VIEWERS GUIDE

Under Contract
Farmers and the fine print

rafi USA

UNDER CONTRACT

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A NOTE FROM RAFI AND THE FILMMAKERS.

RAFI began working with contract farmers in 1983, when Mary Clouse, a contract poultry grower, walked through our doors trying to make sense of what was happening to her farm. She was one of the first contract farmers to speak up about abuses in the industry, and one of the first to have her contract terminated. Mary's story, and the stories of the other farmers she connected us to, demonstrated industry trends that we thought were alarming and new: companies shifting risk onto farmers through contract clauses, farmers taking on increasing debt with little or no return on investment, farmers becoming trapped in a cycle that for many ended in bankruptcy. But after nearly three decades of fighting back against these trends, what's really alarming to us is that we're still fighting against the same issues today, and these same trends are spreading to other sectors of agriculture.

Over the years we have worked with thousands of farmers from across the southeast. We have heard their stories and helped them where we could to work through difficult experiences and financial crises. In all of this, we have learned that contract farmers are often afraid to speak out. Often their homes and farms and everything they own are literally wrapped up in the debt they took out to get their contract. Many are afraid that if they speak out or defend other farmers, they will lose that contract and thus lose everything. We do most of our work confidentially as a result.

The fear of retaliation has prevented farmers from being able to stand together and drives divisions between farmers in the community. Hard working farmers who struggle or go out of business are dismissed as "bad farmers," invalidating honest complaints about problems in the industry. This insult is often the most painful part of the loss for farm families, as farmers who had received top production honors just a few weeks before are dismissed as irresponsible and incompetent.

We decided to make this documentary film to give voice to the courageous farmers who are willing to say how the deck is stacked against them. In isolation, it is very hard for one farmer to stand up to an industry alone. The public and consumers very rarely hear about the farmers' experience in their own words, and the voice of the industry dominates. We hope that this film can help change that. We want farmers to be able to hear the experiences of other farmers before they decide to sign a contract. We want current contract farmers to hear others telling their stories so they know they're not alone in facing similar challenges. And we want the public, policy makers, and the industry representatives to listen to their stories, and work with farmers to make positive change in this industry and throughout agriculture.

Sincerely,

RAFI staff and the Under Contract Filmmakers

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WHY DO CONTRACTS MATTER NOW?

Contracts themselves are nothing new to farming. They're an important aspect of almost any business agreement. A fair contract can bring clarity to a business partnership, and stability for farmers. But unfair contracts, or contracts that do not leave room for farmers to negotiate for their own interests, can actually increase risks for farmers.

Today contracts are becoming more complex and extensive, and more widespread throughout agriculture. A particular type of contract, called a production contract, is one of the most commonly used agreements in livestock and poultry sectors. Production contracts indicate an agreement where the contractor (generally a company or processor) owns the animals throughout the whole chain of production, but contracts the job of raising them out to an independent farmer.[1] This represents a shift away from a more traditional livestock market, where independent farmers raised and owned their animals and sold them to a company or at an auction. Production contracts have come to dominate livestock production—almost 97 percent of the chicken we eat in the U.S. is raised on a farm under a production contract.[2]

The prevalence of production contracts is having a significant impact on the role of farmers in livestock production, and is possibly setting a precedent for this transition to happen throughout all of agriculture.

1 O'Donoghue, Erik. James M. MacDonald, Utpal Vasavada and Patrick Sullivan. (2011) Changing Farming Practices Accompany Major Shifts in Farm Structure. Amber Waves. December 1. http://bit.ly/2fS7BQU

2 MacDonald, James. (2014). Technology, Organization, and Financial Performance in U.S. Broiler Production. Economic Information Bulletin No. (EIB-126). 53pp, June. http://bit.ly/2ghOj8b

The reason this transition in the role of the farmer raises concerns is that researchers have found that chicken production contracts can actually create new risks for farmers.[3] A concentration of corporate ownership has put the vast majority of the market in livestock production into the hands of a few companies.[4] The result of concentration in the industry is that farmers have fewer and fewer options to turn to for contracts. As corporate concentration reduces competition in the industry, independent farmers have less leverage for negotiation with the remaining integrators. Studies have shown that farmers in uncompetitive buyer markets make less money than in competitive markets.[5]

Now is the time to take a hard look the true costs and benefits of these agricultural production models, and question the way we raise our food in this country. Farmers are the backbone of our society and the drivers of our rural economies. In order to ensure thriving rural communities, we need to defend farmers' ability to run viable independent farm businesses. Meeting this goal will require establishing a baseline for fair contracts in agricultural production.

3 MacDonald, James. (2014). Financial Risks and Incomes in Contract Broiler Production. Amber Waves. August, 04. http://bit.ly/2gmE4gi/

4 Taylor, Robert and David Domina. (2010). Restoring Economic Health to Contract Poultry Production. May 13. http://bit.ly/2g4vrGB

5 MacDonald, James and Nigel Key. (2012) Market Power in Poultry Production Contracting? Evidence from a Farm Survey. Journal of Agricultural and Applied Economics. 44,4 November. 477-490. http://bit.ly/2gBSRXr

HOW TO VIEW *UNDER CONTRACT* OR HOST A SCREENING

Under Contract: Farmers and the Fine Print will be available online from February 1, 2017. Free copies of the film will be made available to farmers in other formats as well. For more information on viewing and downloading the film please visit our website: rafiusa.org/undercontractfilm

RAFI would be happy to support farmers who are interested in hosting screenings in their communities. These can be formal or informal, small or large. If you are interested in organizing a screening or obtaining a hard copy **Under Contract: Farmers and the Fine Print**, please contact Jean Willoughby at jean@rafiusa.org or call 919-542-1396.

About RAFI-USA:

The Rural Advancement Foundation International-USA's mission is to cultivate markets, policies, and communities that sustain thriving, socially just, and environmentally sound family farms. RAFI works nationally and internationally, focusing on North Carolina and the southeastern United States. RAFI is a 501(c)(3) nonprofit organization based in Pittsboro, North Carolina and incorporated in 1990.

Our Vision:

- Family farmers have the power to earn a fair and dependable income.
- Everyone who labors in agriculture is respected, protected, and valued by society.
- Air, water, and soil are preserved for future generations.
- The land yields healthy and abundant food and fiber that is accessible to all members of society.
- The full diversity of seeds and breeds, the building blocks of agriculture, are reinvigorated and publicly protected.

For more about RAFI and our work, please visit our website: www.rafiusa.org

"If I'd known 14 years ago what I know today, there's no way I'd have bought a poultry farm."

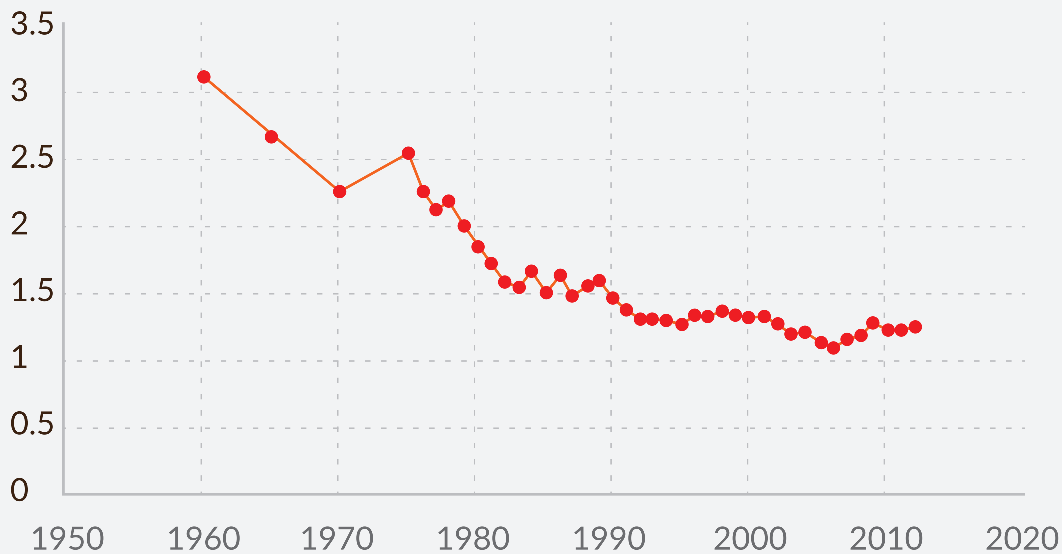
–*Mike Weaver, Chicken farmer, WV*

THE ISSUES

The poultry industry has changed dramatically in the last 60 years. Chickens used to be a common sight on farms, but to raise them for sale wasn't cheap. For much of U.S. history, chicken was a special-occasion meat, reserved for a Sunday night family dinner.

