Understanding the USDA Rule on Broiler Grower Payment Systems

Implications for Grower Pay, Incentives, and Farm Investments

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Overview

On January 16, 2025, the United States Department of Agriculture – Agricultural Marketing Service (USDA-AMS) published a rule titled *"Poultry Grower Payment Systems and Capital Improvement Systems"* under the Packers and Stockyards Act (USDA-AMS, 2025). Although originally scheduled to take effect July 2026, implementation was delayed and is now set to be rescinded according to the Office of Information and Regulatory Affairs.

This rule established new guardrails for how poultry integrators—referred to as Live Poultry Dealers (LPDs)—structure commercial broiler grower contracts. It focuses on:

- Grower compensation systems
- Tournament (ranking-based) pay
- Contract transparency
- Capital improvement requirements

USDA-AMS identified key concerns in the industry, including grower debt levels, limited contract alternatives, and integrator control over critical inputs. The agency concluded that traditional systems could shift risk onto growers through *"reduced compensation… for reasons outside their control yet within the control of the LPD"* (USDA-AMS, 2025).

The rule is intended to:

"…prohibit certain payment practices under poultry grower ranking systems… [and] require live poultry dealers to adopt policies and procedures for operating a fair ranking system," while *"improving transparency and reducing deception and unfairness in broiler grower payments."* (USDA-AMS, 2025)

Changing the Traditional Tournament System

Most broiler growers are paid using variations of a "tournament" ranking system. Under these systems:

- Growers start at a base pay rate

- Performance is compared to a group of growers typically processed in a week (settlement)
- Better than average cost growers receive bonuses
- Higher than average cost growers receive pay reductions

USDA-AMS found this system problematic because *"factors outside of the grower's control… still adversely affect… compensation"* (USDA-AMS, 2025), including differences in:

- Feed quality
- Chick quality
- Production practices

What the Rule Does

The rule does **not eliminate tournaments**, but it changes how they work—especially by removing penalties and limiting variability.

Key Provision: No More Pay Reductions from Ranking

Under §201.106(a), the rule clearly states:

"The arrangement may not provide for mechanisms or calculations that would reduce the compensation rate based on the grower's performance relative to other growers." (USDA-AMS, 2025)

It further clarifies:

"In no event could the rate be decreased or discounted by that comparison." (USDA-AMS, 2025)

What This Means for Growers

- Base pay becomes a **guaranteed minimum rate**
- Growers cannot be penalized for ranking below average
- Tournament "downside risk" is eliminated

USDA-AMS concluded that prior pay reductions were misleading because they *"force[d] growers to estimate potential earnings using contractually stated 'base' pay rates that… only (a portion) of the settlement group can achieve."* (USDA-AMS, 2025)

Performance Bonuses Still Allowed

The rule still allows incentives be used to encourage management excellence:

“The broiler growing arrangement could provide for the compensation rate to be increased based on the broiler grower’s performance relative to others.” (USDA-AMS, 2025)

New Pay Structure

- ✅ Bonuses (higher performance): allowed
- ❌ Penalties (lower performance): prohibited

This structure is consistent with the Department of Justice consent decree in *United States v. Cargill Meat Solutions Corp.* (Anti-trust Division, 2024) that governed the merger of Wayne Farms and Sanderson Farms, which also limited punitive ranking practices.

Important Considerations

- LPDs are **not required to offer bonuses**
- Pay structure remains flexible (per pound, per square foot, etc.)
- Rule does not establish a minimum cash flow
- Growers may still face **production risk** (e.g., mortality reducing total pounds)

Limits on Pay Variability

The rule introduces a limit on how much tournament-based incentives can affect pay. Under §201.106(b):

“A presumption… [of violation occurs] when aggregate gross annual payments based upon… comparison of growers exceeds 25 percent of total gross payments.” (USDA-AMS, 2025)

USDA-AMS explains:

“Excessive pay variance makes compensation dependent on arbitrary criteria… or other criteria that the grower cannot control.” (USDA-AMS, 2025)

Practical Impact

- Tournament incentives must be **limited in size**
- More income will come from stable base pay

- Grower income variability should decrease, but limits on upside incentives could decrease pay for some growers.

