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Supply of pigs could imperil Midwest plants

**BYLINE:** By, Anna Bahney

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After years of concerns about the future of the century-old John Morrell & Co plant in Sioux Falls, the most recent question mark facing the plant came Thursday from its top executive.

Speculation about whether the plant could close and throw 3,000 people out of work has ramped up since 2005 when its parent firm, Smithfield Foods announced a \$100 million project to modernize the plant, but backed off on that plan.

Now Larry Pope, the president and chief executive of Smithfield Foods, says the pork industry will need to close one or two packing plants in the Midwest to regain its balance because of pig supply problems.

"I think this is something that the industry will do, and we may or may not be part of it," Pope said Thursday during a quarterly earnings conference.

Concerns linger elsewhere as well.

At a forum last week for candidates running for mayor, they were asked about the volatile meatpacking industry and whether the John Morrell plant would remain.

Recently, a Sioux Falls group evaluated the future of food processing while conducting an economic assessment and determined that it is not a growth industry to focus on for the city's future. Concern also spiked last spring with speculation that Morrell might consolidate operations in Sioux City, Iowa, and pull out of Sioux Falls.

Amid all this, what's the future for John Morrell's largest plant, which opened in Sioux Falls in May 1909?

There has been much hand wringing among city officials, academics and local business leaders. But there also is compelling evidence that the Morrell plant here, which employs almost 3,000 people from 50 nations speaking 40 languages and processes fresh pork and a full line of packaged meat products, remains a vital and integral part of Sioux Falls.

With sales of \$12 billion, Smithfield Foods, the parent company of John Morrell, is the leading processor and marketer of fresh pork and packaged meats in the United States, as well as the largest producer of hogs.

Profitability of packaged meats good for S.F. plant

In quarterly earnings reported Thursday the company had a \$26.4 million loss, but announced that it expects to be profitable in 2010.

"Our packaged meats business continued to deliver record profits in the second quarter," Pope said in a statement. "This is the part of the business we have focused on and it is repeatedly delivering superior results."

The Sioux Falls plant produces the kind of packaged meats upon which the company said it is focusing.

A restructuring plan for the pork division that resulted in the closing of six processing plants and the shedding of 1,800 jobs has yielded an expected \$55 million profit improvement in fiscal 2010 and an expected \$125 million improvement by fiscal 2011.

But, in an earnings call, Pope cautioned that packing plants might need to be shuttered. He did not speculate about which ones might be closed.

"In the Midwest, we have begun to have trouble getting enough hogs to run these plants," he told analysts. "For the first time, we are really having days when we are having trouble filling the kills out. I think you will see a plant go down. If not one, maybe two."

That could mean as many as two packing plants out of about 46 operated by various companies in the Midwest, according to a list of plants in the region from the Des Moines-based National Pork Board.

"I think his concern is well founded," said Steve Meyer, livestock and meat marketing economist and president of Paragon Economics, which consults with the Pork Board. "It's because of the cost increase that livestock producers have had to adjust to. The only way to reduce that is to reduce supply and drive prices higher."

But Meyer sees strengths in the Sioux Falls plant.

"It has a lot of activities under one roof and it reduces transport costs so that pigs go in one end and value-added labeled products comes out the other," Meyer said. "Its challenges are its age, and there are probably areas where it is not as efficient as a modern plant."

"It is one of the oldest plants in the country, but it certainly hasn't been left untouched," Meyer said, adding that from a financial perspective, the building has paid for itself many times over by now and there have been significant improvements to the building.

"We've been kind of speculating that the oldest plants are the most vulnerable," Meyer said. "That may or may not be the case here."

Meyer said the Sioux City plant could be more vulnerable.

"The Sioux City plant is big enough and modern enough on the kill side, but it doesn't do the large product line," Meyer said. "Its location (in the city) doesn't help it too much."

Matthew Diersen, an extension economist at the South Dakota State University, said the Sioux Falls plant has some inherent competitive advantages.

"From a job security standpoint, it is good that it is a full range of processing happening at the Sioux Falls plant," Diersen said. "It isn't a satellite doing something highly specialized and vulnerable to the whims and changes in tastes."

Fewer Canada hogs is a troubling trend

Also, he said the greatest growth in hog production in the past few years has been in northwest Iowa and southwest Minnesota, near Sioux Falls and Sioux City. Although, he said, with herd reduction in Canada, fewer hogs are coming into this region from across the border.

"In terms of historic levels, the price of hogs is relatively high," Diersen said. "But the profit is low because of higher input costs."

Still, Diersen said, there is ample supply in cold storage. "That creates problems if you're a processor, you'd like to harvest as many animals as possible," he said. "That should make you more money, but if you have to stick it in a cooler it is going to cost you money."