That began to change in the 1940s,[6] when the formerly independent parts of the supply chain—hatcheries, feed mill, slaughter and processing facilities—began to be bought up and integrated into single companies, known as integrators. Owning all aspects of production allowed the integrators to control price and quality from chick genetics through drumstick packaging, and the economies of scale achieved by the integrators have driven the consumer price of chicken down dramatically. Americans eat over three times more chicken than we did in the 1960s,[7] and chicken's share of the market has exploded in relation to that of beef and pork.[8]

RETAIL PRICE ADJUSTED FOR INFLATION ($/LB)

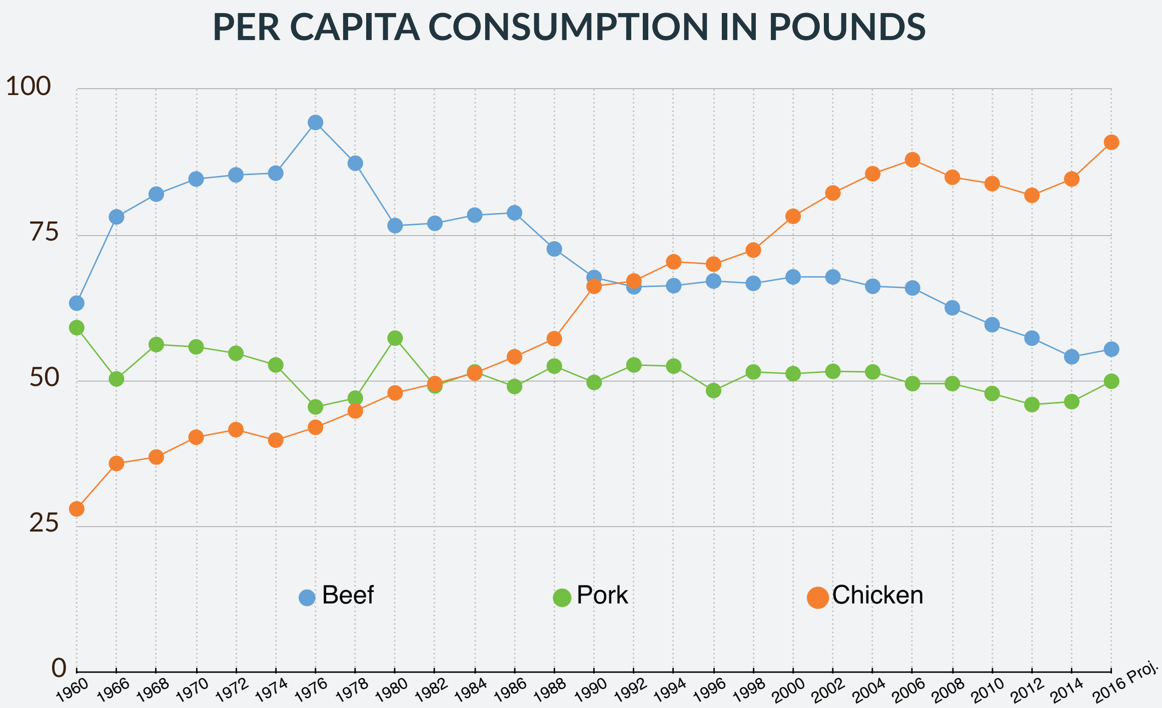


Source: National Chicken Council http://bit.ly/2fGkn23

6 National Chicken Council website, Vertical Integration. http://bit.ly/2fGhI8y

7 National Chicken Council website, Per Capita Consumption of Poultry and Livestock, 1965 to Estimated 2016, in Pounds. http://bit.ly/TpTD9w Per capita consumption, total chicken 1960: 28.0 lbs; 2015: 90.0lb

8 National Chicken Council website, Wholesale and Retail Prices for Chicken, Beef and Pork. http://bit.ly/2fGkn23 1960: Beef .82/lb; pork .55/lb; chicken .42; 2015: 6.28/lb, pork 3.85/lb, chicken 1.48/lb



Source: National Chicken Council http://bit.ly/TpTD9w

Big Chicken

As the chicken industry has expanded, smaller firms have been forced out of business or bought up, concentrating more and more chickens—and the profits from selling them—in fewer and fewer hands. In 1950, 580 million chickens were raised on 1.6 million farms, for an average of 363 birds per farm. In 2007, nearly nine billion birds were produced on just 27,000 farms—nearly 330,000 birds per farm. [9]

Further, in terms of economic power, the top four U.S. poultry processing companies increased their market share from 17 percent in 1977 to 57 percent in 2012.[10] In 2014, Tyson, the top poultry integrator, had earnings from its chicken business of $11 billion; Pilgrim's Pride brought in $8.4 billion,[11] and Perdue, $6.3 billion.[12]

The growth of the chicken industry has been very good for the integrators, who own almost all parts of the supply chain. There is one piece of the chain they have chosen not to own, however: raising the chickens. And from the perspective of the chicken farmer, the business looks very different.

9 PEW Environment Group. (2011). Big Chicken: Pollution and Industrial Poultry Production in America. http://bit.ly/2ggAoLU

10 Nelson, Willie and Marcy Kaptur. (2015). US Poultry farmers' rights are under siege. The Washington Post. July 7. http://wapo.st/2fGniYc

11 Jones, Adam. (2014). Vertical Integration Keeps Tyson Foods on top of Chicken Market. Market Realist. Tyson, Pilgrim's Pride: http://bit.ly/2fSdnlr

12 Forbes Magazine, America's Largest Private Companies. http://www.forbes.com/companies/perdue/

Under Contract

According to Christopher Leonard, author of “The Meat Racket,” a history of the Tyson Foods and the modern chicken industry,

“While most businesses are drawn steadily into the integrator’s body, the force of gravity has been reversed when it comes to the farms. The farms are dumped from the balance sheet. … The reason for this is simple. During the 1960s, Tyson Foods realized that chicken farming was a losing game. When Tyson executives examined operations at the company, they saw that farming was the least profitable, and most risky, side of the business. When they looked to invest in the future, they decided not to invest in farms.”[13]

Instead, Tyson and other integrators contract with family farmers to grow the birds on their farms. The integrators retain ownership of the chickens, while the farmers own the farms and must make significant investments in infrastructure to raise the birds. Or, as comedian John Oliver put it in his 2015 segment on contract chicken farming on *Last Week Tonight*,[14] “You [the farmer] own the property and the equipment, we [the company] own the chickens. That essentially means you own everything that costs money and we own everything that makes money.”

As of 2012, according to the USDA Census of Agriculture, nearly 97 percent of chickens produced in the U.S. were raised under production contracts, which set terms for how the chickens are raised, the responsibilities of the farmer and the company, and how the farmer is paid. In theory, contracts can benefit both parties, but in some cases, particularly in the poultry sector, the structure of the industry allows the integrators to set contract terms that take advantage of farmers and taxpayers while externalizing costs and risk.

BROILER REMOVALS IN 2011, 17 MAJOR STATES, BY TYPE OF OPERATION

	Observations	Farms	Broilers Removed
Production contract	1,419	15,516	7,822,856,880
Processor-owned	4	206	185,331,592
Independent	6	100	18,266,677
Refused	7	129	34,102,086
Total	1,436	15,951	8,060,557,235

Notes: The table reports the number of sample observations in each category, and the number of broiler farms that are represented by those observations. Sample mean values of removals were imputed for 11 operations that did not report values. The row labeled “refused” covers survey respondents who did not provide a response for operation type.

Source: USDA Agricultural Resource Management Survey, 2011, version 4.

Numerous studies[15] reveal that as many as half to three-quarters of contract chicken growers

13 Leonard, Christopher. (2014) The Meat Racket: The Secret Takeover of America’s Food Business. Simon & Schuster. p. 22. http://bit.ly/2gC22ac

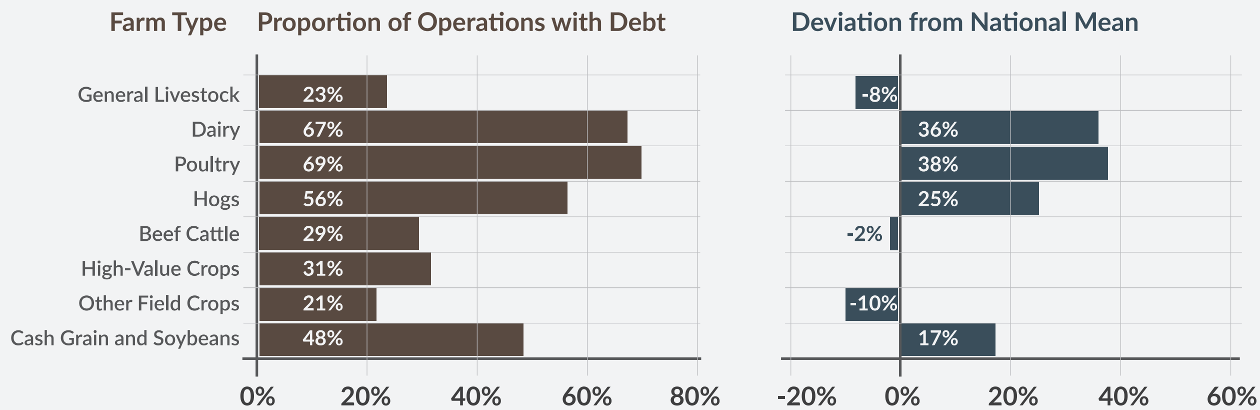
14 https://www.youtube.com/watch?v=X9wHzt6gBgI

15 http://rafiusa.org/blog/john-oliver-viewers-guide/

live below the poverty line. After years of covering the poultry industry and interviewing farmers, in the film Christopher Leonard describes the typical poultry farmer as “someone who owes $500,000 to $2 million on their farm, and lives flock to flock or paycheck to paycheck. The people who rely entirely on this business for their income are living if not on the poverty line, certainly on the edge of bankruptcy and paycheck to paycheck.”

Many growers are trapped in a crippling cycle of debt that can only end in bankruptcy. In 2011, contract growers’ total debt amounted to $5.2 billion.[16] Two-thirds of contract growers have significant debt.

USE OF FARM BUSINESS DEBT IN 2007, BY FARM TYPOLOGY



Source: Agricultural Resource Management Survey, USDA, National Agricultural Statistics Service and Economic Research Service.

