STUDY PAPER

An Analysis of Factors Responsible for the Decline of the Horse Industry

by John Holland, President

The Equine Welfare Alliance is a dues-free 501c4, umbrella organization with over 230 member organizations and hundreds of individual members worldwide in 18 countries. The organization focuses its efforts on the welfare of all equines and the preservation of wild equids. www.equinewelfarealliance.org

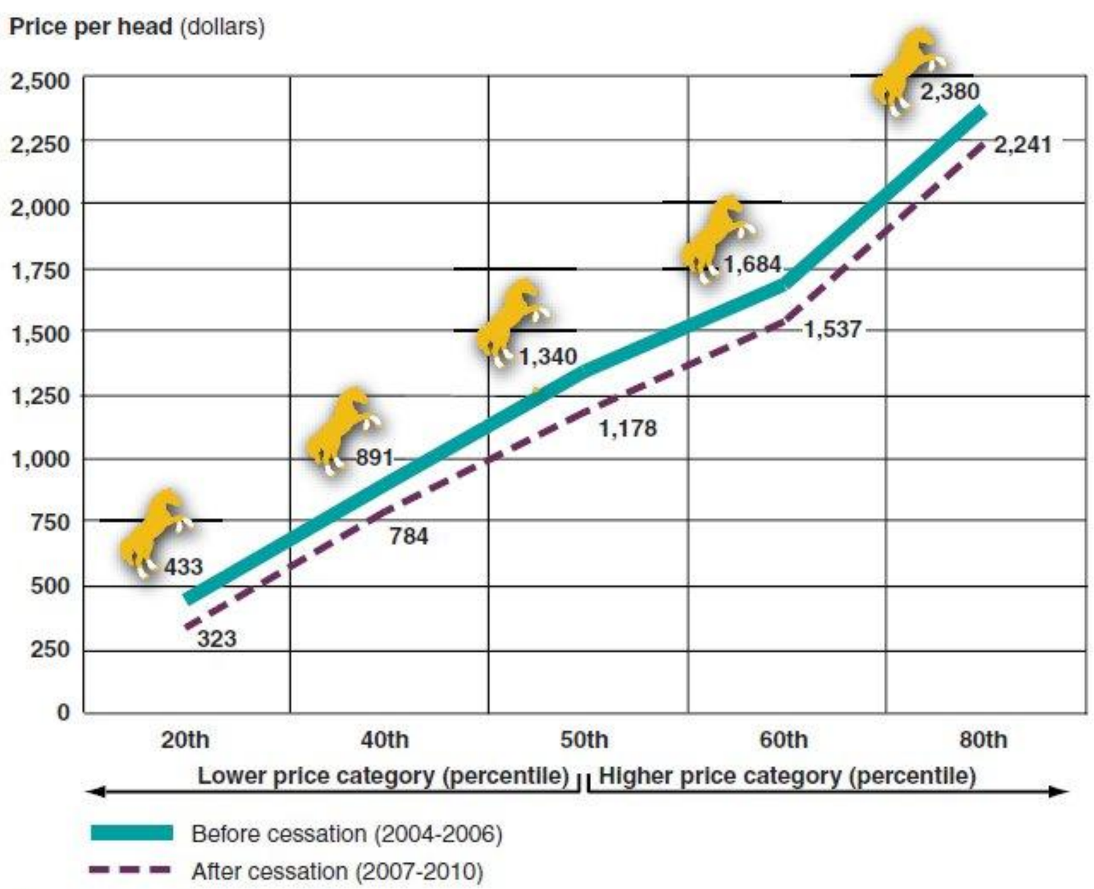
Table of Contents

An Analysis of Factors Responsible for the Decline of the Horse Industry

The dream of recreational horse ownership is becoming ever more imperiled by a confluence of factors that are having a devastating effect on not only individual horse owners but the entire industry.

In June of 2011, the Government Accountability Office (GAO) produced a long awaited report on the result of the closing of the US horse slaughter plants that had been requested by Congress. The report presented the following graph comparing horse prices before and after the US slaughter plants were closed.

Figure 5: Average Horse Prices Before and After Cessation of Horse Slaughter for Each Price Category, Spring 2004 through Spring 2010



Source: GAO analysis of horse auction data.

The GAO graph divides horses into categories according to their price range. It shows that prices were down across all categories by a surprisingly consistent dollar value (about $100), but that in terms of the percentage decline the low end horses were impacted by 25.4% while the price of more expensive horses had declined by only 5.8%.

The report went on to apportion causation between two factors; the economy and the close of the US slaughter plants. The report admitted that due to increased exports of slaughter horses, the total slaughter of US horses had remained almost completely unchanged after the closings. But then to the dismay of horse slaughter opponents as well as many economists, the report concluded that most of the price decline was the result of the closure of US horse slaughtering facilities.

