

## An Open Letter to Costco

May 30, 2017

W. Craig Jelinek, CEO  
Costco Wholesale Corporation  
999 Lake Dr., Suite 200  
Issaquah, WA 98027

Dear Mr. Jelinek:

In good faith, we sent you a letter March 2, 2017 detailing some of our concerns about what we believed to be the latest version of the poultry production contracts you were offering area farmers for your new poultry processing plant at Fremont, Nebraska.

We are disappointed that you did not respond in any fashion to our letter. That is not very polite, professional, or neighborly.

As we said in the letter: “Our area farmers know very little about growing broilers, and far less about poultry contracts.” That puts them at a serious disadvantage when working with your company that offers 15 year non-negotiable, take-it-or-leave-it, “as is” contracts. We worry about that serious inequity.

Along with others, we sponsored informational meetings to area participants last June. We brought in experienced legal expertise from the Farmers’ Legal Action Group, Inc. with years of experience in working with poultry contracts. The time to understand the far and long reaching implications of these complicated legal agreements is before a farmer signs, not after they are already binding.

As we pointed out in our March letter, “Because of Costco’s reputation as a socially responsible company, we and many in the Fremont, Nebraska community hoped that Costco’s participation in the proposed processing plant offered a chance to demonstrate to the poultry industry that broiler chickens can be produced and processed profitably while treating the growers who make huge investments in grow out facilities and provide the poultry production labor fairly.”

Now is the time to stand behind your public claims. Since you did not respond to our offer to discuss our concerns, we want you to know what our concerns are.

**Termination Provisions:** The 15-year contract term is full of company opt outs for which the Lincoln Premium Poultry (“LPP” or “Company”) can terminate the contract at any time during that period. That is heavy handed, and one sided.

**Economic Hardship Termination:** This one-sided provision allows Lincoln Premium Poultry to terminate the contract due to “economic hardship” which leaves growers holding the bag for their investment.

**LPP’s Control of Number of Birds Delivered to Growers:** Lincoln Premium Poultry’s Proforma Boiler House Model does not include all the incurred costs of production, and as is not an accurate profit and loss estimate.

**LPP’s Control of Inputs Affecting Growers’ Production Efficiencies:** While LPP’s broiler production contract sets a base price per pound of bird produced from which no deductions will be made, the Company is still in control of the health of chicks delivered; the quality, quantity, and time of feed

deliveries; and the quality and timing of veterinary services. Essentially, the LPP maintains control over all of the most significant factors that affect the pounds produced and the efficiency of that production that generates the enhanced payments.

**LPP Can Require Costly Housing and Equipment Changes:** LPP's contract also retains one of the provisions that has often caused financial ruin for poultry growers – the authority to require that growers, even during the term of the contract, make changes in housing and equipment whenever the LPP deems such changes to comply with industry standards, customer requirements, good production practices or changes in law.

**Growers' Required to Accept all Environmental Liability:** LPP's broiler contract forces the growers' to accept all responsibility and liability for any environmental impacts resulting from the production of the Company's birds including those related to the poultry waste (litter) and dead birds, without any compensation for impacts that may be inherent in the production of birds owned by LPP.

**Grower Improvement Plan:** The grower improvement plan incorporated into the contract sets a very high mark that growers must meet in order to prevent termination of the contract, even though growers' ability to meet these standards are greatly impacted by the chicks, feed, and veterinary services provided by LPP. The Company's control over these factors restricts the growers' ability to meet these standards.

**Restricts Growers' Rights:** The contract also contains traditional poultry industry measures that restrict poultry growers' rights in a manner that is un-American. First, it restricts growers' rights to freedom of speech by prohibiting any recording or publication of images of, not only LPP's employees, agents or representatives, but also the LPP's broilers or feed. If things go wrong, they cannot document the problem. Second, the contract forces growers to waive their rights to a jury trial if any disputes arise between the LPP and the grower.

For these and other issues with Costco's proposed contracts, we again request that Costco meet with us to discuss the ways to remedy problems inherent in contract poultry production. Given the poultry industry's well known negative track record relative to how it treats their poultry contract producers, we hope you appreciate our desire to make positive changes that really will treat poultry producers fairly.

Sincerely yours,

John Hansen  
President  
Nebraska Farmers Union  
1305 Plum  
Lincoln, Nebraska 68502  
(402) 476-8815  
john@nebraskafarmersunion.org

Mike Weaver  
President  
Organization for Competitive Markets  
P.O. Box 6486  
Lincoln, NE 68506  
(304) 668-2526