Source: USDA- ERS https://naldc.nal.usda.gov/download/41242/PDF

False Promises

How does this happen? Why would so many business-savvy farmers sign up for a future of debt? In short: false promises. Company literature and representatives paint a picture of a steady return on investment and hard work. They talk about consistent paychecks, a rapid paydown of loans for infrastructure investments, and a steady income. Verbal promises and success stories convince many farmers to put their homes and farms on the line to secure loans to construct chicken houses. Once the farmer signs the contract, however, he often finds a completely different reality. As he describes in the film, Clarence Leverette was promised $16-21,000 for every flock of chickens. But as he quickly discovered, after the first few flocks, his pay began to drop—in his case, down to $12,000 within a year. Farmer Mike Weaver expresses some surprise that there are still people building new chicken houses in his region of West Virginia. But then he reconsiders, saying, “But, like I said: [the companies] lie to them so much.”

In 2010 comments to the Department of Justice (DOJ) and USDA about corporate consolidation in the industry, George Perkison, an Arkansas grower for nearly 17 years, wrote, “I got into the chicken growing business because I was looking for something that would be a good retirement investment.” It was far from it. “Instead,” he continued, “I’ve had

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16 MacDonald, James. (2014). Technology, Organization, and Financial Performance in U.S. Broiler Production. Economic Information Bulletin No. (EIB-126). 53pp, June. http://bit.ly/2ghOj8b

to sell everything I own so that I stay out of debt." Melda Perkison wrote about discouraging a neighbor from signing up. "They paint this rosy picture of how you'll be able to pay off your houses," she said. "[A]nd it's not true."[17] At a hearing on the impacts of corporate concentration in agriculture held by the DOJ and USDA, a National Chicken Council representative, after hearing hours of farmer testimony, asked one farmer: "Knowing what you know, why would you get into a business you feel is not a very good business?" The question moved Eric Hedrick, featured in the film, to rise in defense of his fellow farmer, echoing Mike Weaver's assessment: "I bought the largest poultry farm in West Virginia five years ago," he said. "And I can tell you the reason she got into it is: the company lied."[18]

While some farmers do okay in the business, many struggle to keep up with their payments and hold on to their assets. Industry representatives maintain that the difference between success and failure is all about hard work and good farm management. But farmers who take out loans to start a chicken contract enter into a very risky business situation, where their success is largely out of their hands.

Only One Buyer

Once a new grower begins to find that their reality with their company is quite different than the promise, they are essentially trapped, by their debt burden and the lack of other options of where to go. The high level of concentration in the chicken industry, with the top four firms controlling almost 60 percent of the national market, is even more pronounced at the local level, where there is often only one chicken processor for growers to sell to.[19] In 2011, 21.7 percent of growers reported that there was only a single integrator in their area that they could contract with. Another 30.2 percent reported only two integrators.[20] That means that over half of contact poultry growers have only two integrators in their area to choose from. This lack of a competitive market has a significant effect on farmers' income. Another study found that contract growers in market areas with a single integrator had eight percent lower pay than growers in markets with four or more integrators, and growers in market areas with two or three integrators were paid a small but still recognizable four percent less than in competitive areas with four or more.[21] Even in areas with more than one facility, there are many reports of growers who have left one integrator being blacklisted, so another company will refuse to sign them up. This leaves growers who are unhappy with their contracts trapped with no other option.

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17 Melda Perkison, comment submitted to GIPSA 2010. http://bit.ly/2fsdzaB

18 http://bit.ly/2fGq9k0

19 Nelson, Willie and Marcy Kaptur. (2015). US Poultry farmers' rights are under siege. The Washington Post. July 7. http://wapo.st/2ggIzYx

20 MacDonald, James and Nigel Key. (2012) Market Power in Poultry Production Contracting? Evidence from a Farm Survey. Journal of Agricultural and Applied Economics. 44,4 November. 477-490. http://bit.ly/2gBSRXr

21 Ibid.

Debt Burden

The primary factor trapping growers, however, is debt. It is common for farmers to go into debt to run their farms—they get loans to buy seeds or equipment in the spring, expecting to pay them back at the end of the season when they sell their product. But chicken farmers have to get 15- or 20-year loans just to get into the business.

The returns promised by company literature are so large in part because start-up costs for a chicken operation are significant. New growers are required, at their own expense, to build new houses to the company's specifications. A basic four-house chicken operation costs an average of $1 million to build from scratch, not including the cost of the land.[22]

Most farmers must take out a bank loan for the start-up costs; because it is such a large loan, they often put everything they have on the line—literally betting their farm (and home and land) on this new investment. As Eric Hedrick says in the film, "When we build these chicken houses, we take everything we have—or ever will have—and put it on the dotted line." At that point, the only way to recoup their investment is to make their chicken operation profitable. The grower is now completely, sometimes desperately, invested in the deal, while the company, as Hedrick continues, "has no risk whatsoever."

22 Cunningham, D. and B. Fairchild. (2012) Extension Broiler Production Systems in Georgia Costs and Returns Analysis. University of Georgia Cooperative.

Taxpayers on the Hook

While this debt and the company's resulting leverage can become problematic for the farmer, federal farm programs are also involved,[23] which means that taxpayers also stand to bear a share of the costs. About 90 percent of contract growers' debt is financed by commercial banks and the Farm Credit System. However, USDA's Farm Service Agency (FSA), known as the farm lender of last resort, plays a significant role.

From 2009 to 2013, chicken growers obtained an average of $210 million annually in Farm Service Agency (FSA) guaranteed loans, amounting to 8.1 percent of the FSA's total agricultural guaranteed loans.[24] The guaranteed loan program gives lenders a federal guarantee on up to 95 percent of the capital and interest of eligible agricultural loans, encouraging them to provide credit to farmers or operations that might not normally be considered credit-worthy. The program is an important way for lenders to serve populations who may otherwise not be able to access credit, such as beginning and socially disadvantaged farmers, but its aims are distorted when used to finance contract poultry operations. In these cases, the mismatch between the huge debt burden growers take on and the lack of contract security granted by the integrators creates a high-risk situation—but the risk is disguised by FSA guarantees that make the loans safe for banks.

Easy access to large credit lines allows chicken growers to get into the business quickly, but it may actually work against them in the long run. If the bank knows it will recover its money from the FSA even if the farm goes under, it is more likely to give a $1 million loan to a new grower. The banks' willingness to give risky loans gives the companies leverage for years; because they can easily recruit and sign on new growers who can still access large loans, they have less incentive to keep working with existing growers who are unable or unwilling to make upgrades to their equipment, and the company can cut off their contract with no consequences. Farmers driven out of business or into bankruptcy normally would pose a risk to the bank, but if the loan is guaranteed they do not—because if their farm and home don't cover their debt, the federal government will. Neither the bank nor the integrator end up on the hook for risky loans and debt—only the farmer does.

23 http://rafiusa.org/blog/john-oliver-viewers-guide/

24 MacDonald, James. (2014). Technology, Organization, and Financial Performance in U.S. Broiler Production. Economic Information Bulletin No. (EIB-126). 53pp, June. http://bit.ly/2ghOj8b

Short-term Contracts to Pay Down Long-term Debt

The primary problem with the large loans farmers take on is in the disparity between the commitment made by the farmers and the actual commitments offered by the industry. Growers take on a million dollars or more in debt, but integrators generally offer only short-term contracts, essentially only guaranteeing delivery of the first flock of birds. Once they have signed the contract, many growers do not have the option to walk away without facing bankruptcy and losing their personal assets.

A 2016 study conducted for the National Chicken Council,[25] an industry group, acknowledges the common use of short-term contracts: 42 percent of contracts offered by the companies surveyed were very short-term, flock-to-flock agreements. Only 31 percent of contracts were for more than five years. The study further admits that even multi-year contracts lack enforceability for farmers, stating, "In reality, a multi-year contract offers little additional assurance over a flock-to-flock contract." The study justifies the statement by saying that the "flexibility" of short-term contracts allows farmers to move to a different company if they prefer, and allows both parties the opportunity to "agree that the arrangement is beneficial" if the contract is to continue.

In reality, farmers rarely experience this kind of choice because of the lack of other buyers, and are held to the arrangement by their debt. Integrators, on the other hand, benefit from the low-commitment contract terms, which give them the ability to adjust production levels at the expense of farmers, or give contracts to newer farms, cutting off older farms who are unable to update their technology.

With fixed monthly expenses and payments on a bank loan, growers who do not get enough birds because of short-term contracts risk a significant drop in income, and can quickly get behind on bills and begin to spiral into bankruptcy.[26] Farmers' perspective on contracts reflects this reality. Many contract growers expressed the contract bind in comments to the Department of Justice in support of a proposed 2010 rule that would have leveled the playing field between chicken growers and companies.

"They will not pay you enough to pay your bills and raise their chickens."

Eric Hedrick, Chicken farmer, WV

25 Elam, Thomas. (2016). Live Chicken Production Trends. Produced by FarmEcon LLC for National Chicken Council. http://bit.ly/1RVm0TZ

26 MacDonald, James. (2014). Financial Risks and Incomes in Contract Broiler Production. Amber Waves. August, 04. http://bit.ly/2fsizMf

- "They give you a contract that is 100 percent written by them and their lawyer. If you disagree with anything in it, your only option is not to sign it. If you don't sign it you won't get birds. And you have to get birds in order to make your payments and live." Charles Jernigan, AL[27]
- "If you're $300,000 in debt, you've got to have birds to pay for it." -Johnny Lofton, AR[28]
- "They hand you a pen and tell you to sign it or you don't get chickens." -Jackie Helms, AR[29]
- "If I got cut off tomorrow, I'd have to foreclose on my house and sell off everything I've got to feed myself and my family. There is no security there; it's not fair at all." - Pete Jackson, AL[30]
- "They come out and they have you sign it and ask us if we want chickens or not. If we do, we have to sign the contract as is and have no options. The contract itself is a bullying device." -Bud Phillips, AR[31]

Additionally, there is a tremendous amount of secrecy around the contracts. Growers report being made to sign the document without fully reading it, while the company representative is standing in front of them waiting for their signature. Virginia grower Terry Foltz[32] writes, "One time they even called us up to the main office six or seven growers at a time and had us sign our contracts and wouldn't let any of us to take it home or even have a copy of it until after they were signed. No one got a copy of their contracts until every grower in the company had signed."