The explanation for these findings were not to be found in the report, beyond claims that the data had been subjected to "regression analysis" and that increased hauling costs for the kill buyers had resulting in the drop in prices.

Those questioning the analysis point out that there are only two significant potential buyers for these low end horses; the slaughter buyers and recreational horse buyers. If the slaughter buyers were getting these horses at bargain prices in an auction situation, they reason, it is not because they have higher expenses, but because the recreational buyers are not bidding against them.

Those involved with horses are acutely aware that the horse market has all but collapsed in recent years. And this is not lost on the breeders. Over the same period covered in the report, registrations of all breeds were down approximately 50%, with whole broodmare herds being sent to slaughter. Was this simply a result of the recession, or were other factors at work?

In reality, while the report's analysis remains a mystery (GAO refused an EWA FOIA request to see the data and calculations), it does point out a serious situation within the horse industry. The horse industry is being clobbered by a confluence of forces, largely brought on by misguided government programs. Unfortunately the GAO completely ignored other factors that were at work during this same period.

What is killing the horse industry?

While Congress has been asking "What is killing the horse industry?" at least a large part of the answer is "You are!" Not only has the industry been impacted by the devastating economic downturn that began in 2008 as a result of deregulation of the financial sector, but it has also suffered from something that the rest of the economy has been largely spared; hyperinflation of virtually all its major costs. To a large extent, this has been brought on by government programs, subsidies and tax incentives.

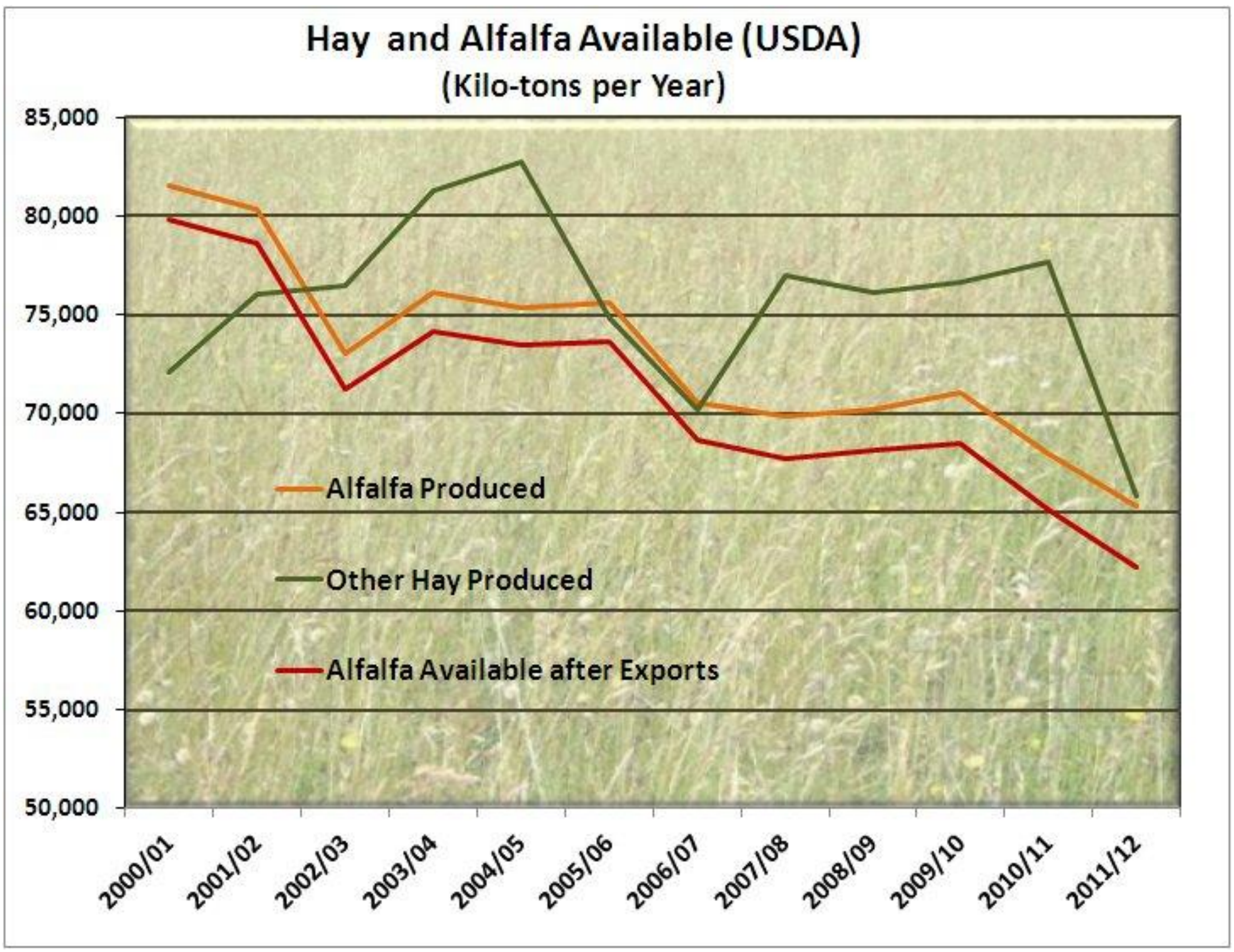
For horse owners at the recreational end of the horse world, the biggest single cost of owning a horse is feed. Remarkably, in the 68 pages of the GAO report there is no discussion of the increased cost of feed during the study period. The words alfalfa and corn do not appear at all, and hay is mentioned only once in an unrelated context.

