Meat Processing Plant Consolidation and Historical Calls For Investigation

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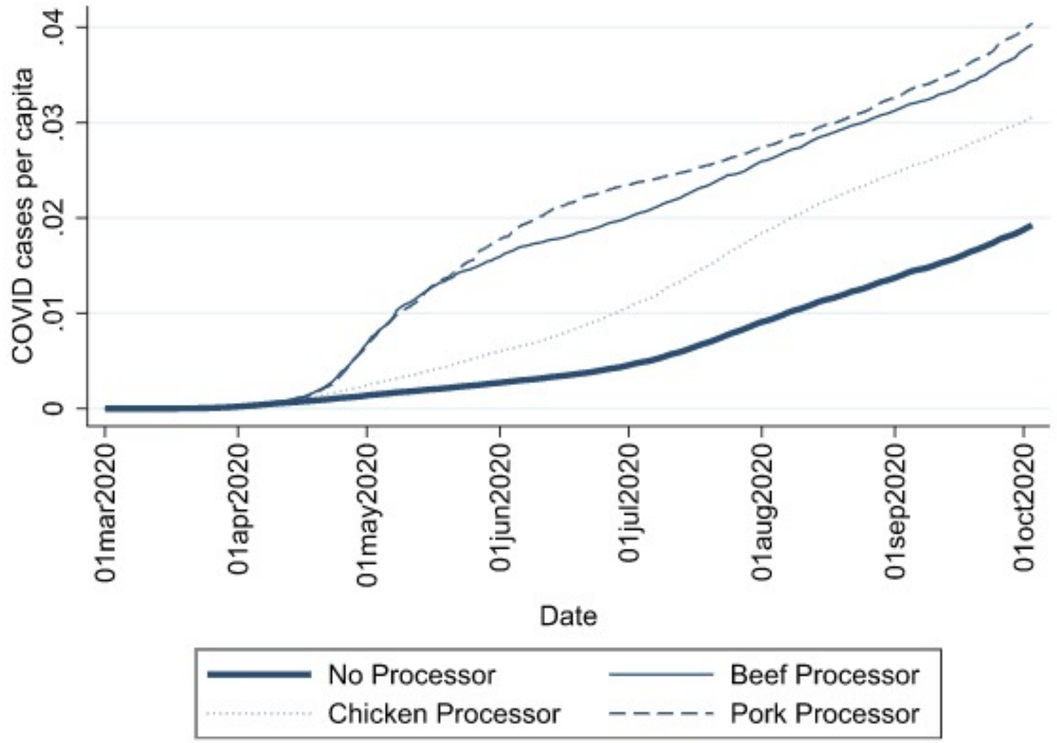
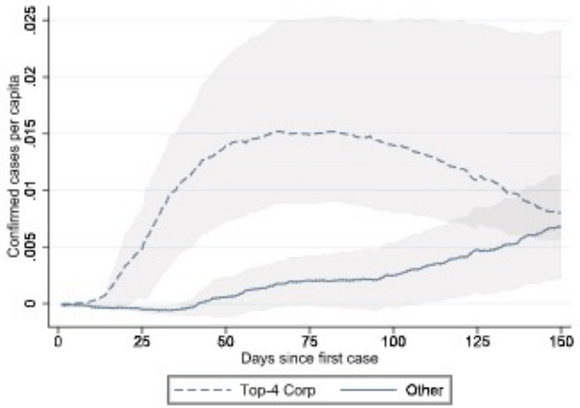
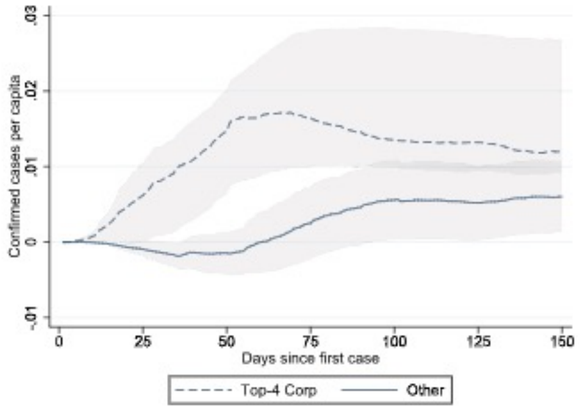
COVID-19 Impacts on Meat Processing



