



## Some You Lose

### *Raising poultry for the big boys can quite suddenly turn into a losing proposition*

By Monte Mitchell

JOURNAL REPORTER

Sunday, June 20, 2004



The Tyson Processing Plant located in Wilkesboro, North Carolina (Photo by Megan Morr).

## BOONVILLE

Lee Mounce loved tending his chickens.

It was relaxing, collecting their eggs and listening to them cluck. When he got off his third-shift job at R.J. Reynolds Tobacco Co., he would drink a cup of coffee, eat a bowl of cereal and tend his chickens. He retired early to spend more time with them and saw chicken farming as a way to keep making money. He knew many other folks in Yadkin County who raised chickens under contracts with big poultry companies.

Jimmy Johnson loved his chickens, too. He grew up on a dairy farm in Chatham County and got a degree in beef and dairy management from N.C. State University. It didn't seem like much of a stretch to start up a chicken operation on his own 59-acre farm off U.S. 64.

Chicken farming seemed like a sure-fire source of income.

It didn't turn out that way, though. Both men found themselves buried under a mountain of debt, caused in part by a series of company-mandated upgrades to their chicken houses. They also stared into the uncertainty of the industry's contract system. Perdue Farms cut Mounce's 12-month contract in 2001. Johnson was convinced that his short-term contract with Mountaire Farms of North Carolina would soon be cut.

Both men had accumulated about \$300,000 in past-due loans with no guarantee of income.

When the bank foreclosed on his chicken-house loans, Mounce, 60, paid with his farm and the house he had already paid off. Johnson paid with his life. Despondent over his situation, he turned a shotgun on himself inside one of his chicken houses in October 2002. He was 48.

"We thought the world of Jimmy," said Jim Shepard, the live-operations manager for the local Mountaire complex. "No one was pulling for him more than this company."

Family members say that both men fell victim to a system of industrialized agriculture that leaves farmers with short, tenuous contracts hammered out with one of a handful of large, highly competitive corporations.

When chicken farming went to a company-owned contract system in the 1950s, there were more than 1,000 companies competing to offer contracts to chicken farmers. Today there are fewer than 50, with just a few carrying the most clout.

A 1999 survey of 1,000 chicken farmers by Purdue University showed that half of them had a total farm debt of more than \$100,000. The 1999 study also showed that while 75 percent of the farmers thought that they had made a good decision to go into the business, 95 percent said that costs had risen faster than expected and just 35 percent would recommend chicken farming to others.

Still, some farmers swear by chicken farming. They say that raising broilers - the chickens that end up in the freezer at your grocery - or raising chickens for eggs are an excellent supplement to other farm income derived through row crops, dairy cattle or beef cattle.

Lee Mounce learned a lesson about contract farming that he won't soon forget.

"Anybody that will go into the chicken business, spend \$200,000 per house, and most people will build two houses and knowing before you start you only get 12-month contracts, they're crazy," Mounce said. "But you don't think about it. I mean, it's something you don't think about, but it's foolish."

### Getting started

Wilkes County is the state's biggest producer of broilers and the county's largest employer is Tyson Foods Inc., which has three chicken-processing plants at its Wilkesboro complex.

Tyson does not own the more than 990 chicken houses in the area. The farmers do. At an average cost of \$150,000 per broiler house - not including land - farmers have invested about \$148.5 million, mostly in Wilkes County.

Companies benefit from the capital outlay by farmers and from having farmers dispose of manure, but they say that the arrangement also benefits farmers because they are guaranteed a payment regardless of what happens to the market. The

company absorbs the risk, allowing the farmers a steady income and the ability to stay on the farm.

Lee Mounce was a chicken farmer for 22 years and hoped to pass the farm on to his son, Craig.

Craig Mounce, 36, thought he was getting the opportunity of a lifetime in 1987 when he built a 400-foot chicken house beside his father's two houses. He dreamed of independence and a chance to own his own business.

But he found out what chicken farmers in North Carolina and across the country have learned.

There is little protection for the chicken farmer. The companies own the chickens, control what kind of birds the farmers get, control the feed, control the pay system and can cancel a contract at almost any time.

The farmers take out the loans to build the houses they own, but the companies often ask for expensive improvements such as new fans, scale systems, egg-collector conveyors, lights and other equipment.

The Mounces say they poured nearly \$1 million into their houses over the years, counting construction loans, interest payment and improvements. They said that a week before Perdue told them that their contracts wouldn't be renewed they had borrowed money to install new fans at the company's request.

Their total debt for the three chicken houses stood at \$270,000 then and interest drove it to about \$305,000 before the auction.

