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PolicyPennings by Dr. Daryll E. Ray

Putting a pencil to poultry contractor net returns

In this third article on contract poultry production, we want to examine the economics of contract poultry production using information from a paper written by C. Robert Taylor, the Alfa Eminent Scholar and Professor of Economics at Auburn University, and David A. Domina, an Omaha, Nebraska trial lawyer with significant antitrust and agriculture-related experience. They submitted the paper and offered oral testimony at the Joint US Department of Justice and USDA/GIPSA Public Workshop on Competition Issues in the Poultry Industry, May 21, 2010, at Normal, Alabama. The paper is titled "Restoring Economic Health to Contract Poultry Production" http://www.competitivemarkets.com/index.php?option=com_content&task=view&id=347&Itemid=50.

In their look at the economics of contract poultry production, they use records from the Alabama Farm Business Analysis Association (AFAA). The AFAA has "the only (emphasis in original) set of records on the actual economics of contract poultry production." While similar records are not available from other states, Taylor and Domina maintain that because poultry integrators all have the same business model, "the AFAA records are reasonably representative of poultry growing conditions outside Alabama."

They first look at "the annual net returns to operator management and risk for a five-house operation, which is approximate size of an average operation, 1995-2009. A modest charge of $7.00/hour for family labor was included as a cost. The records show a negative net return in 10 of the 15 years. Cumulative losses total $182,000 for 1995-2009. AFAA records show gross contract payouts are somewhat above average for the area. Thus the economic plight of the average contract grower is worse than" shown above. That would suggesting that growers are, in part, subsidizing their poultry operation with their own labor and that of family members by taking less than $7.00/hour for family labor.

Countering industry arguments, Taylor and Domina summarize information from a Georgia study by Cunningham and Fairchild that found that "grower pay per pound of bird adjusted for inflation…shows a downward trend," and while the production per square foot has increased over time, the gains from this have not offset higher operating costs. In addition, "costs of technologically advanced houses and equipment, often mandated by the integrator, have increased more than inflation….Thus the contract grower has been caught in a profit vise controlled by the integrators."

Taylor and Domina quote a 1999 survey of Arkansas poultry growers by Tara Shofner where she writes, "As it becomes apparent that income from the poultry operations is not sufficient, many producers are finding it necessary to have off-farm income just to make ends meet. Over 47% of respondents of the AFBA survey revealed that their spouse had either part-time or full-time off-farm employment. There simply may not be adequate net income from the poultry operations only to support a household. This is particularly the case if substantial debt service on the operation exists."

A 2002 study by H.L. Goodwin of 16 growers who were among the top one-third of their production complex showed a "net farm income of $9,206 annually for a four-house operation." This net income, however, did not include "a return to unpaid labor, management, equity, and risk. Once a modest return is subtracted for operator labor, Goodwin's analysis shows a negative return to management, equity and risk for growers that were in the 'top one-third.'"

Because solid production costs are hard to come by and sellers have little incentive to show all of their books to a prospective buyer, buyers are at a disadvantage, and appraisers have little upon which to base their value determination.

Taylor and Domina offer the results of several additional studies that reinforce the points already made: "While poultry contracts may cash flow (i.e. pay bank loans and put some money in the growers pockets), contract pay has not generally been sufficient for growers to earn a competitive return. Contract poultry growers are now living off depreciation."

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