

## **Grant Opportunities for New and Existing Meat Processing Plants**

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The following is a summary of the webinar “Grant Opportunities for New and Existing Meat Processing Plants” given on October 14, 2021, as part of the Center for Agriculture Profitability weekly webinar series housed in the Department of Agricultural Economics at the University of Nebraska – Lincoln. This webinar is the second of two webinars focused on the current state and potential growth of the meat processing industry. The first webinar is entitled “Developing A Meat Processing Plant: Financial and Legal Issues”. Both webinars and accompanying write-up can be accessed at <https://cap.unl.edu/webinars> and a podcast at <https://cap.unl.edu/podcasts>. All are provided free to the public.

### **Current Situation**

During COVID-19 meat processing plants came under increased scrutiny about plant working conditions and what plants were doing to control the spread of COVID-19. At that time, cases per capita were rising faster in counties where there were livestock and poultry processing plants relative to counties without a processing plant. Meat and poultry processing plants responded to this by allowing workers to take paid time off due to active or suspected illness and implemented CDC and OSHA-approved safety measures. Some measures included increased spacing between workers, hanging plexiglass, and face masks. As a result of these measures, the available labor force and chain speeds were reduced. This, in turn, caused harvest-ready cattle to be backed up, reducing farm gate prices and in extreme cases to euthanizing animals.

These market disruptions highlighted the structure and size of the meat processing industry. Larger plants are more efficient (i.e. lower average cost per unit) than smaller plants because they can process a larger number of animals by building plants locations close to livestock and with workers specializing in one task. Rapidly rising retail meat and poultry prices have led both the public and livestock producers to be concerned about the size and consolidation of meat processing plants. Congress responded to these concerns by launching an investigation and passing several spending bills that allocated money to help aid new and existing “Very Small” and “Small” meat processing plants. The purpose of this webinar is to show how and where consolidation has occurred in the meat and poultry processing industry, provide information on current grant opportunities for new and existing meat processing plants, and explain what the University of Nebraska – Lincoln is doing to increase meat processing training and skills.

### **Meat Processing Consolidation**

There have been calls from the public and producers to investigate the impacts of consolidation in the meat processing industry. This investigation began after the Holcomb, KS packing plant fire in 2019 and was further broadened in 2020 to include the COVID-19 pandemic. Since then, there have been numerous congressional hearings held but there has been no official congressional action to date. Producers asking Congress to investigate the meat processing industry is not new occurring eight times since all of which occurred at a time when the processing industry was making large amounts of profits after a sharp decline in livestock prices. Some of these investigations have led to new legislation and divisions within the USDA, most notably the development of USDA's (now GIPSA's) Packers and Stockyards (P&S) division in the 1920s.

The annual P&S report provides information about the level of consolidation for specific livestock and poultry segments. This report uses the four-firm concentration ratio (CR4), a ratio of the share of the four largest firms in the industry, to monitor industry consolidation with a larger ratio implying a higher degree of concentration. The industry experienced a large degree of consolidation between 1980 and 1995. For example, the CR4 for firms harvesting steers and heifers went from 35 in 1980 to 80 in 1993 – it has stayed between 80 and 85 since then. Other livestock commodities have experienced a similar degree of consolidation albeit with a less dramatic trend.

Two driving factors behind consolidation are economies of scale and technology. Economies of scales suggest that a plant can reduce their total average cost by expanding the number of animals they process per day. For example, in a GIPSA report focused on meat processing, a plant that harvests 6,500 head of cattle per day is 5% more efficient than a 5,000 head per day, and 12% more efficient than a 3,500 per day plant. Over time, plants with higher average total costs will be less profitable and eventually go out of business. Technology has also been a driver in plant consolidation. The meat processing segment has changed considerably since the 1800s. Several technologies that have driven the geographic consolidation of the industry include upstream steamboats, railroads and refrigerated rail cars, interstate highways and refrigerated trucks, shipping of boxes of beef rather than entire carcasses, and value-added retail programs with ready to cook packages.

The number and share of plants and production by plant size is another way to understand plant consolidation. USDA-NASS annually reports the number of federally inspected plants by plant size. Since 1980, there has been a large reduction in the total number of plants with the largest nominal decline coming from plants harvesting less than three head per day. However, plants of all sizes were experiencing some level of consolidation leading to very small plants increasing the share of total federally inspected plants from 60% to 70%. One significant change has been the number and share of head of livestock harvested by large plants (i.e. plants harvesting over 2,000 head per day). The share of total head harvested each year increased from 25% to nearly 75%. This has occurred by small and medium plants shutting down on the East and West coasts and consolidating harvest capacity near livestock feeders in the Midwest.