The two major types of horse feed are grass or hay and concentrated feeds. Horse hay in most western states is synonymous with alfalfa. It is protein rich hay that is a staple in both the horse business and the dairy industry, and is fed both in its natural form and as dehydrated pellets or cubes. It is also a main ingredient in many concentrated horse feeds.

Alfalfa and Hay

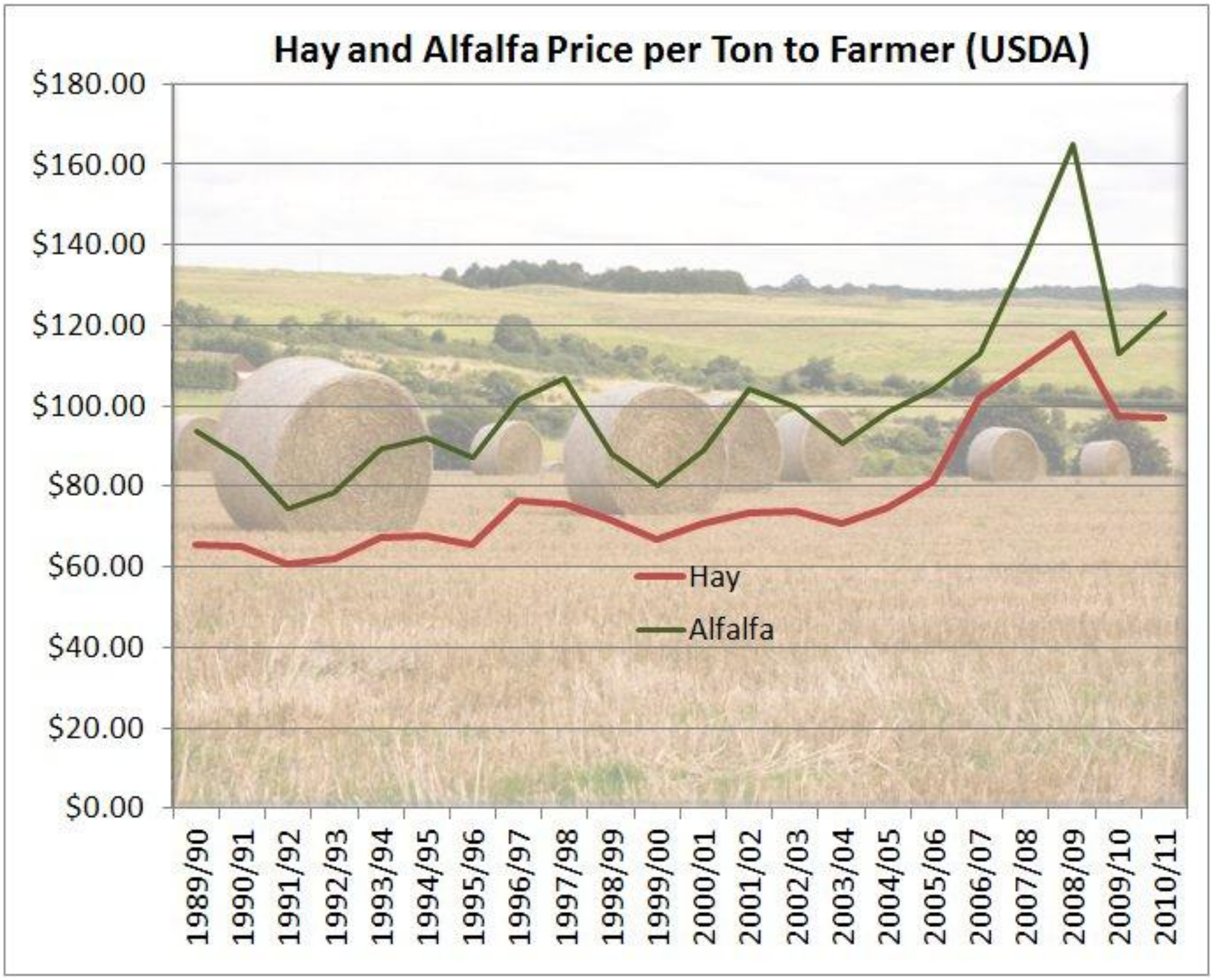
Currently, alfalfa is at the center of a growing feud over its allocation. In recent years, and largely as a result of government initiatives dating back to 2004, alfalfa exports have risen rapidly. As a staple of several industries, alfalfa is at the bottom of a value-added production chain. If fed to cows, for example, it becomes milk, and milk becomes cheese, and cheese is used in a myriad of products.

