

# Pilgrim's Pride to Close Plants

Steep Rise in Grain Costs Prompts Move;  
Company Blames Ethanol Mandate

By LAUREN ETTER

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**Pilgrim's Pride** Corp., the world's largest poultry producer by volume, said it is paring its chicken business, slashing more than a thousand U.S. jobs in the process, as soaring grain prices pinch margins.

In what it is calling an industry-wide "crisis," the Pittsburg, Texas, company, whose 2007 revenue was \$7.6 billion, says its cost for feed is expected to be more than \$1.3 billion higher than two years ago. That is largely because the price of the two main feed ingredients, corn and soybeans, has more than doubled over the past year as demand for grain world-wide rises and as more grain is used to produce biofuels.

As a result, Pilgrim's Pride plans to close a chicken processing plant in Siler City, N.C., along with six of its 13 U.S. distribution centers.

While many farmers are enjoying the high grain prices, purchasers and users of grain are struggling. Pilgrim's Pride has already increased prices to its customers, although it wouldn't say by how much. The retail price for broiler products was about \$1.69 a pound, up about 10% from last year, according to figures from the U.S. Agriculture Department. Consumers are also starting to feel the impact of higher prices at the grocery store.

Chief Executive Clint Rivers lays the blame on Congress and the government's support of the ethanol industry.

Under current law, oil-and-gasoline refiners are required to blend 36 billion gallons of ethanol into the gasoline supply by 2022. Of that, 15 billion gallons will come from corn, while the rest is supposed to come from cellulosic ethanol, which has yet to be commercialized. The ethanol industry is also supported by subsidies paid to the oil industry for blending the fuel into their gasoline stocks and a tariff to keep cheaper Brazilian ethanol out of the U.S.

"We are spending tax dollars to raise our food prices," Mr. Rivers said in an interview. Ultimately, he added, that means consumers have seen only a "small percentage of increases they'll eventually be seeing in grocery stores and restaurants."

Matt Hartwig, spokesman for the Renewable Fuels Association, replied that "to lay the blame solely at the feet of the U.S. ethanol industry is misleading at best."

Feed makes up 50% of the cost to grow a bird, but there are other factors weighing on the industry. Higher fuel prices, for example, cut deeply into the processing side of the industry, which requires birds and meat to be transported across the country. Also, electricity costs are a big expense for a processing plant, since refrigerators and other equipment must be kept running at all times.

Trade groups representing the meat industry fought the ethanol mandate, saying it would put livestock and poultry growers out of business while leading to higher food prices.

But the mandate passed handily in Congress and President Bush signed the bill in December, saying it represented a "major step toward reducing our dependence on oil, confronting global climate change, expanding the production of renewable fuels and giving future generations of our country a nation that is stronger, cleaner and more secure."

Since then food prices have been on a tear. Food prices have risen more than 4% in the past year and are expected to continue climbing, according to Ephraim Leibtag from the USDA.

Recently at a renewable-energy conference, Mr. Bush said growing ethanol demand was "beginning to affect the price of food. And so we got to do something about it." But he said the answer was not to retreat on the mandate. Instead, he said, the country needed to forge ahead with research in second-generation fuels, like cellulosic ethanol. Most industry experts say commercialization of such fuels is between five and 10 years away.

Last month Federal Reserve chief Ben Bernanke suggested to the Senate Banking Committee that allowing Brazilian ethanol into the U.S. without tariffs could alleviate pressure on food prices. Farmers shudder at such a thought, because Brazilian ethanol is produced much more cheaply than American corn-based ethanol.

**Write to** Lauren Etter at [lauren.etter@wsj.com](mailto:lauren.etter@wsj.com)<sup>1</sup>