Testimony Submitted for the Hearing Record
from
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Rural Advancement Foundation International - USA
to the

SUBCOMMITTEE ON COMMODITIES, RISK MANAGEMENT, AND TRADE
COMMODITY PROGRAMS, CREDIT, AND CROP INSURANCE

for the hearing entitled

PART 2: INDUSTRY PERSPECTIVES ON RISK MANAGEMENT AND ACCESS TO CREDIT

held on May 4th, 2023

Chair Smith, Ranking Member Hyde-Smith, and Members of the Subcommittee

Thank you for the opportunity to submit testimony on behalf of Rural Advancement Foundation International - USA. RAFI-USA's Challenging Corporate Power Program (formerly known as our Contract Agriculture Reform program) has worked with contract poultry growers for more than 30 years to fight for better treatment from, and regulation of, giant meatpacking companies. In that time period we have only seen horizontal consolidation and vertical integration within the poultry industry worsen. Giant poultry corporations ("integrators") have honed a business model in which the cost and risks associated with poultry production and the capitalization of new poultry operations are externalized onto farmers and their communities.

Within the current industry structure, contract poultry growers are not, in reality, independent economic entities selling livestock into markets, but rather are going into debt to contract their labor, land, and built infrastructure to integrator corporations to grow livestock they do not own. For many contract poultry growers, the integrator (who owns the chickens, delivers the feed, supplies the chicks, and provides the transportation which picks up the grown birds) may be the only integrator in an area, making them literally the sole possible "buyer" for a flock. The impact of this is that a farmer rarely has other options for making money with the facilities they have gone into debt to construct. Even in areas with multiple integrator companies, shifting between integrators is not always a good or viable option: new integrators may require expensive updates to equipment, and many farmers report informal no-poach agreements, where companies decline to take on "each other's" growers.

We acknowledge that in many cases it is vitally important for the federal government to expand financial opportunities for family farmers to help make farming more viable. However, in the poultry industry, the ease of replacing existing growers with the aid of federally guaranteed loans makes existing growers disposable to integrators; and the new growers entering the industry are not given all the information they should be about the risk and vulnerability of their investment. Over the years, we have repeatedly observed integrators cutting off farmers' contracts (often in retaliation after farmers speak out against unfair practices) and leaving them with millions of dollars of debt tied up in specialized, single-use structures which do not have the ability to generate revenue, or contribute to a property's value, in the absence of an active contract.

One of the arguments put forward by poultry integrators and some lenders in support of the use of the FSA loan programs for poultry production loans is that it is very difficult for these operations to secure conventional loans. However, the reason for this is that the contracts of adhesion typical in the poultry sector are so economically unsustainable for the farmer that lenders are extremely reluctant to lend to these operations, unless there is a federal guarantee, either from FSA or the SBA. This itself is evidence of the problem. In a fully functioning capital market, the lenders' reluctance to finance contract poultry operations would put pressure on poultry integrators to improve terms of the production contracts to make them more economically viable for the farmer. However, the federal loan guarantees allow lenders to make very large loans for these operations, without the lender performing typical due diligence to scrutinize the contracts that underlie the loans.

This overall imbalance of power allows integrators to treat farmers like they are disposable. The abandoned poultry houses that litter the rural landscape across the Southeast testify to this pattern. As a result, it is increasingly common for us to hear feedback from current or former contract growers in our network about the need for strengthened rules to ensure fair contract terms and protect growers from contract discontinuation, as well as reforms to current lending practices that currently allow integrators to proliferate new poultry operations at will and without sufficient scrutiny.

Considering these concerns, we urge the Subcommittee to support the inclusion of a provision in the 2023 Farm Bill to require Farm Service Agency (FSA) to establish minimum fairness and economic viability standards for poultry or swine contracts as a prerequisite for approvingg a loan or loan guarantee for construction of a contract poultry facility. Congress should enact reforms regarding the Farm Service Agency's lending practices in the poultry industry to ensure that live poultry dealers are not able to exploit their regional monopsony control to extend unconscionable contracts. Our recommendations (below) are primarily directed at lending policy reforms for *new poultry operation applications*. One common practice of integrators in the industry is to require existing growers to implement expensive upgrades (which perpetuates the debt cycle) under threat of losing their contracts. Indeed, this often begins to happen to existing growers after new poultry operations are constructed nearby. For this reason, it is important that FSA take a more nuanced approach to approving loan guarantees for existing contract growers who need to secure capital for upgrades to avoid losing their contracts. RAFI-USA recommends the following reforms to the FSA lending standards when lending to new poultry operations:

1. For contract income to be considered dependable, FSA should require that the integrator be bound to the underlying contract for the entire length of the loan term, rather than allowing a transition to flock-to-flock contract after three years.
2. For contract income to be considered dependable, FSA should require contracts to include sufficient minimum guarantees of animal placement frequency and stocking density to ensure dependable annual income. Flock-to-flock contract structures should not be considered dependable income.

3. Income and expense projections considered during appraisal should be based on USDA required poultry contract transparency disclosures.
4. FSA should not consider a loan application based on contract income to be viable unless the contract includes provisions guaranteeing that the contract cannot be revoked if upgrades aren't made (aside from upgrades required to comply with state and federal law). Appraisals should seek to evaluate that the life of the equipment funded by the loan has an expected service life (with standard maintenance) that extends past the term of the loan.
5. For approval of applications for new poultry operations, FSA should require integrators to supply written justification for their need for overall capacity increase within a complex as a component of market analysis obligations, to ensure that new operations are not being sought to allow integrators to discriminate against or shutter other existing poultry operations within a given region.

Sincerely,

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Rural Advancement Foundation International - USA (RAFI-USA) is a nonprofit organization based in North Carolina that challenges the root causes of unjust food systems, supporting and advocating for economically, racially, and ecologically just farm communities. We envision a thriving, sustainable, and equitable food system: where farmers and farmworkers have dignity and agency; where they are supported by just agricultural policies; and where corporations and institutions are accountable to their community. We help farmers find markets, advocate for and with farmers who are experiencing financial crisis, convene a Farmers of Color Network (primarily in the Southeastern United States), work with farmers markets and rural faith communities to increase food access, provide infrastructure and emergency grants to farmers, and help coordinate a seed breeding cooperative. Our Challenging Corporate Power Program (formerly known as Contract Agriculture Reform program) has worked primarily with contract poultry growers for more than 30 years to fight for better treatment from, and regulation of, giant meatpacking corporations. In that time period we have seen the trend of corporate consolidation (both vertical and horizontal) within industrial animal agriculture continue unchecked. RAFI-USA now works with both contract and independent livestock and poultry producers to reverse the rampant negative effects of corporate concentration across the food system.