While Japan has long been the single largest importer of American alfalfa, exports to China have been rising geometrically in recent years, soaring from 2,000 metric tons in 2007 to 76,000 metric tons in 2010.



Critics of the exports complain that the entire American value-added chain is being threatened by this exportation, while those defending the new market point out that total exports are only about 4.4% of the crop. Unfortunately this is only part of the story.

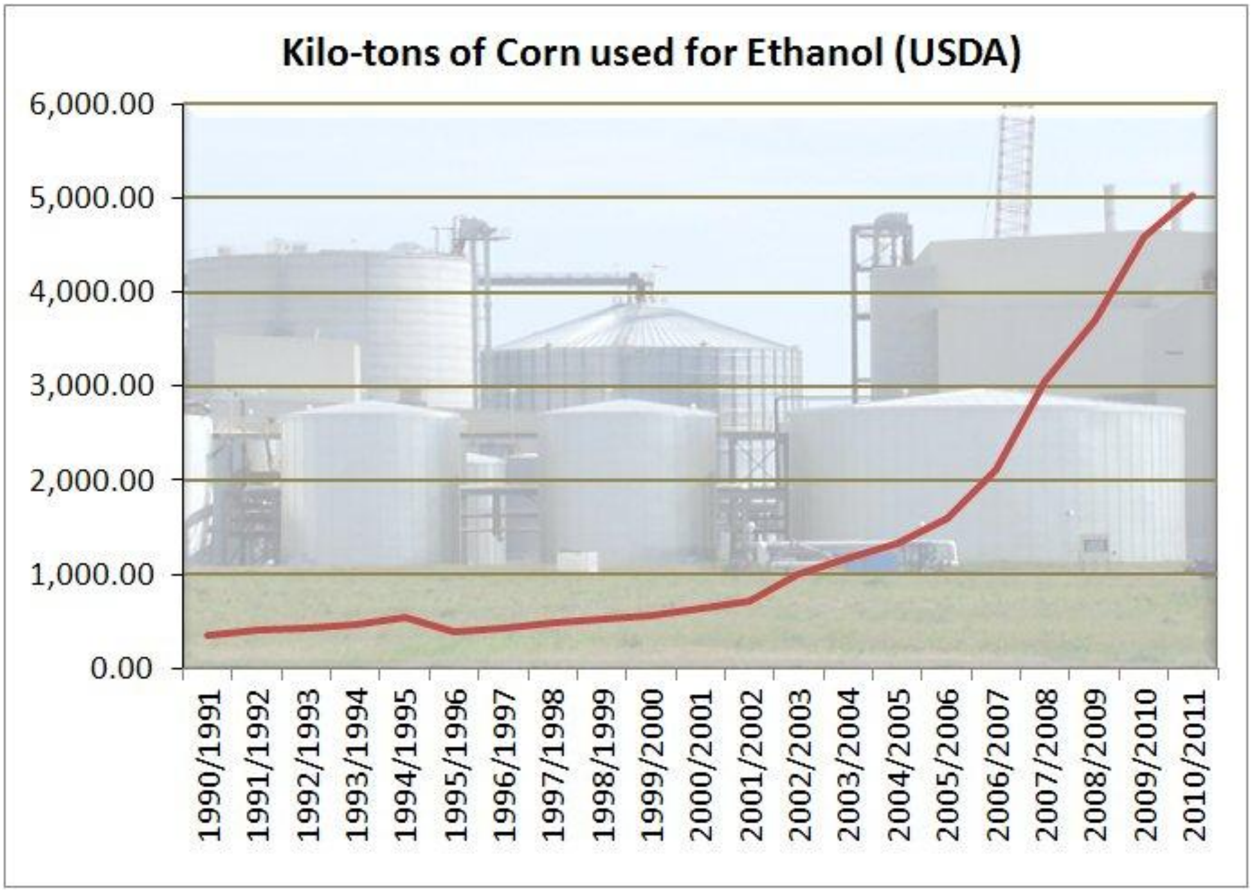
The above graph of hay and alfalfa available to US consumers clearly shows a worrisome trend. While ordinary hay production has gyrated wildly depending on weather conditions, alfalfa production has been on a steady and relentless decline. When exports of alfalfa are subtracted from the declining production, the seriousness of the reduction in alfalfa available to American consumers becomes obvious. The result has been a precipitous increase in the cost of both hay and alfalfa.



