

When Animal Ag Businesses Sell or Close

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Today

Effects and responses to company shutdowns.

Vertical coordination in NC pork and poultry sectors:

production contracts, marketing contracts, processor companies and production companies.

When a production company shuts down or sells (Goldsboro, Cohare, Carroll's, Murphy, others, ...) processing complex effects, farm level effects, employee effects, asset effects, and community effects.

When a processing company shuts down or sells (Holly Farms, Pilgrim's Pride/Townsend, PSF...) : " "

Alternatives for farmers

Management considerations

Government assistance? income tax considerations, property tax relief

Vertical coordination in NC pork and poultry sectors:

production contracts vs. marketing contracts,

processor companies vs. production companies.

What are production contracts and how are they used?

A production contract is a contractual agreement between two parties to jointly produce a product.

In the livestock and poultry examples, one party **owns** the livestock or poultry, provides the feed and veterinary services, receives profit or loss from production and bears the risk associated with feed prices and livestock or poultry prices, and pays a specified fee to the other party.

The other party, sometimes referred to the grower, provides the land, buildings, utilities, labor, and waste management and raises the livestock or poultry and receives the fee.

What are marketing contracts and how are they used?

A marketing contract is a contractual agreement between two parties to market a product with specific terms about quality, quantity, timing, location, price, and possibly methods of production. Financing or risk sharing terms may be added to the contract.

One party, **the producer, owns and produces the commodity**, receives profits or losses from production and bears the risk associated with feed prices and livestock or poultry prices, and agrees to deliver the commodity as specified in the agreement.

The other party, the processor or marketer, receives the commodity as specified in the agreement and pays the producer as specified in the agreement.

Processor companies vs. Production companies.

Processor companies process animals and convert them to animal products.

- may offer production contracts and / or marketing contracts**
- and / or may produce animals (vertically integrated).**

Production companies produce animals.

- may offer production contracts and**
- may sign marketing contracts with processing companies.**

Vertical coordination in NC pork and poultry sectors:

Broiler industry is almost entirely production contracts with a processor

Pork industry is a mix of contract types and producer and processor companies

When a production company shuts down or sells

Several examples: Goldsboro, Cohare, Carroll's, Murphy, others, ...

Processing complex effects: typically limited as growers are picked up

Farm level effects: may be picked up, may deal with new inputs and management, contract terms, ...

Employee effects: may be continued except where facilities are not picked up

Asset effects: assets may be devalued if not picked up or contract changes

Community effects: limited pending number of facilities not picked up

When a processing company shuts down or sells

Several examples: Holly Farms, Pilgrim's Pride/Townsend, others, ...

Processing complex effects: typically limited if sold, drastic if closed

Farm level effects: may deal with new inputs and management, contract terms, may be dropped, disaster if closed

Employee effects: may be continued, disaster if closed

Asset effects: assets may be devalued if not picked up or near zero if closed

Community effects: limited if sold, disaster if closed

Factors driving Sales and Closing:

1. Aging facilities / complex
2. Loss / retirement of key leadership
3. Changing market conditions
4. Industry consolidation
5. Urbanization / land use changes
6. Regulatory, legal environment changes
7. Others?

Alternatives for farmers:

1. contract with another entity (renovate or not): renovate? Secure markets for cost recovery period?
2. go independent: find a market, find inputs (feed, genetics, ...), capital, risk mgt., management, ...
3. use facilities for other enterprises: has worked in a few cases; capital, management, whole new business
4. shut down enterprise; temporarily or close out facilities: maintain permit (hogs) or close out properly.
Remove from property tax roll, insurance, ... debt restructure? Financial statements update?
5. management considerations: employee reassignment, financing restructure ? Bankruptcy ?
6. Other factors: age and type of facilities, age of operator and likely succession, debt load, land use/situation and changes, ...

Alternatives for farmers:

1. Act as a group to form company or cooperative: new level of management, cooperation, finding markets, ...
build a processing plant? How many grower facilities are new enough, good enough shape, ...?
2. Recruit a processor
3. Lobby for assistance

Government assistance and possibilities

Blake and Rod present federal programs

State programs in the past have facilitated buyouts (flood plain, others)

Environmentally Superior technology / emissions reduction contracts / For renovation or replacement

Income tax considerations ?? Write off basis in forced conversion of single use assets ??

Property tax relief

What can we do?

Identify affected parties

List their needs, issues, questions

Present alternatives, educate, ...

Build up inventory of factual info and links / sources

Facilitate discussions and engage experts

Others??

Questions ? Discussion

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