## **Grant and Loan Opportunities for New and Existing Meat Processing Plants**

USDA has different programs available or coming available to help expand meat processing capacity with some targeted at “Small” or “Very Small” federally inspected facilities or new or existing custom facilities looking to become federally inspected. Currently, there are funding opportunities available or available soon from COVID relief funding and are being administered by USDA Agriculture Marketing Service. Programs include federally guaranteed loans for expansion, reimbursement for direct COVID-related expenses incurred, and reductions in USDA FSIS overtime/holiday inspection fees for small and very small plants. Additional funds have been directed toward Meat Processing but the program details are not yet defined.

Additional funding opportunities exist through USDA Rural Development. These programs vary in focus and include both regular ongoing funding in addition to some COVID-specific one-time funding. Some programs provide loans or grants or loans to establish new businesses or upgrades to current businesses. Other programs include funding opportunities through a public or non-profit entity to support rural economic development; these could include funding for infrastructure improvements, loans to businesses, or grant opportunities. Most of these programs will require a match or provide partial funding for programs.

Additional information about the programs including availability, due dates, funding format, and requirements can be found at <https://www.rd.usda.gov/programs-services/business-programs> and <https://www.ams.usda.gov/services/grants>. This information is current as of the time of the Webinar.

## **Workforce Development**

In response to USDA’s Request for Information on what type of investments are needed to address challenges facing small and very small meat processing businesses, the University of Nebraska – Lincoln (UNL) offered comments. Identified needs for improvement included:

- Major workforce shortages exacerbated by lack of training programs
- Compliance with worker health and safety considerations, food safety training, HACCP education, and implementation, and other regulations can be unduly burdensome for small processors
- Growing need for biosecurity and food defense education and protocols
- Lack of access to and funding for new and emerging technologies
- Challenges in the farm to Fork supply chain, specifically concerning direct farm-to-consumer models
- Need for consumer education

These areas of improvement were developed through discussions with individual producers, producer organizations, and private business operators. UNL is looking forward to USDA’s analysis of the entirety of the comments submitted and hopes to work together to seek funding and support that will enhance and increase the opportunities for small and very small meat processing in Nebraska for both custom exempt operations and those facilities that operate under federal inspection.

## Poll Question Responses

As part of the webinar, two poll questions were asked to assess the current understanding of industry consolidation and congressional investigations. The first question asked, “In what year did the top 4 firms begin to harvest approximately 80% of all Steers/Heifers in the United States?” Participants who answered generally thought that consolidation happened either much earlier or much later than the actual date of consolidation in 1993. The second question asked, “Since 1850, how many times has Congress investigated the meat processing industry?” Responses were equally divided participants with 26% of individuals correctly answering eight times.

## Frequently Asked Questions

*Q: What is the process for custom exempt plants to become federally inspected and what are the primary barriers to becoming a federally inspected plant?*

A: There are specific requirements related to sanitary plant design that is required for all USDA inspected facilities (9 CFR § 416.2 - Establishment grounds and facilities). These are not required of custom-exempt plants as long as food contact and non-food contact surfaces can be cleaned and sanitized (9 CFR § 416.4 – Sanitary Operations). In addition, there are requirements such as HACCP plans and pre-requisite programs, providing an inspector’s office, etc. Not all custom exempt plants can meet the facility requirements without updates and renovation but for those interested in becoming inspected, UNL can provide support in the process.

*Q: What is the impact of labor on current and new meat and poultry processing plants?*

A: Meat processing plants have historically relied on first and second-generation immigrants for labor. Wages plus signing and retention bonuses have significantly increased to find new workers. As wages plus benefits increase it should be easier for meat processing plants to find labor. Exposure to meat processing as a career choice is another way to increase qualified labor. Many students do not think of meat science as an option when coming to college. UNL is trying to accomplish this objective by helping youth get exposure through youth FFA and 4H events, K12 engagement, as well as college courses.

*Q: Efficiency, throughput, and automation is a key part that needs to be addressed with small plants. How do current grant opportunities address these needs?*

A: UNL has included the need for labor/workforce, automation, and technology to increase small packing plant capacity to USDA’s request for information. In late 2021, USDA plans on submitting a full request for proposal which UNL plans to address.

*Q: What is the list of grants that are currently being offered for NEW plants and when are their deadlines?*

A: See PowerPoint slides provided

*Q: What is the list of grants that are currently being offered for CURRENT EXISTING plants and when are their deadlines?*

A: See PowerPoint slides provided

*Q: What resources do you recommend for individuals or investor groups interested in starting a new small or very small plant? (Writing business plans, marketing, etc.)*

A: Nebraska Business Development Center based at University of Nebraska at Omaha

*Q: What resources are available for processing plants that are wanting to expand but the city or community does not have the current infrastructure in place?*

A: USDA Rural Development has grants that cities, counties, non-profits, and other similar organizations can apply to support the development of infrastructure