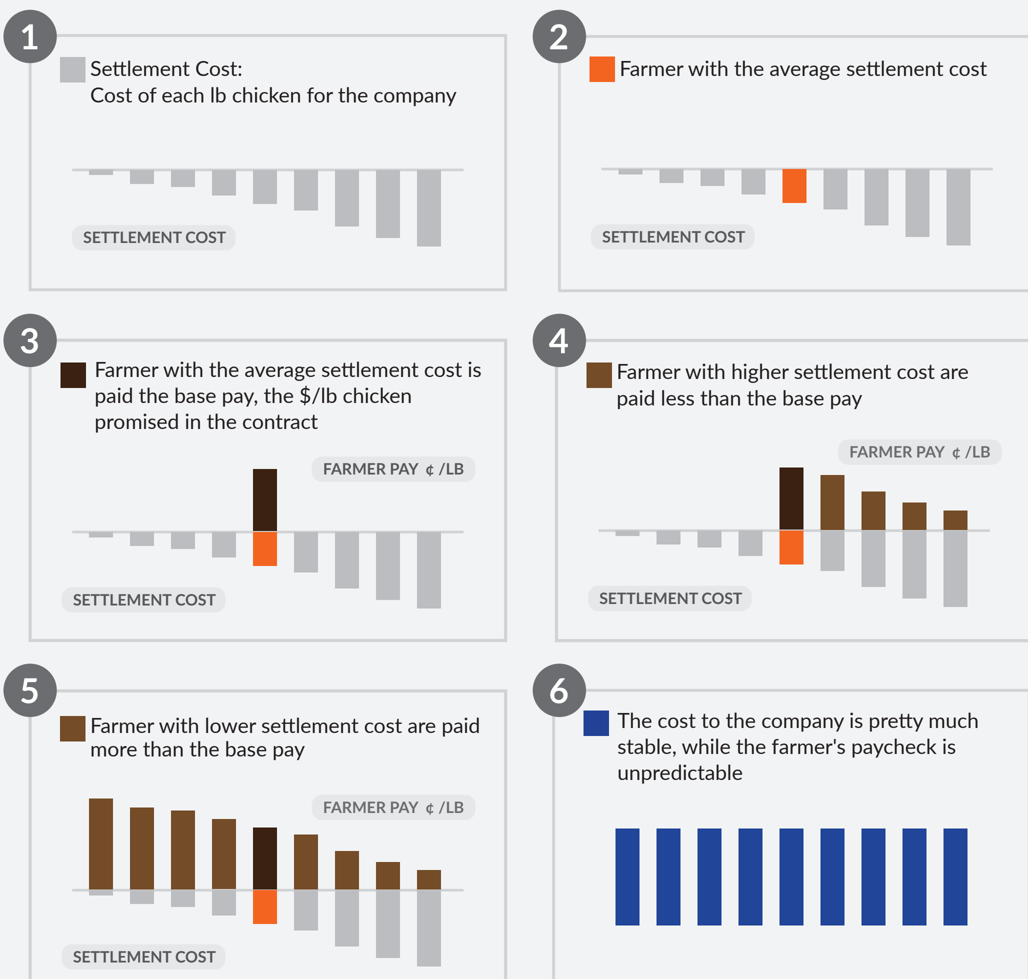
27 Charles Jernigan, Comment submitted to GIPSA 2010. http://bit.ly/2fSaXDr
28 Johnny Lofton, Comment submitted to GIPSA 2010. http://bit.ly/2fGm8Mm
29 Jackie H elms, Comment submitted to GIPSA, 2010. http://bit.ly/2f7Bi19
30 Pete Jackson, Comment submitted to GIPSA, 2010. http://bit.ly/2fSi9j2
31 Bud Phillips, Comments submitted to GIPSA, 2010. http://bit.ly/2ggH9NU
32 Terry Foltz, Comment submitted to GIPSA, 2010. http://bit.ly/2g4FSKp

The Tournament: Neighbor Against Neighbor

To make matters worse, growers cannot predict how much their next paycheck will be. Chicken farmers are paid through a mechanism informally called the "tournament," in which they compete against each other to produce the most chicken at the lowest cost to the company. Tournament payment is sold to farmers and the public as a healthy and fair competition that rewards hard work. Most farmers like the idea of competition; it is a normal element of running a farm. The tournament, however, is not a fair competition, and again it is the integrator that reaps the benefits—the system controls company costs, while making the farmer's paychecks wildly erratic.

It works like this: growers in the same area who receive deliveries of chicks in the same week are part of a *settlement* group. The company picks up the chickens after five or six weeks and weighs them to determine each grower's *feed* conversion—that is, how efficiently the birds converted feed into weight, or in layman's terms, fattened up. The feed conversion is factored into complicated and opaque calculations based on the company's cost of the chicks, feed, and medications to determine each grower's *settlement* cost, or how much it cost the company for that grower to produce a pound of chicken.

FARMER PAY IN THE TOURNAMENT SYSTEM



Sources: http://bit.ly/2g4vrGB

The growers in each settlement group are ranked against each other, and the company calculates the average of their settlement costs. The grower producing at the average level receives the base pay, which is the price per pound of chicken promised in the contract. Growers with higher settlement costs, who used company inputs less efficiently to produce the same amount of chicken, for any reason at all, are paid less than base pay, while growers with lower settlement costs are paid more. The difference can be dramatic: one study shows a price of 4.32 cents per pound paid to growers at the bottom of the settlement group, which was just 62 percent of the 7.02 cents per pound paid to those at the top. [33]

The tournament is not a fair and honest competition because farmers do not have control over the inputs they are judged on using, including feed, medication, and the chickens themselves. Under the system, farmers are not really even allowed to be farmers. Companies tell them that tournament is a measure of their performance, but they are not able to use their knowledge, experience, and creativity; instead, they essentially compete blindfolded. Every aspect of the birds' care is regulated by the integrator, who also carefully controls all inputs. Differences in the age, sex, or health of the birds, variability of feed or medication, and timing of deliveries and pick-ups[34] can all have significant bearing on chicken growth rates. The company controls these factors but does not share any information, so the grower does not know what he is working with.

The system is demoralizing. Alabama grower Bud Phillips says, "Although competition is necessary and helpful, we need to have control over our variables. I've been at the bottom of the ranking and at the top but I do the same thing each time. I have no control over the quality of the feed and chicks I get although I upgrade and run my business efficiently. I have no control over these variables."[35] Farmers who want more information about their inputs are out of luck: they are explicitly prohibited from measures such as installing scales on their feed bins to confirm how much feed the company delivers, for example.[36] They just have to trust the numbers the company gives them.

Although growers may be working with very different variables in each flock, they are graded against each other. One grower may have received an all-female flock and be in a settlement group with growers of all-male flocks, which grow more quickly. Growers who were delivered a sick flock, a poorly-mixed feed ration, or not enough feed will be judged on the same scale as growers with more standard inputs. "It is not a competition," says Craig Watts, in the film. "It's a rigged lottery. It's based on what you get, when you get it, and then how you manage it."

The companies say that chicks and feed are distributed randomly, but as agricultural economist Robert Taylor says in the film, "As far as I know, no statistician has ever done a test on that—it's an unproven assertion." Instead, many farmers believe their companies have sent them poor quality inputs due to discrimination, favoritism, or

33 MacDonald, James. (2014). Technology, Organization, and Financial Performance in U.S. Broiler Production. Economic Information Bulletin No. (EIB-126). 53pp, June. http://bit.ly/2ghOj8b

34 Does Flock Performance Rank = Grower Performance Rank? Mark Jenner, Economist, April 22, 2002 http://bit.ly/2axfGZY

35 Bud Phillips, Comments submitted to GIPSA, 2010. http://bit.ly/2ggH9NU

36 Lee, Sally. (2015) Under Contract: Comparative and Relative Risk in Livestock Production Contracts. Masters' thesis. Humboldt University. p. 128

retaliation. Farmers interviewed by *Under Contract* filmmaker Sally Lee for earlier research experienced subtle retaliatory responses to actions their integrators did not like. One had multiple instances of miscalculated feed and sick chickens once he became president of his farmers' association and attempted to file a complaint with the federal government.[37] Arkansas grower Gary Matlock relays his story: "Once, I did not do exactly what a field technician told me what I had to do; it wasn't anything major, I had to make a small adjustment to my ventilation system and so we had an argument. Since we argued, he said he was going to shut me down. I was always at the top ten and then I went to the bottom flocks, but I can't prove that was retaliation." After Craig Watts spoke to the media about animal welfare concerns, he was immediately placed on a performance review program, despite having been a top performer, and had more than 20 unannounced inspection visits, at all hours of the day and night.[38]

Finally, the tournament system is just one of the tools the companies use to pit neighbors against each other. Growers are not able to see the names of the neighbors they are competing against in their settlement checks, only where they themselves fall in the rankings, breeding speculation and suspicion in the community. A North Carolina grower who tried approach his integrator with a group of farmers about a problem of inadequate feed was directly told by the manager that the company "will not answer any questions fielded in a group setting."[39] In comments to the DOJ and USDA about competition, Alabama grower Tom Greene summed it up: "The ranking system destroys the whole farming community because the integrators penalize growers for talking to their neighbors. The companies set up all types of parameters and ban us from getting together socially. They have rules in place that keep them from having to meet with more than one grower at a time. In other words, they keep us pregnant, in the kitchen and barefoot."[40]