Concentrated feed

Besides alfalfa, another major ingredient in concentrated horse feed is grain, of which corn has traditionally been predominant. Almost thirty years ago the government began subsidizing the use of ethanol as a blended fuel in gasoline. The production of ethanol slowly began to consume more and more of the US corn crop. Here again the government chose to divert significant quantities of one of the pillars of the value-added chain. Besides its use in feeds, corn is converted to myriad forms and is used in everything from nachos to sweetener.

Beginning in 2005, the use of corn by ethanol producers began to grow geometrically as shown in the following graph. Again, this phenomenon coincided with the recession and the period of the GAO study.



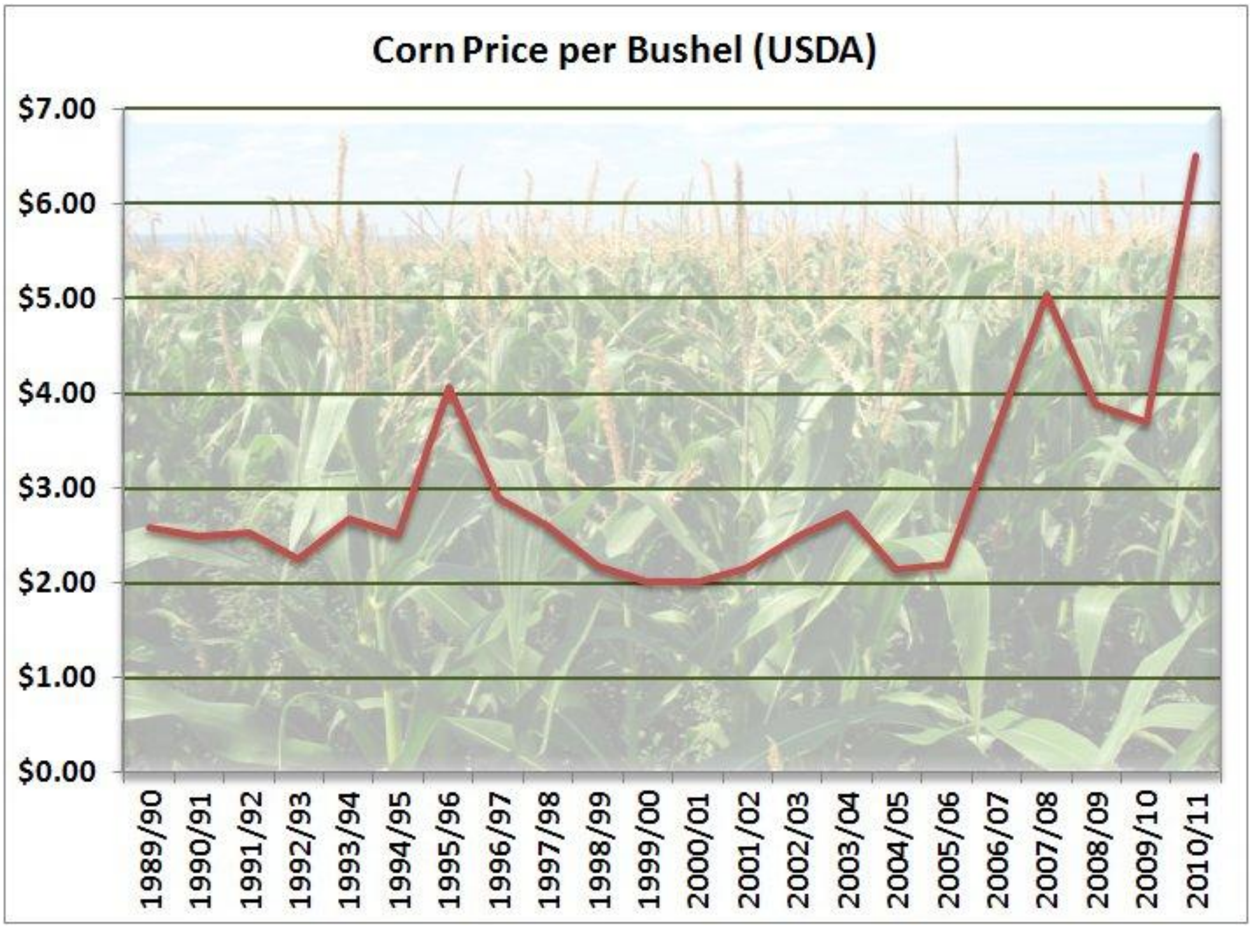
The sudden increase in ethanol production, after decades of slow growth, was due to the fact that crude oil had risen to a level that made the subsidized additive competitive with gasoline itself.

As a result of this increase in ethanol production, corn prices began to rise even more rapidly than alfalfa prices. During the past five years corn prices have increased by approximately 180%! It is no wonder that horse owners have come to fear their excursions to the feed store.

It is important to note that even feeds whose ingredients do not include corn are affected by it. As a result of the increased profitability of corn, land previously allocated to other grains began to be switched to corn production. It is even probable that this is one of the reasons for the declines in alfalfa and hay production.