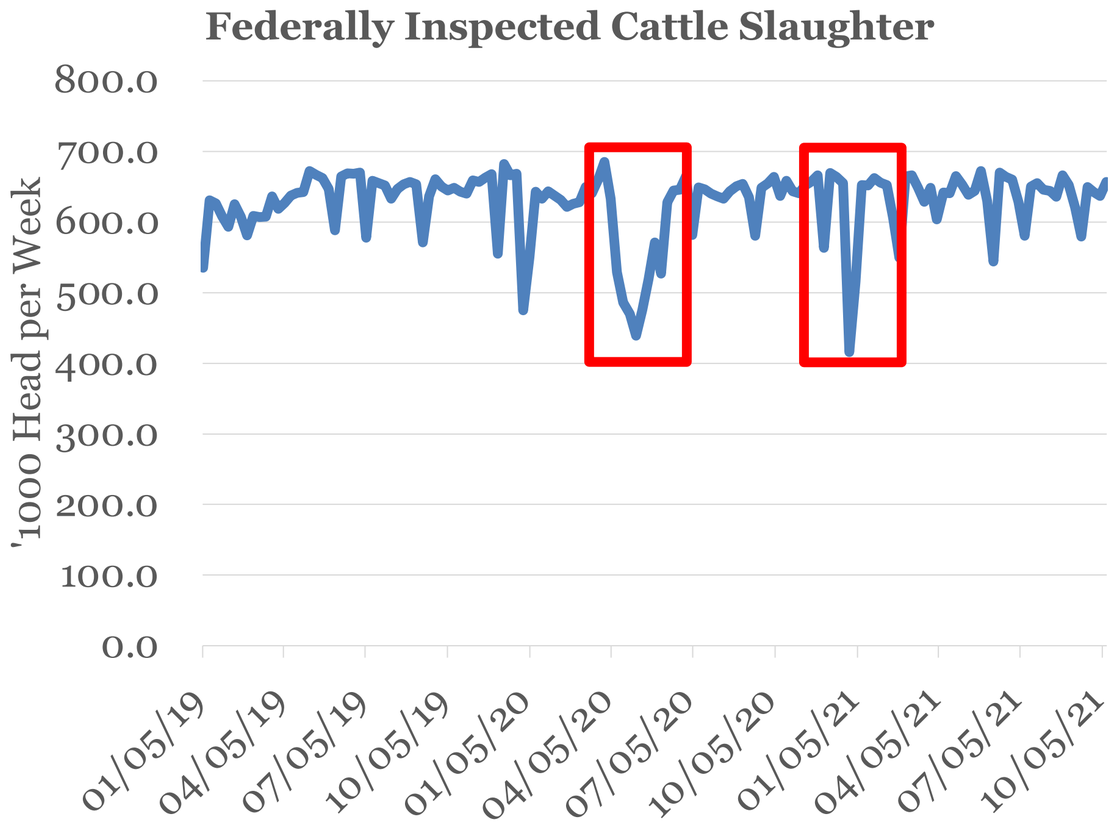


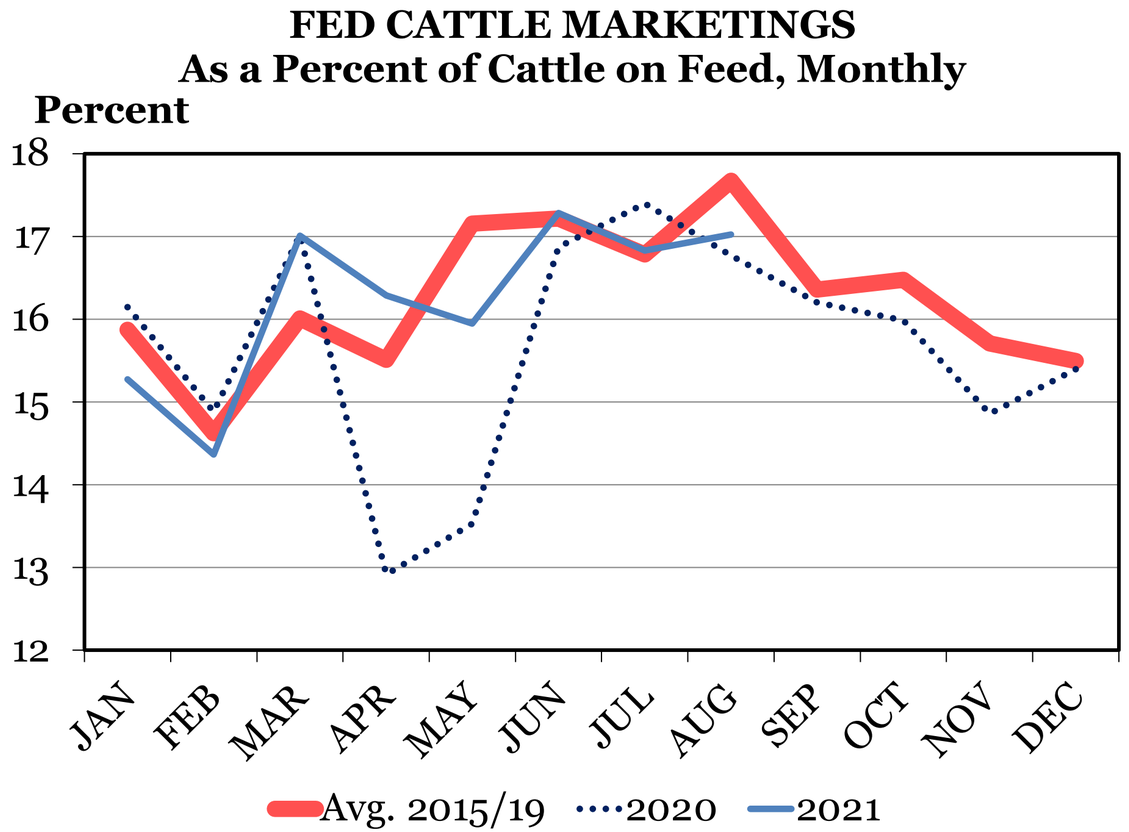
(a) Impact of Beef Plants on Disease Dynamics



(b) Impact of Pork Plants on Disease Dynamics

Slaughter & Cattle Backlog





In what year did the top 4 firms begin to harvest approximately 80% of all Steers/Heifers?