37 Lee, Masters' thesis. p. 80

38 Brennan, Alice. (2015). Whistle-blowing chicken farmer sues Perdue for alleged retaliation. Fusion. http://fus.in/1At5B3K

39 Lee, Masters' thesis. p 138

40 Tom Greene, Comment submitted to GIPSA, 2010. http://bit.ly/2f7zy81

Fear of Retaliation

The culture of intimidation and retaliation in the contract poultry industry has become common knowledge. Because growers are sunk so deeply in debt, many of them are afraid to risk rocking the boat, whether by raising issues with the company, speaking out about unfair treatment to press or government officials, or attempting to organize with other growers.[41] Many of them have seen neighbors who have done so have their contracts cut short or suddenly drop to the bottom of the rankings. In a 1998 survey of growers by the University of Delaware, nearly 60 percent of the respondents agreed with the statement, "my company will retaliate if I raise concerns."[42]

In 2010, the U.S. Department of Justice and USDA held a series of hearings on the impacts of corporate concentration in agriculture. The hearing on the poultry industry, in Huntsville, Alabama, was sparsely attended. Hilde Steffe, a longtime farmer advocate at Farm Aid, attended the hearing. She wrote afterward: "I heard dozens of stories of growers who in just the past week had been bullied by service techs and other processor reps into not showing up to the hearing. One farmer, who I spent much of the prior night with going over his comments, found me on Friday to say he wasn't up to it. He spotted an industry lawyer in the room, and that was enough to keep him quiet."[43] At the hearing, Christine Varney, the Assistant Attorney General for the Antitrust Division, gave her direct number to a chicken grower, to be used in the case of retaliation. Steffe writes, "The gesture inspired a riotous applause, but ... I don't think it offered enough confidence for many nervous onlookers to take the stand."

Under Contract filmmaker Sally Lee experienced this first-hand in the process of research on the industry for her Masters' thesis. She contacted 36 farmers to ask them to be part of her study, but only 12 were willing to be interviewed, even anonymously. One farmer who had agreed to participate dropped out when he learned that his integrator had threatened not to pick up his livestock if he went through with the interview.[44] In a similar case, Alabama grower Tom Greene says, "my birds were suspended because I would not sign a mandatory arbitration clause." Greene eventually lost his farm as a result.

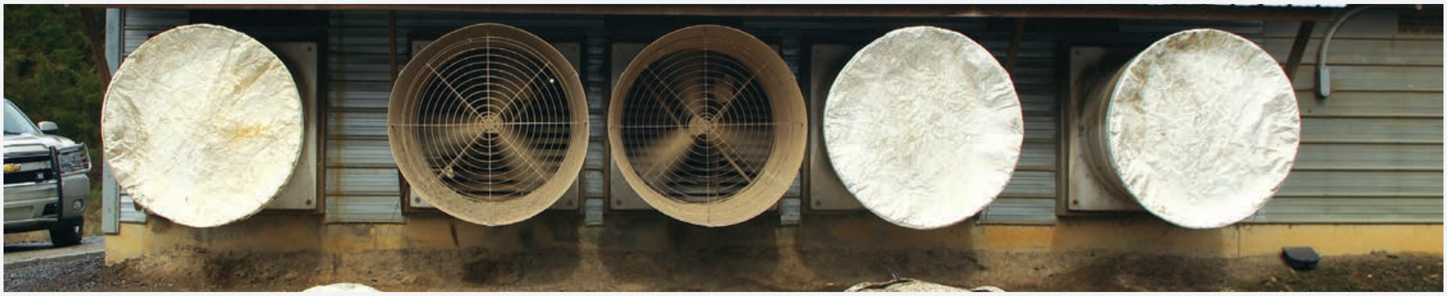
Many growers writing to the DOJ and USDA about poultry industry competition did not sign their names, remaining anonymous for fear of retaliation. One of these, from Arkansas, put it this way: "You do not argue with the company. You sign the contracts and go on. You just don't badmouth Tyson because they can take it out on you any way they want to."

41 Comments submitted to GIPSA, 2010

42 Ilvento, Tom and Angela Watson. (1998). Poultry Growers Speak Out. Department of Food and Resource Economics, University of Delaware. http://bit.ly/2g4CRd0

43 Farm Aid, blog May 25, 2010. Report back from Huntsville. http://bit.ly/2g4F0W4

44 Lee, Masters' thesis. p. 50



Mandatory Upgrades

Finally, there is one clause in the contract that can make it almost impossible for chicken growers to ever get out of debt: "additional upgrades may be required by the company." Integrators require regular expensive upgrades to chicken houses and equipment, all at the growers' expense. A 2011 study of USDA data found that half of contract growers had made an additional capital investment in their facilities in the three years prior, and that nearly a third had been required to do so by their integrator. Although many of these upgrades were for under $10,000, the average expenditure was substantial—and was larger when it was an upgrade mandated by the integrator.[45] Companies incentivize some upgrades with pay bonuses, but for major upgrades, the grower must refinance his debt or get an additional loan, which often brings them right back to the beginning of the debt cycle. Pay bonuses do not offset significant new debt.

Many growers believe that after building their houses to company specifications, if the company decides it wants an upgrade, it should pay, not the grower. This is especially true in cases where upgrades only benefit the company's bottom line. Randy James, third-generation Arkansas farmer, tells of being forced to add new heaters to his houses because chickens eat more in cooler temperatures. The upgrade saved the company money in feed by shifting the cost to James, both in paying for the heaters and in increased energy costs.[46]

For some growers, required upgrades are the final straw that makes them decide to leave the business. But the companies have such control over the market in many regions that the grower must make the upgrades even if they plan to sell, because the integrator will not offer a contract to the new farm owner otherwise—which will make it nearly impossible to sell the operation. Herb Murphy of West Virginia was just one of many growers to write a comment to the DOJ and USDA about this matter, saying, "We can't even sell it unless the people who buy it agree to upgrade the houses. They'll have to spend another $100,000 on top of what I'm asking for it in order to get a contract from Pilgrim."[47]

45 MacDonald, James. (2014). Technology, Organization, and Financial Performance in U.S. Broiler Production. Economic Information Bulletin No. (EIB-126). 53pp, June. http://bit.ly/2ghOj8b

46 Farm Aid, blog May 18, 2015. Life Under Contract: Poultry Farming in Arkansas. http://bit.ly/1To0rOS

47 Herb Murphy, Comment submitted to GIPSA, 2010. http://bit.ly/2f7EMke

Environmental Liability

Despite the fact that the companies own the chickens and feed, the birds' manure is the growers' responsibility. Chicken manure is especially high in phosphorus, a valuable fertilizer. Many farmers with diversified farm operations are able to use it to fertilize their crops; other farmers sell it for added income.[48] However, in many regions, the scale at which chicken litter is produced is far more than crops can absorb. Groundwater, lakes and streams, and water bodies like the Chesapeake Bay have become dangerously polluted with phosphorous-rich runoff from chicken manure.

Standard chicken contracts have shifted responsibility for environmental liability to the grower; in the case of litter, this includes the requirement to establish a Nutrient Management Plan approved by local authorities, specifying how much litter they are allowed to spread on their land. According to filmmaker Sally Lee's research, recent contracts have also added specific language about environmental responsibility in the indemnity clauses, such as, "grower agrees to indemnify, defend and hold the company and its officers… harmless against… matters including but not necessarily limited to… emission complaints, disposal complaints, or pollution complaints."[49]

Former Perdue grower Carole Morrison questions the arrangement. "If the company owns the animal, why are they not responsible for their waste?," she asks. "I've never understood that. I have horses; I have a dog that's outside; I'm responsible for their mess. Now, chickens are owned by these companies like Perdue and Tyson. How is it they're not responsible for it? The only time they're going to take responsibility is when it's worth something. Right now, it is not an asset; it's a liability. As soon as it turns into money, these companies are going to say, 'That manure's mine,' and take it from the farmer.'"[50]