The Sioux Falls plant's capacity has been increasing during the past 10 years, rising from a daily slaughter capacity of 15,000 a day in 1999 to 17,000 a day in 2004 and up again to 19,000 a day in 2009, giving it the second-highest capacity of Smithfield's nine packing plants.

Officials at the Sioux Falls plant said it is going strong.

On the occasion of the company's celebration of 100 years in Sioux Falls last April, the local manager, Ken Baptist, said, "One year ago, the CEO of Smithfield came to Sioux Falls and stated that this plant will not close." He continued: "That announcement, combined with the nearly \$100 million invested in our operation during the past few years, tells me that we'll be doing business in Sioux Falls for a long time to come."

Even though the renovation did not come to pass, during the past three years Smithfield has pumped almost that initial investment back into the plant in the form of improvements.

"But that doesn't make people as excited as new building," said Jeff Schmitt, assistant director of planning for Sioux Falls.

Part of the hubbub around the expansion project, when the city was working on preparing building permits, was that the state was offering \$4 million in incentives to Morrell.

Sioux City likes industries such as food processing

Sioux Falls and Sioux City have both established targeted industries that each is interested in courting. Both are interested in renewable energy concerns, warehousing and distribution outfits and corporations in the data management and information assurance area.

Sioux Falls' list also includes attracting medical services, building on the strong health care industry here.

Sioux City has two targeted industries that are not on Sioux Falls' list: advanced manufacturing and food processing.

"Food processing is a traditional industry to the area, based on the agricultural resources of Iowa and this area," said Marty Dougherty, the director of economic development in Sioux City. "We would see that as important in the future."

Slater Barr, head of the Sioux Falls Development Foundation, works with a consortium of organizations that is developing an economic development strategic plan for the city. He said food processing isn't a growth industry.

"Morrell is a valuable component of the community, and we need to continue to support it," Barr said. "But it isn't something that you should continue to target. Take care of what you've got and make sure they are strong and healthy."

Reach reporter Anna Bahney at 331-2326.

### **Sioux Falls plant**

LOCATION: 1400 N. Weber Ave., just north of Falls Park.

EMPLOYEES: 3,200.

DIVERSITY: Employees represent 50 nations, speaking 40 languages.

OPENED: 1909.

CAPACITY: 19,000 hogs per day.

PRODUCTS: Fresh pork, sausages and smoked meats.

PLANT ATTRIBUTES: Full range of processing. "A lot of activities under one roof," - Steve Meyer, livestock and meat marketing economist. Also, location.

PLANT DRAWBACKS: Age and a subsequent lack of modern efficiency.

### **Sioux City Plant**

LOCATION: 1200 Bluff Road, just south of the city's downtown.

EMPLOYEES: 1,450.

OPENED: John Morrell purchased plant in 1986 that first opened in 1965.

CAPACITY: 14,000 hogs per day.

PRODUCTS: Fresh pork.

PLANT ATTRIBUTES AND DRAWBACKS: It's "big enough and modern enough to the kill side, but it doesn't do the large product line." - Steve Meyer, livestock and meat marketing economist.

Sources: Sioux Falls Development Foundation, Siouxland Chamber of Commerce, John Morrell & Co., "The Yards: A Way of Life" by Marcia Poole.

### **Timeline**

1907: John Morrell & Co. chooses to expand to Sioux Falls for its Midwestern operations and begins plant construction.

1909: Plant opens for production.

1968: Morrell merges with AMK, a maker of machinery and industrial equipment.

1969: The head of AMK merges the company with United Fruit Co., a company known for bananas.

1970: AMK and United Fruit Co. form United Brands.

1987: A labor strike almost breaks the union representing production workers.

1989: Morrell announces plans for a new Sioux Falls plant, on the condition that the union and the company can negotiate a new contract. The company later announces there will be no new plant.

1992: Morrell ends beef-processing operations.

1995: Smithfield Foods Inc. purchases the Morrell corporation making it a subsidiary of the Virginia-based company.

1998: Morrell shuts down its lamb-processing division. About 50 workers are reassigned to other areas of the plant.

2002: Proposed changes to pork industry regulation cause Smithfield to threaten to close the plant.

2005: Morrell announces plans for a \$100 million expansion that's meant to reinforce the plant's future in Sioux Falls. The expansion never happens.

Sources: Sioux Falls Business Journal; Sioux Falls Development Foundation; John Morrell & Co, Smithfield Foods.

### **Closed Plants**

Packing plants that have closed in South Dakota and surrounding states in recent years:

February 1994: Seaboard, Albert Lea, Minn.

April 1997: IBP, Council Bluffs, Iowa

August 1997: Dakota Pork, Huron

June 2000: Farmland, Dubuque, Iowa

November 2003: America's Family Farms, Alcester

Source: Iowa Pork Board.

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**COMPANY:** JOHN MORRELL & CO (95%); SMITHFIELD FOODS INC (84%)

**TICKER:** SFD (NYSE) (84%)

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