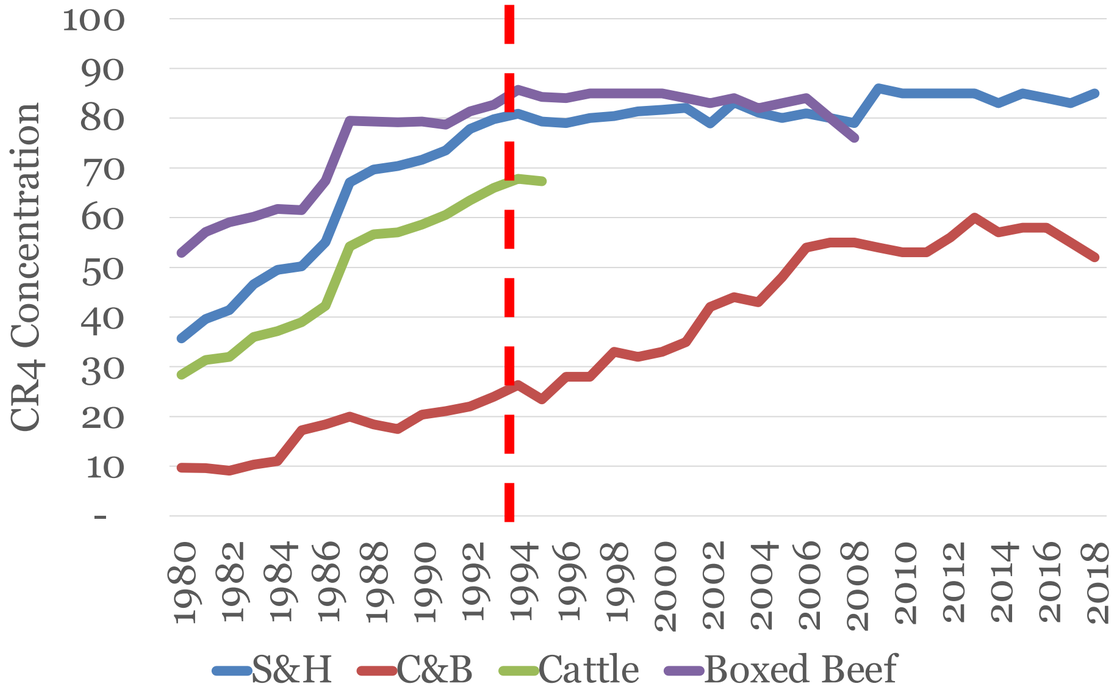
Consolidation in Meat Processing

How do we define consolidation?

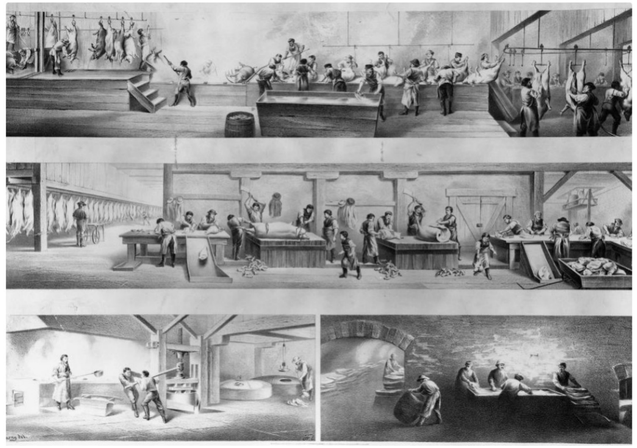
- P&S use the four-firm concentration ratio (CR4) by livestock type

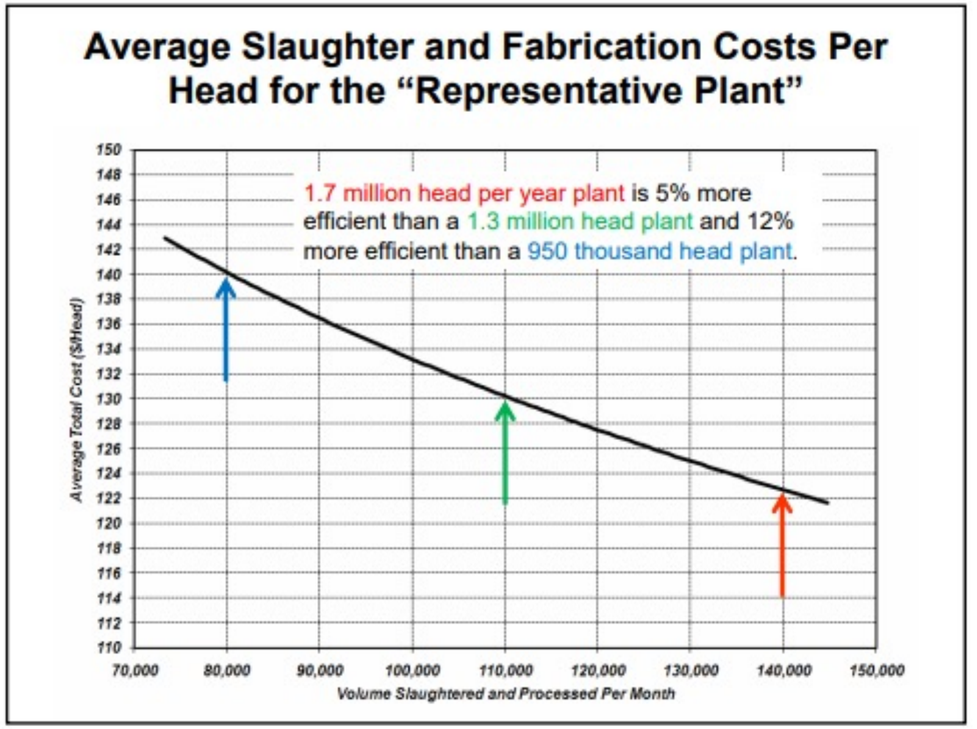
- It measures the share of the four largest firms in the industry