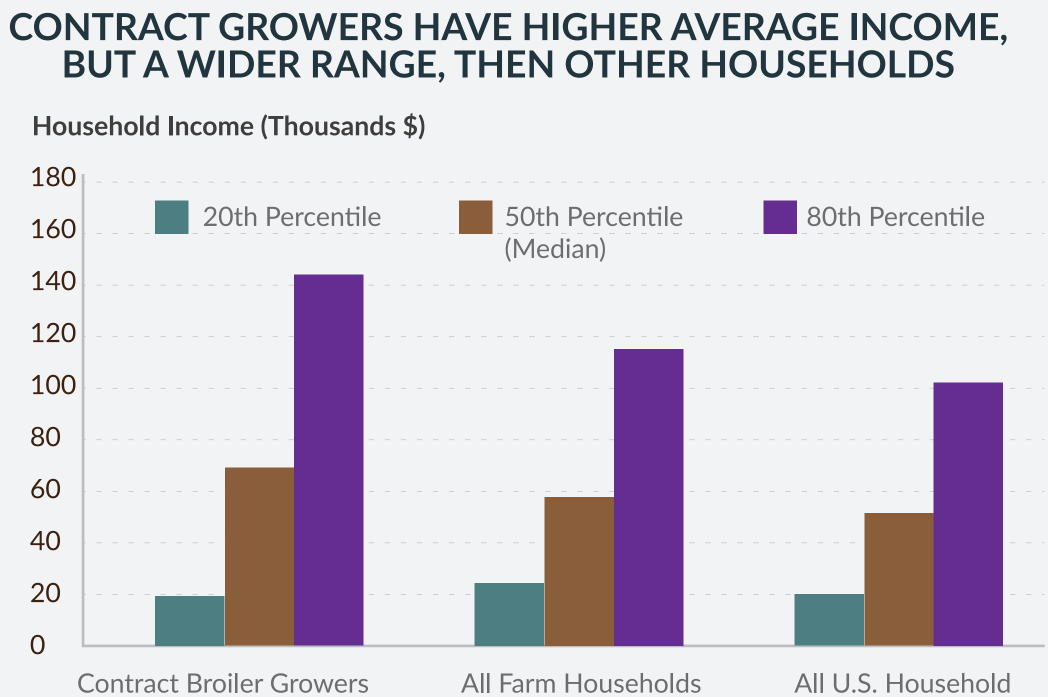
48 Lee, Masters' thesis. p. 76

49 Ibid. p 77

50 Frontline. (2009). Who is responsible for that manure? http://to.pbs.org/2ghZgql

Life Under Contract in the US

As should be clear, the reality of life under contract can turn out to be a different picture than the rosy reality of company brochures. While some farmers do okay, others struggle to make ends meet, and as described in the previous sections - their success may be out of their hands. Looking at average chicken farm income actually demonstrates the variability in pay that results from this system. According to USDA data, households with chicken farms have a wider range of income than overall US households. The data can be difficult to assess, because looking at household income includes not only what the family made from their chicken contract, but all forms of income – including other farm operations and off farm income of different family members. While the top 20 percent of households that have chicken farms recorded on average income of around $143,000, the bottom 20 percent had an income of only around $18,000.



Sources: USDA Agriculture Resource Management Survey, 2011; U.S. Census Bureau, Current Population Reports P-60, Income, Poverty, and Health Insurance Coverage in the United States, 2011

Researcher James MacDonald of the USDA explains why this larger than normal variation in income raises red flags:

"Researchers expected to see a wide range of incomes among all U.S. households because the U.S. population encompasses a wide range of ages, occupations, regions, and levels of education—all things that affect earnings. In contrast, contract broiler growers comprise a much more uniform group. They have a common occupation—growing broilers under contract—and 85 percent of their farms are small, with sales of less than $350,000. The farms tend to be rather specialized, with a focus on growing broilers. They are geographically concentrated, in that most are located in rural areas in the South. Few contract growers are young, especially compared to the population of household heads in the United States: their average age is 55, and only 4 percent are younger than 35. Most (93 percent) are men, although most list their wives as secondary operators. Eight-five percent are white males, and while 89 percent have a high school degree, only 16 percent have completed college. Contract growers are a much more homogeneous group than either the U.S. population or the overall farm population, yet their incomes vary more widely."[51]

MacDonald explains that this surprising variability in incomes is in part a result of the variability in pay per pound that the tournament system causes. This is a clear demonstration of the risk and lack of control that this contract model imposes on farmers.

In addition to dealing with unpredictable paychecks, farmers are fighting a steadily declining real value of their pay-per-pound. While some companies have increased their pay for certain housing categories or offered premiums for upgrades, overall the average base pay for a pound of chicken has not increased in the industry over the past two decades.[52] The National Chicken Council's study completed in 2016 documents this trend, and explains that they believe farmers' overall pay has increased as a result of higher density in the houses—in other words more pounds of chicken per square foot.[53] But economists such as Dr. Taylor point out that these estimates do not account for increasing costs of production—such as utility bills and equipment.[54] The Crutchfields in Arkansas started growing chickens in 1986. Their base pay remained nearly the same for the entire 27 years they raised chickens. "We didn't get another raise until 2006, first one in 10 years, a quarter of a cent. Ten years without a raise, with no adjustment for inflation."[55]

The human costs of working hard for diminishing returns are stark.

> "We were close enough to be being paid off that we managed to pay off our loan. But a lot of folks weren't. But we still had no savings or anything else left. My husband is sitting here with nothing but Social Security and not even much of that. I'm not social security age yet but I get disability. I did not look to having my retirement turn out like this."
>
> ***– Melda Perkison, AR***

51 MacDonald, James. (2014). Financial Risks and Incomes in Contract Broiler Production. Amber Waves. August, 04. http://bit.ly/2fsizMf

52 "Growers need a similar system, where they are compensated for their cost of production, and receive a cost of living raise to help pay for additional utility costs. The base pay that the company can't go below is helpful, but it needs to be defined in a way that ensures that growers are paid for their cost of production, a reasonable rate of return and that this rate cannot be lower than the current base rate." -Mark Johnson, AL

"The real problem with these companies, across the board, is that they have not adjusted for the cost of living index for twenty-some-odd years. There has not been a raise to keep up with the cost of living and they've not offset the increase in the cost of energy, that being propane and electricity. That was what I was told would happen when I got into this." - Josh Frye, WV

53 Elam, Thomas. (2016). Live Chicken Production Trends. Produced by FarmEcon LLC for National Chicken Council. http://bit.ly/1RVm0TZ

54 Taylor, Robert and David Domina. (2010). Restoring Economic Health to Contract Poultry Production. May 13. http://bit.ly/2g4vrGB

55 Interviewed for Under Contract, April 2015.

Exporting Contract Agriculture

After several decades of constant growth in U.S. poultry industry profits, growth has leveled off in recent years, and the industry has turned abroad in search of new markets. In the past 15 years production of chicken at the global level increased more than 60 percent, from 69 million metric tons (MMT) produced in 2000, to almost 112 MMT.[56] This has been mostly thanks to the expansion of the poultry sector in developing countries such as Brazil, China, Thailand and India. Contracts are an important part of the business model overseas, and if anything, they are more exploitative and less fair abroad than they are in the U.S.

In India, which ranks sixth worldwide for chicken production,[57] 60-70 percent of all broiler chicken operations are in the integrator model, while the remainder are smaller backyard operations,[58] as many more Indians live in rural areas and make their living from farming than in the U.S. The poultry business is one of the fastest growing sectors in Indian agriculture, with few Indian companies consolidating in dominant positions in the industry.[59] Other international industries have created joint ventures, such as the one between Tyson Foods and Godreij Agrovet, to establish a leadership position in the Indian poultry market investing in infrastructure for processing and freezing chicken products for retail distribution.[60] Processed chicken is only five to ten percent of total chicken meat production, because consumers prefer buying freshly culled chicken meat at live bird markets, but demand for processed chicken meat is growing between 15 to 20 percent per year due to the growing middle class.[61] Vertical integration and the consolidation of the industry has mostly affected Southern India, where the climate is more favorable to chicken production, and where the per capita consumption is reported to be 4 times the national average.[62]

Dr. B. L. Chidananda, Head of the Department of Animal Sciences at the University of Agricultural Sciences in Bangalore, India, has extensively studied the growth of contract farming in India, as he explains in the film. According to Chidananda, with such a strong rural farming sector, independent chicken farming is still more profitable than contract farming, but independent farmers get squeezed by the costs of marketing their birds.[63]

56 OECD/Food and Agriculture Organization of the United Nations (2015)
57 Poultry Sector Report India, 2015. http://bit.ly/2f7JFJS
58 Mehta, Rajesh and R.G. Nambiar. (2007). Food and Agriculture Organization. http://bit.ly/2ggIeoX
59 Ibid.
60 Tyson Foods website, Our Story. http://bit.ly/2gi1SEw
61 Mehta, Rajesh and R.G. Nambiar. (2007). Food and Agriculture Organization. http://bit.ly/2ggIeoX
62 Ibid.
63 Interview transcript: “Independent farming is more profitable than contract farming. But here the marketing

Once they enter the contract system, though, they face a by now predictable set of problems. It is common for farmers in India to sign contracts that they are unable to read and not even be provided with a copy of the signed document. In filmmaker Sally Lee's thesis, she describes a farmer in Karnataka (who preferred to remain anonymous) who raised poultry under contract with an integrator for seven years before being terminated. He described a process of going to an office in town and signing 50 or 60 pages of agreements without being able to read or understand the details. "We do not get a copy of the contract," he said. When asked if he could negotiate or discuss his costs with the company, he said "We are scared to negotiate because they would stop bringing birds." In order to build his two poultry houses, he had taken out a significant loan. Over a decade later, has only paid a small part of the loan and is still struggling under the debt. Where he used to house 20,000 chickens, he now rents his houses as empty sheds to a sculptor of Ganesh statues and a dog-care facility.

Dr. Chidananda says that this farmer's story is not unusual. If he were a chicken farmer, he says, his future would look like this: "If I raised a loan and started production, I would never be able to pay off the loan. Rather I would continue doing a job, slave to pay the interest on the bank's side, and grow the chickens for the companies, and I remain stuck in the middle."[64]

It's worth mentioning that contract farming in India is "still not legal," meaning that there is no legislation that can enforce the contracts signed between the farmers and integrators. However, contract farming is a key component that has fueled the industry growth in India and all around the world.[65] The next challenge for the chicken industry will be to determine what role contract farmers play in an increasingly global market.

price is very high. They are choked, they are pinched."

64 Interview with Dr. Chidananda for Under Contract, February 2015.

65 United States (MacDonald 2014; Miles et al. 2012), Thailand (Areerat et al.2012), and Nigeria (Bamiro et al. 2009)

WHAT YOU CAN DO: CONSUMERS

You can have an impact on the lives of the farmers who raise your food. Consumers are increasingly demanding healthier, safer, and more sustainable food from the companies that serve them.

