

Campaign for Contract Agriculture Reform, Farm and Ranch Freedom Alliance, Food & Water Watch, Land Stewardship Project, Institute for Agriculture and Trade Policy, Iowa Citizens for Community Improvement, Missouri Rural Crisis Center, National Family Farm Coalition, Organization of Competitive Markets, Ranchers Cattlemen Action Legal Fund – United Stockgrowers of America, Rural Advancement Foundation International-USA, Western Organization of Resource Councils

Our organizations are promoting interrelated reforms to restore competitive livestock markets and fair contracts based on a platform supported by over 200 organizations that represent independent farmers and ranchers, contract growers, and consumers (available at <http://tinyurl.com/3gcty2>).

## **Agricultural Competition Issue Brief 14 of 18: Suspend Direct and Guaranteed Loans for Specialized Hog and Poultry Facilities**

**Obama-Biden Position:** " Prevent Anticompetitive Behavior Against Family Farms... strengthen anti-monopoly laws; change federal agriculture policy to strengthen producer protection from fraud, abuse and market manipulation...."

**Relevant Program:** USDA Loan Program

**Relevant Agency:** USDA Farm Service Agency

**Policy Recommendation – Administration Action:** USDA's Farm Service Agency should issue an administrative directive that places a suspension on issuance of any direct or guaranteed farm ownership or operating loans for the construction or expansion of a specialized hog or poultry production facility. Specialized hog or poultry production facility is defined as any building or enclosure and related equipment specifically to house, raise, or feed hogs or poultry of any type, size, age, or market class. Pursuant to such directive direct and guaranteed loans may continue to be made to an existing specialized hog or poultry production facility currently in use.

**Background:** The majority of livestock and poultry production contract loans are federally guaranteed, either by USDA's Farm Service Agency or the Small Business Administration. Because the federal guarantees make these production contract loans so easy to secure, it can lead to over-supply, particularly in the case of poultry. Whenever the company needs to cut back production to reduce supply, it is easy to do so by cutting off growers or suspending delivery of chickens until supply and demand are re-balanced. Yet despite being cut off, growers are responsible for repaying their large loans on their stranded investments, which reverts to the federal taxpayers if the grower goes bankrupt.

Similar concerns exist about the use of guaranteed loans in the hog sector. Since the 1990's the hog industry has rapidly consolidated and vertically integrated. As a result of this industry consolidation and integration more and more hogs are produced in single use facilities specially designed to produce large volumes of hogs under production contracts or to be sold through marketing agreements with packers. The changing structure of the industry and the use of specialized hog production facilities make it very difficult for pork producers to respond to market signals such as cutting-back production during periods of prolonged low prices

When similar circumstances have existed in these industries in the past, the Farm Service Agency has placed restrictions on, or suspended issuance of federal, direct and guaranteed loans. (May 1984-Poultry; October 1999-hogs)