When Pay Can Still Decrease

The rule does **not eliminate all pay decreases**, but it makes an important distinction:

Not Allowed

- Pay reductions tied to ranking or comparison
- Tournament penalties

Allowed (With Conditions)

- Contract changes that reduce pay
- Must be reported if they lower average grower earnings

Specifically, LPDs must document changes that *"result[] in a decrease in the prior annual-calendar year's… average gross payment"* (USDA-AMS, 2025).

Still Possible for Growers

- Lower income from fewer pounds produced
- Reduced pay if contract requirements are not met

Note: The rule guarantees **rate of pay**, not total revenue.

"Fair Comparison" Requirement

If LPDs use performance incentives, they must ensure fairness under §201.110:

Systems must *"provide a fair comparison among growers"* (USDA-AMS, 2025), though it does not specify what "fair" means. It does dictate that when "fairness" cannot be achieved, growers must be paid using *"a non-comparison method."* (USDA-AMS, 2025)

Examples of Fairness Issues

- Unequal feed or chick quality
- Input failures outside grower control

Implications

- LPDs must manage inputs and groupings carefully
- Growers may be removed from comparisons when conditions are unequal

- Alternative pay methods (e.g., multi-flock averages) may be used as needed for non-competitive situations

Improved Contract Transparency

The rule requires clearer information about pay:

- Compensation rates must be clearly defined
- Rates must function as **true guarantees**

This addresses concerns that previous systems made it difficult for growers to determine minimum income levels with some important limitations.

Capital Improvement Requirements

The rule also addresses capital investments under §201.112.

LPDs can still require upgrades, but must provide a **Capital Improvement Disclosure Document (CIDD)** that includes:

- Purpose of the investment
- Construction specifications and timeline
- Equipment requirements
- Approved vendors
- Compensation changes
- **Projected return on investment (ROI)**

Additionally, LPDs must disclose any financial benefits they receive from vendors.

What This Means for Growers

- Better information for decision-making
- Ability to evaluate ROI before investing
- Protection against unclear or unsupported upgrade requests/requirements

What Has NOT Changed

- LPDs can still require upgrades
- Contracts may still depend on compliance
- The rule emphasizes **transparency, not prohibition of upgrades**

Potential Concerns and Considerations

While the rule improves transparency and stability, it may create new challenges:

Reduced Incentives

LPDs may choose to eliminate bonuses entirely, creating uniform pay systems (Brothers, 2026).

- This could reduce motivation for top performance, which could negatively impact production and thus total revenue
- May lead to greater management oversight and tighter contract stipulations

Cost Impacts

- Increased costs for LPDs may influence pay structures
- Could affect where base pay levels are set

Capital Investment Pressure

- While more transparent, capital improvements may still be required
- Growers may face continued financial pressure to upgrade

Summary

The USDA rule represents a major shift in broiler grower compensation systems with key changes:

- Prohibits pay reductions tied to ranking (§201.106(a))
- Allows only bonus-based performance incentives
- Limits tournament variability to 25% (§201.106(b))
- Requires guaranteed and transparent pay rates
- Mandates "fair comparison" among growers (§201.110)
- Improves transparency in capital investment decisions (§201.112)

Bottom Line

The rule changes tournament systems from a **penalty-and-reward structure** to a **bonus-only system with a guaranteed pay floor**.

Potential Benefits:

- Greater pay stability
- Reduced exposure to factors outside grower control
- Improved transparency in contracts and investments

Potential Challenges:

- Possible elimination of bonuses
- Reduced upside potential for high-performing growers
- Continued exposure to production risk

References

Anti-trust Division, U.S. Department of Justice. *United States v. Cargill Meat Solutions Corp.*, Civil Action No. 1:22-cv-1821, Modified Final Judgment, April 9, 2024.

Brothers, D. (2026). *Broiler Revenue Questions – Part 3.* Southern Ag Today.

U.S. Department of Agriculture, Agricultural Marketing Service. (2025). *Poultry Grower Payment Systems and Capital Improvement Systems*. Federal Register.