1. Tell your representatives that you care about farmers.

Your representatives listen to you. Your calls are critically important. For every call to their offices, they estimate 10 or more of their constituents feel the same way. Make your voice heard by calling your Senators and Representatives.

- ➔ Find your Representative to the House by entering your zipcode here: http://bit.ly/1e8pAws
- ➔ Find your Senator by looking up your state here: http://bit.ly/KxiTHC

At the time of the release of *Under Contract*, policy makers face a very critical decision: supporting the finalization of the Farmers Fair Practice rules and supporting GIPSA in implementing these rules. The USDA Grain Inspection, Packers and Stockyards Agency (GIPSA) has the authority to enforce fair practices in the livestock industry, but for six years Congress has blocked its ability to follow through and create rules to enforce. Call your representative and let them know you want farmers to have a fair playing field, and you support finalizing and enforcing the Farmers Fair Practice rules.

2. Sign up to stay in touch and stay involved. Your actions will make a big difference.

Standing up for farmers' rights is a long-term campaign. RAFI has been at this for over three decades now. We know that change is hard, but it is critically important to the farmers we work with.

In the coming years, there will be other important issues that come up for farmers. Sign up to stay in touch so you can sign petitions or make calls when it's time. Go to http://www.rafiusa.org for more information, or sign up at: http://rafiusa.org/subscribe/

WHAT YOU CAN DO: FARMERS

1. If you are a farmer considering signing a poultry or livestock contract, read this first.

We don't want to make your decision for you, but we do want you to have all the information you can before you make it. Visit our website of resources for farmers, including a guide of questions to ask before you sign a poultry contract. http://bit.ly/2ghXdT9.

If you have questions or want to learn more, call 919-323-7587, to speak with Sally Lee, RAFI-USA Program Director for Contract Agriculture Reform. **Calls are confidential, you are welcome to call anonymously.**

2. If you are already a contract farmer, stay in touch or call us for help.

Call us to tell us how it's going. We do regular research in collaboration with farmers, and it helps us to hear about your experience!

If you're experiencing financial trouble or legal trouble with your contract, we can help connect you to lawyers who work with farmers. We also have Farmer Advocates on staff who help farmers understand their financial options in dealing with debt, bankruptcy, and restructuring of loans. **Call us at 919-323-7587** for more information.

3. As a farmer or a member of a farming community, your opinions are very important to the policy making process!

Often we hear that contract growers are afraid to speak out directly because of a fear of retaliation or judgment in their community. If you are a farmer but not a contract grower, or if you are a former contract grower or know the experiences of neighbors and fellow growers and are comfortable making the call, make your voice heard by calling your Senators and Representatives.

- ➔ Find your Representative to the House by entering your zipcode here: http://bit.ly/1e8pAws
- ➔ Find your Senator by looking up your state here: http://bit.ly/KxiTHC

For regular updates on petitions, policy goals and other actions to support farmers, sign up for our emails at: http://rafiusa.org/subscribe/

WHAT YOU CAN DO: POLICYMAKERS

If you play a role in federal policymaking or implementation, you have a direct impact on whether contract livestock and poultry farmers can defend their rights and livelihood.

1. Support the finalization of the Farmer Fair Practice Rules, also known as the GIPSA Rules

The USDA Grain Inspection, Packers and Stockyards Administration (GIPSA) has made significant progress toward the development of rules defining and prohibiting deceptive practices in livestock and poultry contracts, and clarifying that farmers do not have to prove harm to competition in the entire sector in order to prove that they have been personally wronged or defrauded. These are commonsense rules that are a first step toward leveling the playing field for farmers. Policymakers need to support the finalization process, ensuring that comments are collected and considered fairly and transparently, and that final rules are enforced.

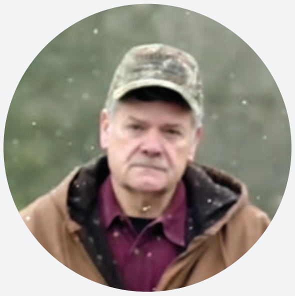
2. Prevent or vote against any riders or legislative attempts to block, defund or eliminate the Farmer Fair Practice Rules

The most recent "GIPSA Rider" was introduced by Rep. Andy Harris (R-Maryland) in April 2016 and passed into the House Fiscal Year 2017 Agriculture Appropriations Bill during full committee consideration of the bill. The rider would block funding to GIPSA and prevent the finalization and implementation of the rules. The GIPSA rider was not included in the Fiscal Year 2016 appropriations law, nor is it included in the Senate version of the Fiscal Year 2017 Agriculture Appropriations bill. Appropriators and their colleagues need to take a strong stand against efforts to block USDA from enforcing commonsense protections for livestock and poultry farmers. Vote against any riders or other legislative attempts to block the GIPSA rules or their implementation.

3. Place commonsense regulations on federal guaranteed loans for new poultry operations

USDA's Farm Service Agency (FSA) and Small Business Administration (SBA) guaranteed loans can be a critically important way to ensure access to credit for underserved and minority farmers. But in the chicken industry, these guarantees have allowed banks to approve loans without fully considering the risk farmers face in the industry or the financial viability of the contracts. Existing farmers are being pushed out in favor of new farmers building new facilities using these taxpayer-backed loans. In most cases, the poultry companies who dictate the terms and costs of construction of these facilities make NO financial commitments to the construction themselves. FSA and SBA guaranteed loans have enabled integrators to shift production to newer farms at the expense of existing farms that are deeply in debt, putting many farmers at risk of bankruptcy. The unintended consequences of otherwise beneficial loan guarantee programs must be scrutinized to stop the vicious cycle of debt that is plaguing contract poultry growers.

FARMER PROFILES



Mike Weaver

Fort Seyber, West Virginia
President of the Contract Poultry Growers Association of the Virginias
Contract (current): Pilgrim's Pride, 16 years

Mike Weaver began in the poultry business with a farm with turkey houses, under contract with Rocco, Inc., a small local integrator. The company was soon bought by Pilgrim's Pride. When Mike first bought the farm, he had heard bad things about Rocco and hadn't wanted
to grow for the company, and decided to switch to a contract with Pilgrim's. Rocco responded by threatening to fine the previous owner of the farm $35,000 in retaliation for Mike moving his contract.

He did successfully switch his contract, and began growing turkeys with Pilgrim's Pride, but the arrangement didn't last long. Pilgrim's did not do well in the turkey business and eventually closed its turkey plant. In the meantime, Mike lost $20-30,000 on the turkeys annually, despite following the company's advice to the letter.

With the closure of the turkey plant, Mike had no choice but to make another switch—this time from turkey to chicken. He invested $200,000 to convert his houses and accepted a chicken contract from Pilgrim's. Since then, he just wants to finish his loan and get out of the business. He has refused to make upgrades that Pilgrim's demanded so as not to get further in debt, but he is active in efforts to improve the industry, particularly with regard to the problem of chicken litter pollution. He works with local universities on experiments in advanced litter treatment, has built revolutionary litter incinerators on his farm, hosts students groups, and has collaborated with the Environmental Protection Agency on studies to transfer litter out of the local drainage basin. He points out that although companies control how many total chickens are produced in a region, the burden of environmental liability falls on farmers, who are not paid enough to be able to properly manage their litter.

Eric Hedrick

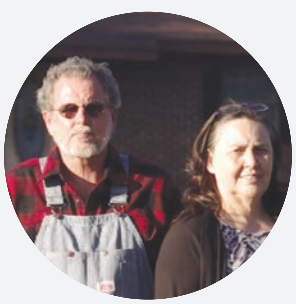
West Virginia
Contract (recently terminated): Pilgrim's Pride, 9 years

For many years, Eric Hedrick was a broiler maker and cattle farmer. He worked away from home much of the time. When his third daughter was born, he decided to find work that would allow him to stay home. He began looking at a 13-house chicken farm that was for sale nearby, and spent more than two years working with his bank and Pilgrim's Pride to determine if it would be a good investment. He ultimately purchased the farm for $1.2 million, and invested another $800,000 in upgrades required by Pilgrim's. To qualify for the loan, he had to use the farm and his home as collateral, as well as his mother's 400-acre property, which is his inheritance.

Despite the long deliberation as to whether the investment was financially sound, he realized only later that the cash-flow estimates provided by Pilgrim's Pride did not include several basic yet significant expenses such as equipment and insurance. Nonetheless, the business went well for the first five years. As his equipment aged, however, Pilgrim's began demanding upgrades. Eventually the company stopped delivering birds until Eric upgraded his stoves. The lost revenue alone cost him over $100,000, on top of the expense of the upgrades. He was not compensated for any of the costs, and the business has never fully been able to recover.

In 2015, the family had to refinance its loans, moving to a 40-year term. Despite this drastic move, they were unable to make the farm solvent again, in large part because the flock payments from Pilgrim's remained volatile and often under the cost of production, so the farm continued to lose money. In an effort to turn things around, Eric has written to Pilgrim's and met with managers, but the company has offered no support, denying any responsibility in his financial situation. Instead, after he was featured in a New York Times article voicing concerns about diseases coming from the company hatchery, Pilgrim's mandated he participate in what he calls a symbolic and useless "re-training" program on animal welfare.

As of November 2016, Eric and his family have received their last flock of birds from Pilgrim's Pride and their future is uncertain. They have attempted to move to another integrator, even considering going deeper into debt to transition to turkey production. If they are unable to find another option, they risk losing their loan collateral: the farm itself, their home, and Eric's 400 acre inheritance.