"An empty chicken house ain't worth the tin on the roof," said Craig Mounce, who is grateful that his own home wasn't attached as collateral for the chicken houses.

Because the Mounces are egg farmers, their chicken houses are more expensive and the contracts are longer (12 months) than those for broiler houses. Those contracts are typically flock-to-flock, from six to eight weeks.

It's difficult to say exactly how much a farmer can expect from a typical poultry house, because there are so many variables. But enterprise budgets developed at N.C. State show an annual profit of \$6,331 per broiler house and \$10,583 per egg house, based on certain underlying assumptions.

Part of the farm equation

Kirk Mathis, a third-generation poultry farmer, has often heard the stories of how poultry transformed Wilkes County, creating jobs from fields once covered in broomstraw. Farmers realized that chicken manure made an excellent fertilizer, and chickens blended well with other operations.

The small farms eventually banded together to develop Holly Farms.

Lumber, nails and other materials for those chicken houses were bought at area hardware stores, helping drive the success of the developing Lowe's chain. Holly Farms was purchased by Tyson in 1989. Poultry operations have touched most longtime Wilkes County families in some way.

"It's been a benefit overall, looking at everything," said Mathis, whose farm has a capacity for 150,000 broilers that he raises for Tyson. "It's created jobs and it's widespread."

Tyson has contributed so much to the local economy that chicken farmers think it would be a disaster for the company to leave the area. The company has also given generously to the community. Tyson's name is on the nursery at the county's YMCA and on the main stage at MerleFest. The story of the poultry industry in Wilkes will be told in a room sponsored by Tyson in the developing Wilkes County Heritage Museum.

It was warm in one of Mathis' chicken houses one recent afternoon, with thousands of young chickens kept at a temperature of about 85 degrees. The light was dim. A bank of computerized equipment monitored and controlled the environment.

The chickens must be kept warm in the winter and cool in the summer.

If the temperature spikes in July or August, the flock can be wiped out in 15 minutes, effectively cooked. Mathis is installing cool-cell equipment in the chicken house as part of a total climate control. The cool-cell equipment, about \$30,000 per broiler house, is the latest innovation. It draws air through a wet membrane and cools it by evaporation.

The environment of the chicken house will be so tightly controlled and monitored that he wonders what other improvements could be possible.

Mathis - a member of the N.C. Department of Agriculture's policy board - shares many farmers' concerns about making a living in the chicken business, given tight profit margins and rising costs. He said that chicken houses function best as part of a larger farm operation.

"You can have a failure in the poultry business, but it's hard to have a failure like you have in the crop system," he said.

Four companies - Tyson, Pilgrim's Pride, Gold Kist Inc. and Perdue Farms Inc. - control half of a broiler industry that was estimated in a 2002 census of agriculture to account for \$44 billion.

North Carolina was ranked fifth in the nation that year, producing 735 million of the U.S. total of 8.6 billion broilers.

The companies operate hatcheries, feedmills and processing plants. Because it's not practical to transport broiler chickens for long distances, farmers typically deal with either one or two nearby companies.

The poultry business is vertically integrated, meaning that almost all the production is controlled by a company. The integrator - Tyson, Perdue or the other companies - signs the contract and provides the hatchlings, feed and medicine.

Broiler farmers get paid through a tournament system that uses feed conversion and other factors to rank them. The idea is to grow the biggest chicken in the least time for the least amount of feed.

The ranking system means that half or more of growers will get below-average pay, even if they are good farmers. They are paid pennies for every pound of chicken delivered to a processing center.

Mark Jenner, a private consultant and a former economist with the American Farm Bureau Federation, said that while production contracts are great tools, they have been misused in the poultry industry.

"The problem is they (the growers) have too many demands on their resources, and there's nobody's looking out for them," he said. "There are growers who have no idea of what's going on before they get into it. The more in debt a grower is, the more difficult it is to keep up with demands."

Profit margins are thin for the companies, too. The same factors that hurt the farmer, such as high fuel prices or export bans on chicken, hurt the poultry companies.

"It backs up," Jenner said, and the person in the weakest position along the supply chain is the chicken farmer. Integrators may look at the farmer as a cost to control.

Robert Taylor, a professor of agriculture at Auburn University, said that the lack of clout hurts chicken farmers, who essentially work as low-paid employees who take on great financial risk.

"To some, having a contract means you're taking away risk," he said. "I tell them contracting shifts risks. In this case, there is a risk they could be instantly bankrupt."

Depreciation of the chicken houses is a silent killer that steals profits, Taylor said. The empty, broken-down and rusty-roofed chicken houses scattered through areas like Wilkes County have little hope of being restored to compete with new houses with tight seams, tunnel ventilation and other means of creating a comfortable, controlled environment for the chicken.

