

Economic Realities of Poultry CAFOs

Here in eastern Nebraska when COSTCO / Lincoln Premium Poultry (LPP) began selling the idea of local farmers building chicken producing buildings to supply the chicken processing plant to be built in Fremont, NE, they originally claimed a local farmer could build a four building production facility to produce additional revenue for their farming operation. Some farmers became very excited about this prospect until some local organizations brought in ex-producers from other states that had experience with these poultry Concentrated Animal Feeding Operations (CAFOs). These people did not really tell the local farmers they shouldn't do it, they just warned about some of the pitfalls of trying to run these facilities.

To begin with, operating a poultry CAFO is not a part time job. A farmer who's main source of income is their row crops does not have the time to also run a poultry CAFO. They also do not possess the necessary knowledge or experience to operate a poultry CAFO. It is not at all the same as having a backyard flock and not even the same as having a large flock for market. So, somebody would need to be hired to run the CAFO. Four production buildings do not produce enough revenue to be able to pay somebody to run them. The magic number seems to be ten or more buildings. Here in eastern Nebraska you rarely see fewer than twelve buildings at a facility. It is usually 12 to 16 buildings, and in some cases adjacent properties are used to house as many as 24 buildings together.

The reality of the size required was somewhat reinforced when a local farmer here who had befriended the head of LPP expressed his excitement in building a small CAFO. The head of LPP told the local farmer not to do that. He advised the local farmer to wait until somebody else who built a small facility went bankrupt. He could then buy the operation a lot cheaper than building one on his own land.

The out-of-state ex-producers also warned the local farmers to be very careful about the contracts they sign. These typically leave the CAFO owner with all of the risk should something go wrong. The CAFO owner must use the baby birds which are provided by the company. The CAFO owners must only use the feed provided by the company, at the price set by the company. The finished birds can only be sold to the company at prices set by the company and must meet the company's stringent quality control guidelines or be paid at reduced prices or even have shipments rejected with no recompense.

Local farmers who did not attend these meetings, or who were still interested in building a poultry CAFO, often found out that they could not get a loan to build the facility. The lending institutions were well aware of the risk involved and were loathe to lend to someone with no experience with these types of operations. After all, they were farmers, not CAFO operators.

This left LPP with a problem. They needed the production facilities to supply the chicken processing factory being built in Fremont. LPP was ready for this. They simply turned to out-of-state companies that had the funds and knowledge to build, own, and operate the poultry CAFOs. These companies simply leased the land needed for the production facilities from the local farmers. As part of the lease agreement the farmer would be the local face of the operation and they would be the proud owner of the facility after a set period of time, typically 15 to 20 years. (After the facility is fully depreciated for federal tax purposes). What the farmer likely did not realize is that technology moves on and after that

length of time the facility is often out of date and possibly in need of repair. By having the farmer acquire it the CAFO operating company does not have to pay to tear down the facility and return the land to agriculture.

Some savvy farmers do have a decommissioning agreement in lieu of acquiring the buildings when the lease is up. After all, since they do not actually run the poultry CAFOs they still will not have the time or the experience to do so. If they do not have a decommissioning agreement to return the land to agriculture, they will possibly be stuck with a large number of buildings for which they will have no use.

The local farmers in eastern Nebraska were also told that LPP would be buying the grain to produce the poultry feed from the local farmers. The heavy implication was the grain grown by the farmer with the CAFO on his land would be used to produce the feed for the CAFO. Actually, LPP buys their grain from the grain elevator in Fremont at a contracted price. Most of the CAFOs are too far from Fremont for the farmers to truck their grain to Fremont. The farmers still sell their grain the same as they always have. The CAFOs have had very little to no impact on the price the farmers get for their grain.

Local governments also had to be sold on the concept of the poultry CAFOs. The promise of additional tax revenue, employment, and money coming into the community was alluring, so this was initially an easy sell. However, depending on local and state tax laws, there may or may not be more tax revenue. Since the CAFOs are owned and operated by out-of-state companies, the majority of the profits go out of state. The farmer gets the lease money, and there are a couple or a few people locally running the facility. These folks are not usually hired locally, but are brought in from out of state. This is not enough to have a significant impact on the local economy.

There is also a great deal of “not in my back yard” (NIMBY) feeling from neighbors and some local communities.

The CAFO industry has been prepared for this local push back. They have gone to local governments, typically counties, and had them pass a seemingly innocuous resolution that the county was “livestock friendly”. Now when a county board threatens to not approve the building of a CAFO the county is threatened with a lawsuit. After all, they are designated as “livestock friendly”.

The real issue is CAFO facilities are not really agriculture. There is no real connection with the land. For poultry, the only time the birds have contact with the outside is when they are raw material as chicks and when they are finished product. They are then brought into the CAFO by truck and shipped out to the processing factory by truck. They never touch the ground.

In reality CAFOs are meat factories. They bring in raw materials in the form of young animals and feed and ship out live meat to be processed at another factory. They should be treated as factories, not as agriculture. In particular all CAFO's should be regulated like a factory with the proper odor and air pollution protections.