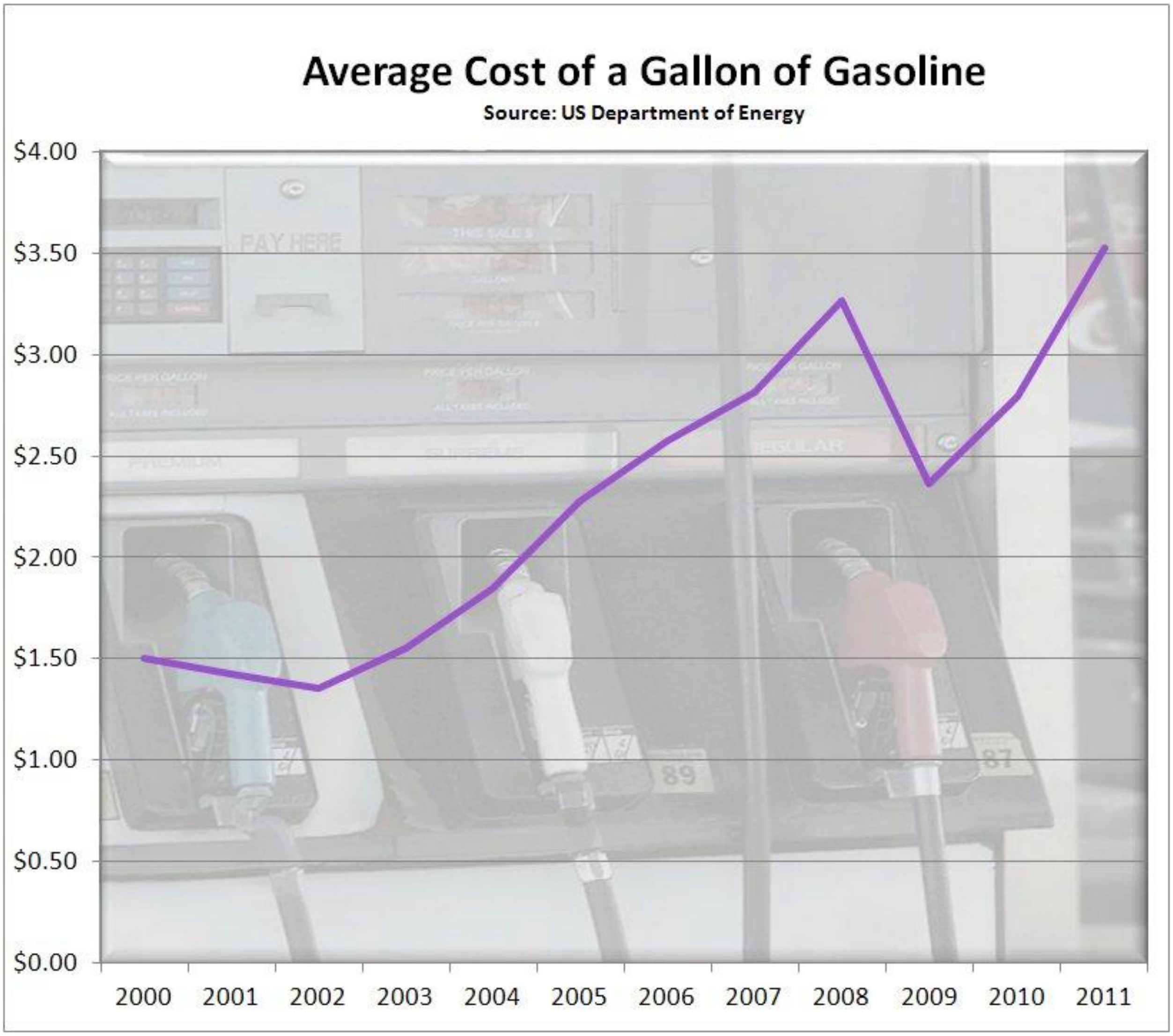
Some horse owners have compensated for these increases by buying cheaper brands of feed. Even those who have stayed with a premium brand may not have noticed subtle changes in the order of the ingredients. Many cheap, and some mid-grade horse feeds, now list peanut hulls at or near the top of their ingredient lists, while corn has slipped down the lists if it is present at all.

Apparently even the Congress could not ignore the voracious monster they had unleashed on the country's most important single food crop. In 2011, they removed the ethanol subsidy. However, with its investment in the distilling infrastructure, and the rise of crude oil prices, the ethanol industry's corn appetite is likely to remain high. Fortunately, congress took one more action that might help curb this trend in the future when it removed tariffs on sugarcane imported for ethanol production.



Fuel Costs

Another glaring omission from the GAO analysis is fuel, but gasoline and diesel costs are felt particularly keenly by horse owners who tend to own larger vehicles such as "dually" (dual rear wheel) pick-up trucks. These vehicles have poor fuel efficiency and tend to be used not only for pulling horse trailers, but for general transportation as well.