"This is not like investing in land or in a residence, and I think some producers are initially deceived into thinking they can build up equity and this will be their retirement," he said. "They get trapped and there's no way out."

Like Jenner, he believes that many chicken farmers don't know what they're getting into.

"At best, they're getting minimum wage and no return on investment," he said.

Rankings

Mounce and Johnson got trapped in that cycle. Both farmers also got caught up in the competitive ranking system, finding their farms on a bottom tier.

Though the companies that they dealt with - Perdue for Mounce and Mountaire for Johnson - give different accounts of how the farms wound up in trouble, both operations fell victim to the rankings.

Tita Cherrier, a spokeswoman for Perdue, said that the Mounces' contract was linked to plant closings. A processing plant in Robersonville and a deboning plant in Emporia, Va. closed last year and the company cut contracts with 80 farmers in North Carolina and 15 in Virginia.

"If we're short two plants, obviously we need less growers," Cherrier said.

But the ranking system also dictated how farmers were treated. Growers who are cut because of closings are eligible for severance packages; growers cut because of poor performance are not.

"It certainly doesn't mean they weren't good growers," she said, but others were ranked better.

Johnson started with two chicken houses and a contract with Piedmont Poultry in 1987. He built another in 1988 and two more in 1990. In 1996, Mountaire Farms, with headquarters in Delaware, bought Piedmont and renamed it Mountaire Farms of North Carolina.

Johnson and his wife, Seralyn Johnson, refinanced their operation and made improvements. Money was tight also because of something that had nothing to do with chickens, Seralyn Johnson said. In a dispute over the will after both his parents had died, Jimmy Johnson wound up having to buy the dairy farm from his sisters.

Then the chicken company wanted the couple to retrofit the chicken houses with tunnel ventilation, Seralyn Johnson said. They had done that with the first two houses, but had lost a flock when it didn't work properly and had it taken it out.

Over the years, they had put in new feeders, new water systems, new heaters and new curtains, then more fans, gas meters and a computer to monitor the curtains, fans and cool cells. "Whatever they asked us to do," she said.

She said that in October 2002 her husband told her that a company official had asked him for more upgrades. The Johnsons applied for a \$50,000 loan from Carolina Farm Credit and lost a flock of 18,000 chickens the following Sunday, she said.

That Tuesday, Seralyn Johnson said, the same company official told her husband that he could only have three more flocks - less than a six-month contract.

Shepard, a manager at Mountaire, said that the company never required the Johnsons to make improvements. He said that the company never cut Johnson's contract, didn't threaten to do so and didn't put him on probation, a step toward cutting the contract.

But Johnson had been one of Mountaire's last or next-to-last ranked of 350 growers for two years, Shepard said.

"We never said 'Jimmy, you have to spend money.' We said 'Jimmy, you have to be performing; you can't be on the bottom anymore,'" Shepard said.

There are required upgrades in every business, he said, and if 90 percent of the company's grower houses have tunnel ventilation and produce good chickens, no poultry company can continue to place birds in a situation that doesn't have good management.

Nearly \$300,000 in debt and convinced that he was facing the end of his contract to grow broiler chickens, Jimmy Johnson walked into an empty chicken house on Oct. 27, 2002, and committed suicide.

"He was devastated we were going to have to change our way of life because this was all he knew," said Sheralyn Johnson.

The Johnsons' five chicken houses sit empty now. House #4, where Johnson died on the dirt floor, can be seen from the back of the family's two-story farmhouse.

Rolls of hay fill one side of the 400-yard length of the chicken house, and the other side is empty. The side curtains snap in the wind. The open front doors look out on rolling pastures and a field bright with yellow flowers.

The chicken houses are paid for now. Though life insurance sometimes won't pay in cases involving suicide, Johnson's policy did, allowing his family to pay off the chicken-house loans.

"He was worth more dead than alive, and he knew that," Sheralyn Johnson said. "It's like he was giving it to me."

- *Monte Mitchell can be reached in Wilkesboro at (336) 667-5691 or at [mmitchell@wsjournal.com](mailto:mmitchell@wsjournal.com)*

- *Monday: Efforts to change the farming contract system have not fared well. Some farmers say that it doesn't need to be overhauled.*

**This story can be found at:**

[http://www.journalnow.com/servlet/Satellite?pagename=WSJ%2FMGArticle%2FWSJ\\_BasicArticle&c=MGArticle&cid=1031776150093&path=&s=](http://www.journalnow.com/servlet/Satellite?pagename=WSJ%2FMGArticle%2FWSJ_BasicArticle&c=MGArticle&cid=1031776150093&path=&s=)

[Go Back](#)