

Farmers Trapped by Debt and Unfair Contracts

Production Contracts

Consolidated ownership and lack of competition make it difficult for most farmers to get a fair price for their products. For farmers in production contracts, product price is not an issue, but unfair contract terms, unfair payments, and unequal relationships are as economically devastating.

Farmers in production contracts are paid for their services, not their product. A company maintains ownership of the product. The farmers use their own facilities and equipment to grow the crop or animal until it is ready to be picked up and processed.

When the consolidated ownership in agriculture is combined with the vertically-integrated production contracting model, farmers lose their power to negotiate fair terms.

Lessons from the Poultry Industry

The poultry industry has been fully vertically integrated and dominated by contract production for almost 40 years. As production contracting spreads to other areas of agriculture, the poultry industry serves as an example of the dangers of combined concentration and vertical integration.

Decades ago, poultry farmers could choose from a mix of contract and independent production opportunities, and there were many poultry firms competing for contracts. Companies had incentive to make contracts attractive to farmers. Most contracts were mutually beneficial agreements.

Now, more than 90 percent of poultry is grown under contract. The shrinking number of companies offering contracts in any given area has drastically reduced farmers' choices. Farmers are now faced with one-sided, abusive, take-it-or-leave-it contracts.

A typical poultry farmer takes out a bank loan for \$1 million or more to invest in specialized poultry houses and machinery. This debt is financed over a decade or more. The farmer's house and land are collateral for the loan.

The contract, however, may be good only for the life of one flock – four to six weeks. Farmers must accept any new contract that the company presents, even if the terms are unfavorable. The alternative is termination, bankruptcy, and the loss of their farm and their home. Unfair and abusive contract terms are now commonplace in the industry.

Poultry farmers are basically serfs with a mortgage.

-Kay Doby, former president,
North Carolina Contract
Poultry Growers Association



Poultry Contract Basics

- One company owns the chickens at all stages of production, from chicks to drumsticks.
- The company contracts with the farmer to grow them.
- Farmers own the land and invest more than \$1 million in barns and equipment.
- Contracts are often 6 weeks or less.
- Farmers have little choice but to accept abusive and unfair contract terms.

Unfair Practices in the Poultry Industry

Unfair Mandatory Upgrades

Most poultry companies urge growers to build at least four poultry houses. These houses are built to the companies' specifications and cost about \$300,000 each. After farmers build the houses and sign contracts, the companies often require them to add expensive upgrades to the buildings or equipment. These added costs deepen farmers' debt, often without bringing in any additional income.

Farmers have lost their contracts with little or no warning when they refused to pay for upgrades.

Anticompetitive Practices Disguised as Competition

Contract poultry farmers are paid based on a ranking system. Farmers who produce a higher ratio of poultry weight to feed weight make more. The difference in payment between those ranked at the top and those at the bottom can be tens of thousands of dollars.

Many of the determining factors in the final weight of the chickens are out of the farmers' control. The companies provide the farmers with chicks and feed, and decide when to pick up the chickens and when to weigh them. This means that a farmer may get paid less because the company provided him with sick chicks or picked the chickens up on at a less than optimal age.

This opaque payment system has given growers the widespread perception that they are vulnerable to having their payments reduced in retaliation if they challenge the terms of their contracts or organize with other growers.

A Chance for Reform

The United States Department of Agriculture and the Department of Justice hearings on competition and concentration in agriculture are an unprecedented and historic opportunity.

Several of the abuses in the contract poultry industry, including unfair mandatory upgrades and the opaque ranking system of payment, can be remedied by amending USDA regulations under the Packers and Stockyard Act.

These hearings are a chance for the federal government to lay the groundwork to remedy current abuses, to establish policies and market structures that prevent these abuses from spreading, and to work towards the open, fair marketplace that American farmers and consumers deserve.

Get Involved

Stand with farmers who are fighting for fair contracts. For action alerts and more information, contact the Rural Advancement Foundation International-USA's Contract Agriculture Reform Program.

www.rafiusa.org, (919) 542-1396 x209.