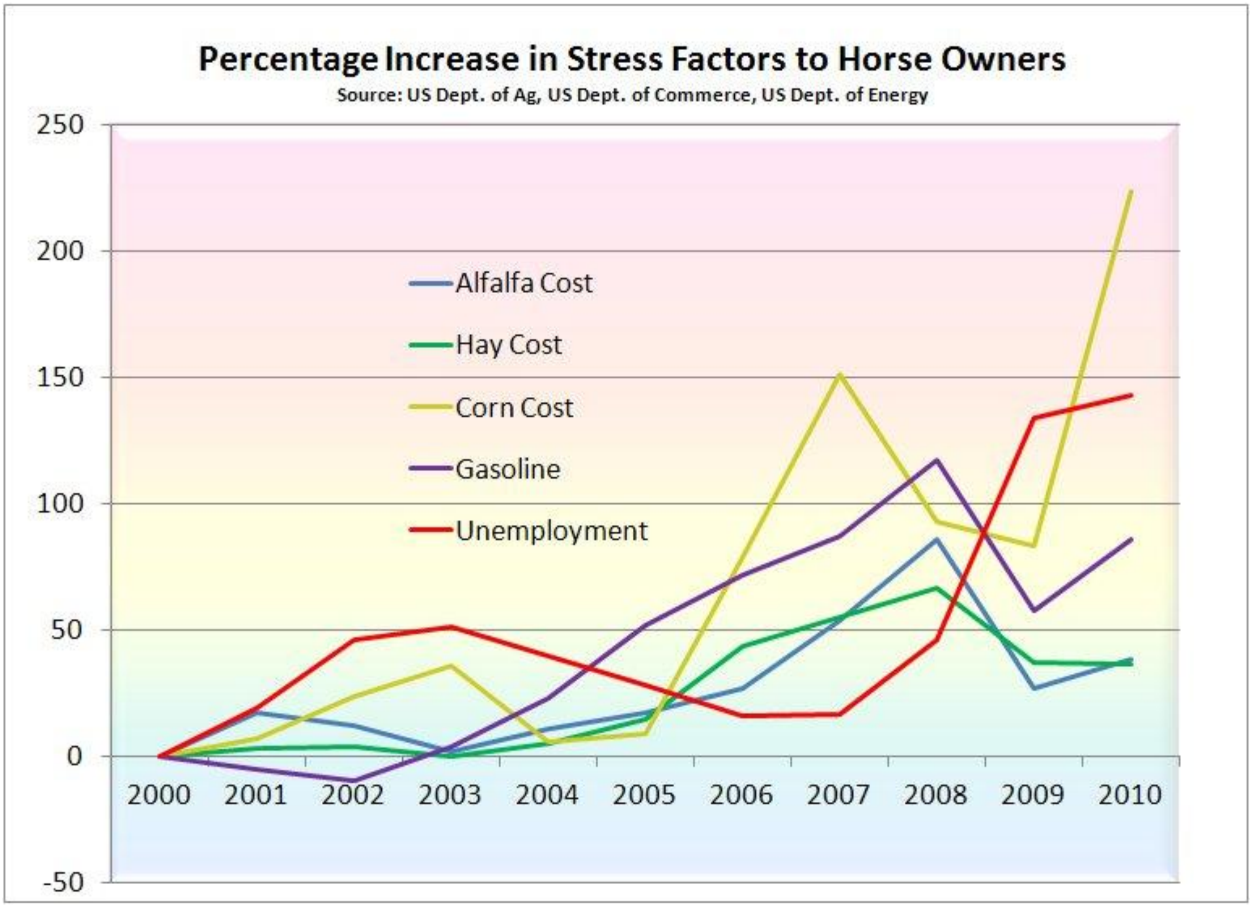


Moreover, the hay and alfalfa prices shown earlier were those received by the farmers who grew the hay, so every increase in the price of gasoline adds a surcharge that the horse owner must pay on a ton of hay.

Conclusions

The uncanny convergence of all these factors can best be appreciated if we look at each of these factors in terms of its percentage increase from the base year 2000.

