitions of fair wages derives from what they have seen on their own IRS 1040 forms and to remember their days of labor and sacrifice when struggling for ownership. When all labor was provided by family members, this outlook on fair wages and working conditions may have been appropriate. However, production systems of all sizes must remember that the challenge today is to make pork production an attractive employment alternative. Workers have an expectation of days off, benefits, safe conditions, etc that are provided in other employment opportunities.

The animal welfare issue is less clear-cut. Most producers and advisors would argue that modern production systems result in situations that favor overall animal welfare. However, as the consuming public becomes less knowledgeable regarding production practices and the history of production systems that led to these practices, they are less able to evaluate claims of appropriate welfare considerations. In the European community, animal welfare codes of practice have been enacted, often without any scientific basis, as a result of consumer perceptions and expectations. To date, in the United States, efforts by a minority of consumers who oppose modern

production practices because of perceived animal welfare concerns have not been noticed by the general public. Unless producers and their advisors make efforts to educate the consumer regarding production practices, and the history of these practices, it is logical to expect increased calls for regulations addressing animal welfare concerns.

Where does this discussion leave pork producers and their advisors?

It should be evident from the above discussion that regulatory pressures on production systems will increase. Consumers are increasingly expressing their desires for a safe and wholesome food supply, produced in an environmentally friendly manner, through regulations as they continue to become distanced from production systems. Regulations are also being implemented on the basis of various advocacy groups' social agendas. Successful pork producers will accomplish their financial and production objectives if they approach increased regulation not as a threat to their livelihood, but rather as an expression of consumer desires.

As with all types of product and service merchandising, those who correctly anticipate consumer demands and desires are successful. Successful pork producers and successful advisors will be those that develop production systems that satisfy the consumer demands for a safe and wholesome product produced in an environmentally sound system that respects animal and worker welfare concerns. Adoption of a mission statement that incorporates these fundamental concepts is the first step in developing production systems that are positioned to make a profit in a regulated environment. Making decisions with this mission statement in mind will minimize the possibility of negative consequences as regulations and other restrictions of independence are applied to production systems.

Doing the right thing at the right time in the right place will minimize the risks associated with new regulations/rules and laws. Doing the right thing at the right time in the right place with an understanding that the consumer is always right (even when we know darn well they're not) will go a long way in creating a sustainable pork production industry in the United States.

As pork production becomes increasingly regulated, successful pork producers and their advisors at all levels of production must become increasingly involved in the political and educational processes. With fewer than 200,000 total farms with pigs in the US, there can no longer be an attitude among producers that someone else will speak for them in public debate. Numbers have been reduced to the point that there is no 'someone else.' Each pork producer and his or her advisors will increasingly have an obligation to speak out at opportunities for public testimony at local, state, and national levels. Each car-

ries an increased responsibility to inform his or her community of friends and neighbors of pork production practices and the logic behind these practices. There is no longer the link between producer and consumer. If producers and advisors don't work to preserve the linkage, the consumer will preserve the linkage through increased regulation.

