US POULTRY INDUSTRY RESTRUCTURATION

Many ranchers now fear that the beef industry is deliberately being restructured along the lines of the poultry industry. They do not want to wind up like chicken growers — who in recent years have become virtually powerless, trapped by debt and by onerous contracts written by the large processors. The poultry industry was also transformed by a wave of mergers in the 1980s. Eight chicken processors now control about two-thirds of the American market. These processors have shifted almost all of their production to the rural South, where the weather tends to be mild, the workforce is poor, unions are weak, and farmers are desperate to find some way of staying on their land. Alabama, Arkansas, Georgia, and Mississippi now produce more than half the chicken raised in the United States. Although many factors helped revolutionize the poultry industry and increase the power of the large processors, one innovation played an especially important role. The Chicken McNugget turned a bird that once had to be carved at a table into something that could easily be eaten behind the wheel of a car. It turned a bulk agricultural commodity into a manufactured, value-added product. And It encouraged a system of production that has turned many chicken farmers into little more than serfs.

"I have an idea," Fred Turner, the chairman of McDonald's, told one of his suppliers in 1979. "I want a chicken finger-food without bones, about the size of your thumb. Can you do it?" The supplier, an executive at Keystone Foods, ordered a group of technicians to get to work in the lab, where they were soon joined by food scientists from McDonald's. Poultry consumption in the United States was growing, a trend with alarming implications for a fast food chain that only sold hamburgers. The nation's chicken meat had traditionally been provided by hens that were too old to lay eggs; after World War II a new poultry industry based in Delaware and Virginia lowered the cost of raising chicken, while medical research touted the health benefits of eating it. Fred Turner wanted McDonald's to sell a chicken dish that wouldn't clash with the chain's sensibility. After six months of intensive research, the Keystone lab developed new technology for the manufacture of McNuggets — small pieces of reconstituted chicken, composed mainly of white meat, that were held together by stabilizers, breaded, fried, frozen, then reheated. The initial test-marketing of McNuggets was so successful that McDonald's enlisted another company, Tyson Foods, to guarantee an adequate supply. Based in Arkansas, Tyson was one of the nation's leading chicken processors, and it soon developed a new breed of chicken to facilitate the production of McNuggets. Dubbed "Mr. McDonald," the new breed had unusually large breasts.

Chicken McNuggets were introduced nationwide in 1983. Within one month of their launch, the McDonald's Corporation had become the second-largest purchaser of chicken in the United States, surpassed only by KFC. McNuggets tasted good, they were easy to chew, and they appeared to be healthier than other items on the menu at McDonald's. After all, they were made out of chicken. But their health benefits were illusory. A chemical analysis of McNuggets by a researcher at Harvard Medical School found that their "fatty acid profile" more closely resembled beef than poultry. They were cooked in beef tallow, like McDonald's fries. The chain soon switched to vegetable oil, adding "beef extract" to McNuggets during the manufacturing process in order to retain their familiar taste. Chicken McNuggets, which became wildly popular among young children, still derive much of their flavor from beef additives — and contain twice as much fat per ounce as a hamburger.

The McNuggets helped change not only the American diet but also its system for raising and processing poultry. "The impact of McNuggets was so huge that it changed the industry," the president of ConAgra Poultry, the nation's third-largest chicken processor, later acknowledged. Twenty years ago, most chicken was sold whole; today about 90 percent of the chicken sold in the United States has been cut into pieces, cutlets, or nuggets. In 1992 American consumption of chicken for the first time surpassed the consumption of beef. Gaining the McNuggets contract helped turn Tyson Foods into the world's largest chicken processor. Tyson now manufactures about half of the nation's McNuggets and sells chicken to ninety of the one hundred largest restaurant chains. It is a vertically integrated company that breeds, slaughters, and processes chicken. It does not, however, raise the birds. It leaves the capital expenditures and the financial risks of that task to thousands of "independent contractors."

A Tyson chicken grower never owns the birds in his or her poultry houses. Like most of the other leading processors, Tyson supplies its growers with one-day-old chicks. Between the day they are born and the day they are killed, the birds spend their entire lives on the grower's property. But they belong to Tyson. The company supplies the feed, veterinary services, and technical support. It determines feeding schedules, demands equipment upgrades, and employs "flock supervisors" to make sure that corporate directives are being followed. It hires the trucks that drop off the baby chicks and return seven weeks later to pick up full-grown chickens ready for slaughter. At the processing plant, Tyson employees count and weigh the birds. A grower's income is determined by a formula based upon that count, that weight, and the amount of feed used.

The chicken grower provides the land, the labor, the poultry houses, and the fuel. Most growers must borrow money to build the houses, which cost about $150,000 each and hold about 25,000 birds. A 1995 survey by Louisiana Tech University found that the typical grower had been raising chicken for fifteen years, owned three poultry houses, remained deeply in debt, and earned perhaps $12,000 a year. About half of the nation's chicken growers leave the business after fust three years, either selling out or losing everything. The back roads of rural Arkansas are now littered with abandoned poultry houses.

Most chicken growers cannot obtain a bank loan without already having a signed contract from a major processor. "We get the check first," a loan officer told the *Arkansas Democrat-Gazette.* A chicken grower who is unhappy with his or her processor has little power to do anything about it. Poultry contracts are short-term. Growers who complain may soon find themselves with empty poultry houses and debts that still need to be paid. Twenty-five years ago, when the United States had dozens of poultry firms, a grower stood a much better chance of finding a new processor and of striking a better deal. Today growers who are labeled "difficult" often have no choice but to find a new line of work. A processor can terminate a contract with a grower whenever it likes. It owns the birds. Short of that punishment, a processor can prolong the interval between the departure of one flock and the arrival of another. Every day that poultry houses sit empty, the grower loses money.

The large processors won't publicly disclose the terms of their contracts. In the past, such contracts have not only required that growers surrender all rights to file a lawsuit against the company, but have also forbidden them from joining any association…