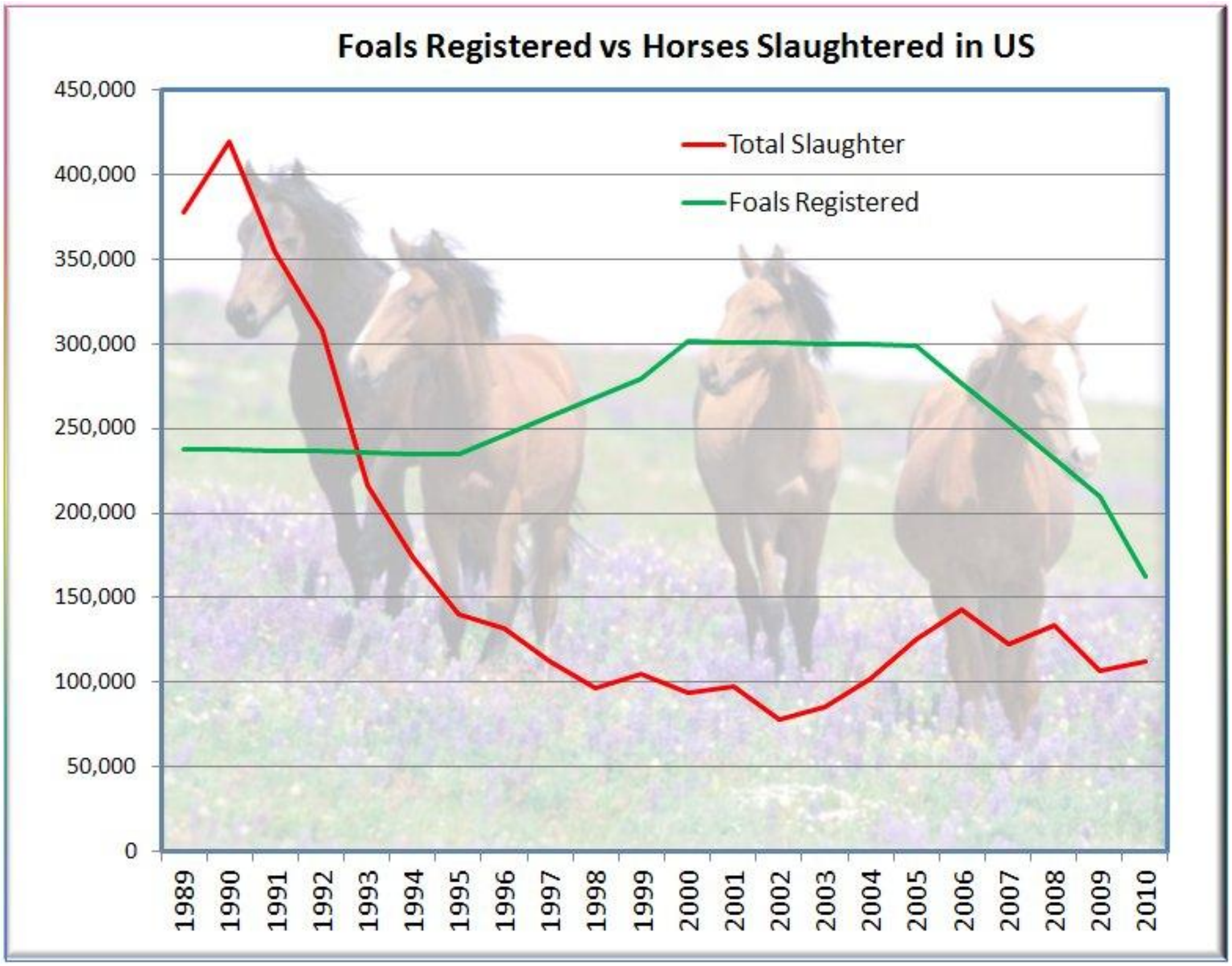
Just before the beginning of 2006 almost all of the factors (except fuel) converged at an overall increase of about 25% from the year 2000. This was the "quiet before the storm". By the time that the US slaughter plants closed in 2007, virtually all of the cost factors were starting a wild upward trajectory. In 2008, the recession kicked in and the rate of unemployment began to add to the pressures on horse owners.



It is important to notice the scale of this graph. These are not minor increases, but rather factors of as much as 230%. Worse, these factors compounded each other in ways already discussed. The result has been a dramatic downsizing by horse breeders and owners. Most tragically of all, these forces have pounded the equine rescue community which represents the last good hope for a displaced horse.

There are those who propose to "restore" the horse industry by bringing horse slaughter back to the US. Since there never was a lack of slaughter, it had nothing to do with the plight of the horse industry. Increasing slaughter is no more likely to cure the industry's ills than the medieval practice of bleeding a patient.

The only bright spot in all this is that the industry has already gone through a huge correction. New registrations are down about 50% overall.



If it is to survive, the horse industry must understand that it faces the same issues as many other animal industries. Likewise, the enormous political energy being expended by the animal agriculture industry to preserve horse slaughter based on a nebulous "slippery slope" argument is resulting in a complete misallocation of its political resources.

The same is true for some horse registries like the American Quarter Horse Association. While they have spent millions of dollars on lobbying to keep horse slaughter available in the US, their registrations and revenues have plunged even worse than those for the industry as a whole.

The problem for both animal agriculture and the horse industry comes down to the allocation of resources and this is largely influenced by government programs. If current trends continue, horse ownership will once again become what it was in the dark ages; the exclusive domain of the privileged class.