Karen and Mitchell Crutchfield

Lamar, Arkansas
Former growers, Tyson Foods, 27 years

Karen and Mitchell Crutchfield inherited land that had been in Karen's family for three generations, and cleared it to start a farm. In 1986, they had three small children and decided to grow the farm business so Karen could spend more time at home. They began with two houses, building a third three years later, and started raising chickens for Tyson, based in part on promises that they would "grow together" as a team, in partnership with the company. The plan they were presented with was that if they built their business by going into debt, and worked for admittedly low returns until it was paid off, once the debt was paid, the payments would become pure profit. The business was never as good as promised, and they suspected it was due to Tyson's focus on beef, pork, and seafood rather than its core chicken business. When the company notified its farmers that it was "re-committing to chicken" and needed more production, the Crutchfields were optimistic. Thinking the company would address the deficiencies in farmer pay, they built three additional houses.

However, the variability of the tournament system and the industry's low pay scale meant they continued to struggle, though they were able to keep up their loan payments with off-farm jobs and a cattle business. They decided to view the chicken houses as a retirement plan; once the farm debt and mortgage were paid off, maybe they would make money. It was a short-lived hope. In 2010, with less than three years of payments remaining, the Crutchfields got a mandate from Tyson saying they must upgrade their houses, at a cost of $250,000, or lose their contract. They were in their late sixties, and did not think it made sense to re-invest and refinance their loans into their late seventies. Tyson was unrelenting and their contract was terminated.

The couple had to file for bankruptcy and are fighting the potential loss of their farm. Though they were unable to afford legal representation, they sued Tyson for fraud, false advertising, and breach of contract, and were insulted by the local judge during the trial, before their case was dismissed. As of November 2016, they are working on and off the farm, while trying to pay down their bankruptcy agreement and keep their home. They have filed an appeal on their case.

Paul Brown

Lena, Mississippi
Former grower, Tyson Foods, 9 years
(total years growing chickens: 14)

For much of his career, Paul Brown was a contract carpenter and builder. He believed in hard work and fair pay. Wanting to run his own business at home, he began growing chickens with a small, family-run integrator. The business started successfully, with six houses, and so encouraged, he bought another farm with an additional four houses. At this point, however, his integrator said it was unable to take on his increased production.

He was very interested when Tyson approached him with promises about pay and its commitment, but he wanted stay with the small integrator for his original six houses and work with Tyson only for the four new facilities—which was not an option for Tyson; it wanted the production from all ten houses or nothing. Not having another good option, he took his chances and moved his total business to Tyson, but soon one thing after another went bad. Tyson grew a smaller bird, which meant lower pay, and he had to refinance his loans. He made upgrades, but could not keep up with the all of the requirements to get the premium pay bonuses. He repeatedly received flocks of diseased birds, and in one especially cold winter, the company forced him to take a flock that could never pay for itself because heating fuel prices were so high.

Paul's relationship with Tyson eventually soured, and he began to experience what he calls targeting or retaliation—to get him to quit, he believes. If that was the case, it was successful: he quit his contract three weeks before the interview for the film. He is currently facing bankruptcy, with the possibility of losing his farm and the house that he built.

Alton Terry

Tullahoma, Tennessee
Former grower, Tyson Foods, 10 years

Alton Brown was the president of his local farmers' association. He became interested in growing chickens when looking into purchasing a nearby farm that was for sale. As an experienced broker, he did his research before jumping in, investigating any complaints registered with GIPSA, the USDA agency tasked with overseeing the livestock industry. He found relatively few complaints, and was reassured when he asked the plant manager for details, and decided to purchase the farm and sign on with Tyson.

His first year went well, but then there was a change in Tyson management and the company began requiring upgrades that Alton did not think were beneficial for farmers. There was a particular issue regarding expensive upgrades to feed bins, which he and many of the farmers in the association did not think improved their efficiency. Tyson threatened to withhold chickens until he made the upgrades, then followed through on the threat, and changed his contract to make the upgrades mandatory. Members of the farmers' association were also having problems, so Alton complied their data and registered a formal complaint with GIPSA, and wrote letters to his elected officials.

Getting no response from these efforts, Alton sued Tyson for breach of contract. The case was dismissed by the Sixth Circuit Court of Appeals, not because his claims were not valid, but due to the judge's interpretation of poultry integrator regulations, which held that the farmer had to prove that an integrator's actions were harmful to the industry as a whole, not just to the one injured farmer. Although actions that are deceptive and unfair to one farmer or even to a group do not necessarily damage the whole industry, this regulatory interpretation has been used to dismiss several cases farmers have brought against integrators.

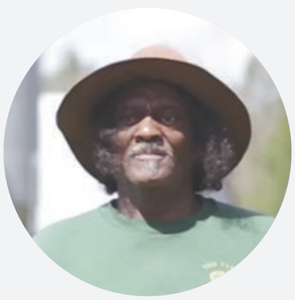
Craig Watts

North Carolina
Former grower, Perdue, 24 years

Craig Watts lives and farms on land that has been in his family for more than 200 years. Like so many others, he began growing chickens because he wanted to able to stay home more with his three children. After seeing an ad recruiting new growers in the local paper, he signed on with Perdue in 1992, with two chicken houses. He has a business degree, and thought carefully about the contract arrangement before signing. In retrospect, he describes the recruitment phase as misleading, noting that the company representatives promised an honest competition and incentives for hard work, but did not discuss the huge risks or that half the farmers in the tournament make less than the promised base pay.

Throughout his 24 years in the business, Craig was named “Top Grower” many times, and worked hard to keep up. He built two more houses in 1994, and paid off his original $400,000 debt by 2004. He thought he was in the clear then and was looking forward to finally making money off his investment. But just two years later, Perdue announced new upgrades were mandated, and he was required to install a new cooling system, which meant borrowing another $100,000. By 2014, he paid down his debt again, but the small upgrade premium Perdue added to his pay was not enough to cover increasing costs, and he struggled to keep up.

Thinking back to the initial promises the company had made—that farmers who made the initial investment would quickly get out of debt and begin making money—Craig’s frustration reached a breaking point. He swore not to invest in further upgrades to his houses. Further, he began to be disgusted with Perdue’s “animal welfare” program, which he felt was a green-washing misnomer, and did not allow him to make his own farming decisions about production and animal stewardship. In 2015, alongside animal welfare activists from Compassion in World Farming, Craig spoke out about the realities farmers face in contract chicken production. After enduring dozens of retaliatory inspections by the company in search of a problem that did not exist, Craig terminated his contract with Perdue.



Clarence Leverette

Mississippi
Former grower, Marshall Durbin, 12 years

Clarence Leverette was trained as a farmer at a south-central Mississippi agricultural school. He loved farming and had great success raising cattle, so in 2000, he decided to branch out and start growing chickens. Company representatives told him that with hard work, he could make $21,000 per flock. The debt was hard to swallow, though—$575,000 dollars on his first houses—and as one of only two African-American growers in his regional growing group, he felt tension in the all-white farmer meetings he attended. Additionally, as the contract relationship soured, he began to see similar practices happening to local catfish farmers.

While he made the promised amount on his first few flocks, pay began to drop dramatically, and by the end of the year, he was making just $12,000 per flock. The amount barely covered utilities and other farm expenses, leaving little for him to support his family. Still, continuing to raise birds was the only way out, and the new contract he was asked to sign with every flock kept him uncertain and worrying that each flock might be his last. He tried to switch integrators, but was repeatedly told that they were not accepting new growers.

He tried creative methods to save his farm. He began raising watermelons and was about to secure a contract with Walmart, but their contract required he have a crop duster—which would have required a $10,000 loan, which he couldn’t get because he was already so deeply in debt. He considered turning the chicken houses into greenhouses, but the bank refused to release them from the debt obligation.

Clarence filed bankruptcy in 2012, and the bank foreclosed on his tractor. There was little he could do to continue farming. Today, he lives in public housing, and is starting a new business growing organic vegetables.

Genell Pridgen

Snow Hill, NC
Former grower, Perdue, 17 years;
Case Farms, 2 years

Genell Pridgen farms on land that has been in her family since the 1700s, and grew up helping her father raise row crops, tobacco, hogs, cattle, and backyard chickens. The region was best suited for small diversified farms rather than large-scale row crops, but it could be uncertain, as hurricanes brought semi-regular devastation. When Perdue came to town, the steady paycheck it promised was appealing, though it meant taking out a loan against the generational farmland and home, and caused a family divide.

When the Pridgens got in to the business, they were able to build three houses for $78,000. They paid off the loan in ten years, but the company required upgrades and they eventually had to take out a new loan. Disaster struck shortly thereafter: Perdue closed the processing plant Genell's family had been selling to, abruptly cutting off nearly 100 farmers. Their only warning was a notice that their current flock would be their last. The company offered a severance package, but it didn't make up for the lost income. The family had recently bought more land, expecting to have a steady income from the chickens. As a result, they were left with $250,000 in debt and no way to make their payments.

Case Farms, the only other company in the area, offered them a contract, contingent on making another $100,000 in upgrades to their equipment and houses. Out of other options, the family took the deal, and for two years was consistently in the top of the Case Farms grower rankings. Eventually, however, a difference in chicken house height was their last straw—their Perdue houses were a foot shorter than the preferred structure of Case Farms houses, and once the integrator was able to sign on new producers to build to their specifications, it cut off the Pridgen contract.

Facing the potential loss of their farm, the family turned to a new market and a new frontier for their business—going back to their roots. They began raising free-range chicken, lamb, and beef for sale to high-value markets. The transition took difficult years and tremendous time and investment from the entire family—to pay down their debt, neither Genell or her parents took a salary from the farm for twelve years. But today, the Pridgens are still farming, and after much sacrifice and determination, they have opened a butcher shop in nearby Kinston to process and sell their grassfed and free-range meat.

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