- A largest concentration ratio implies a higher degree of concentration



Economies of Scale

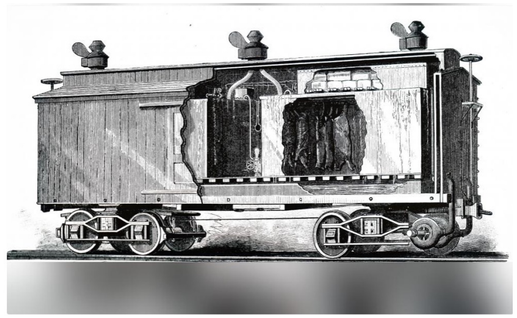




Technology Can Drive Consolidation

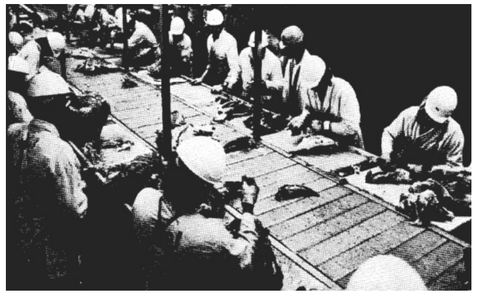
1800's

1860's



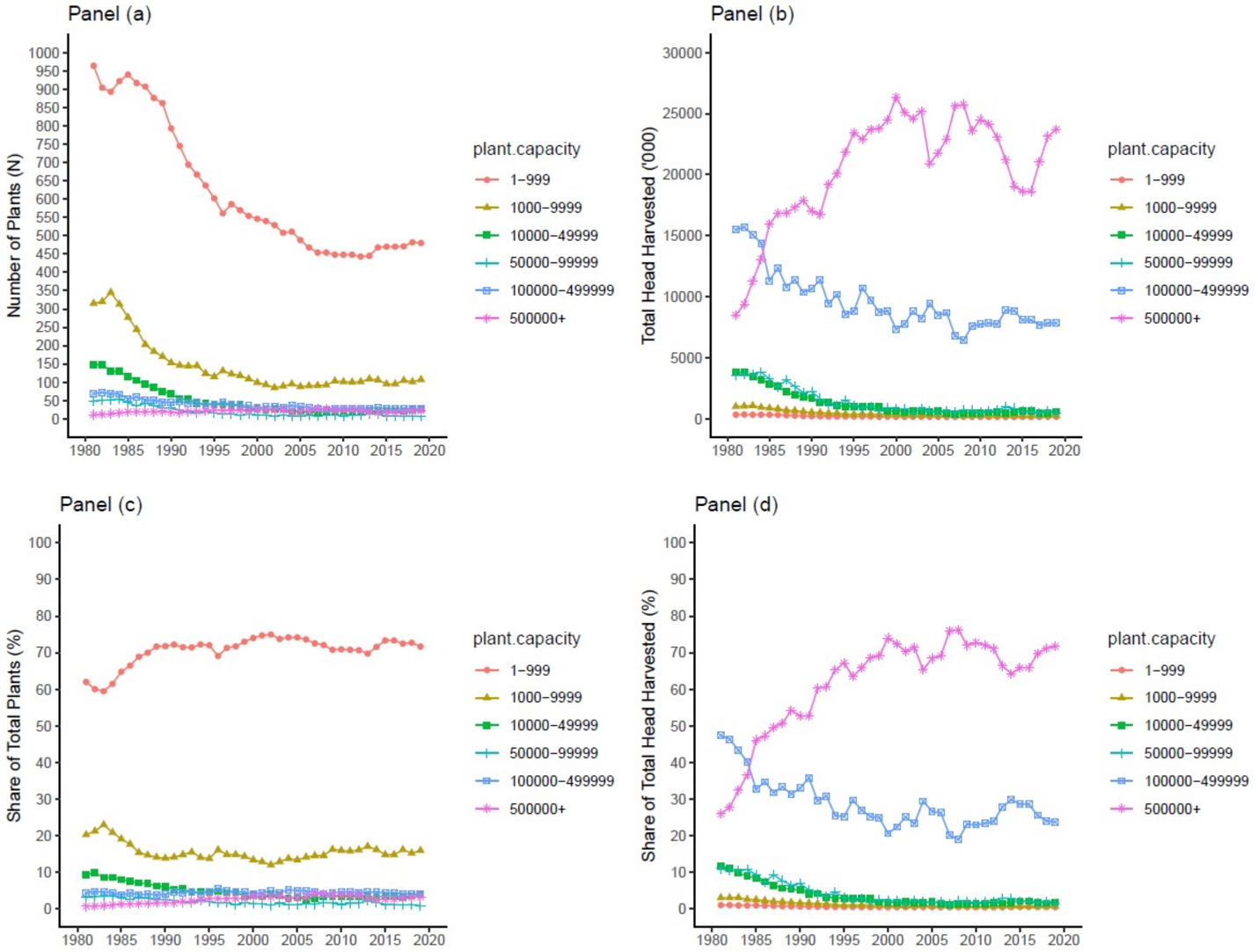
1880's

1930's



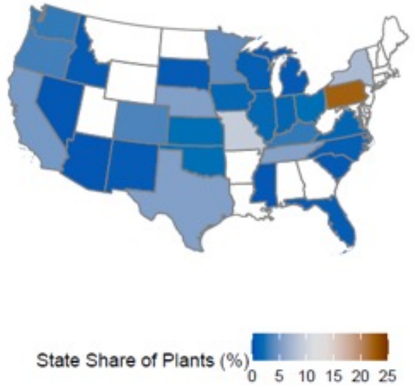
1970's

Size and Type of Plant Consolidation

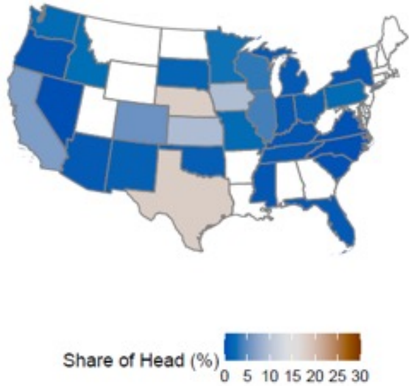


Intensity of Slaughter

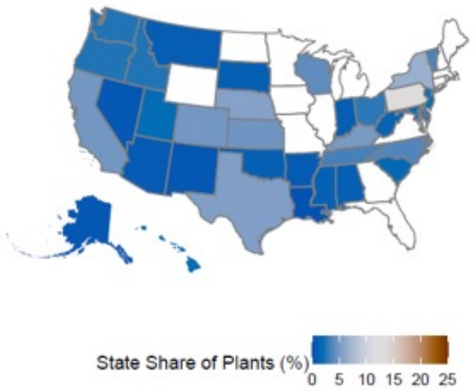
(a) Share of Plants, 1980



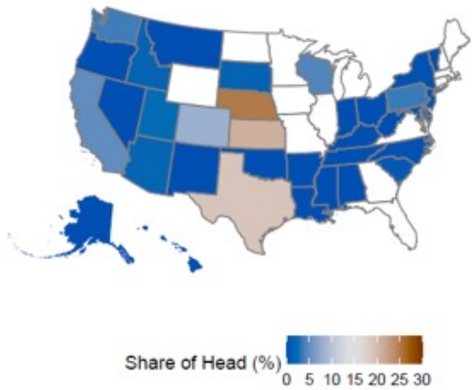
(b) Share of Head, 1980



(c) Share of Plants, 2019



(d) Share of Head, 2019



Current Investigation

- 2019: Special investigation began after the Holcomb, KS packing plant fire
- 2020: Widened to include COVID-19
- 2020: Report from AMS on prices; P&S findings different than DOJ
- 2021: Numerous Congressional Hearings on Markets and Competition
- 2021-2022: ???

Since 1850, how many times has Congress investigated the meat processing industry?

A Reoccurring Concern

Year	Market Event/Accusation	Findings
1888-1890	35% (24%) decline in nominal (real) cattle prices	"Big Four" colluded to fix beef prices, by territories in business, divide the public contract business, and compel retailers not to buy from Packers outside a specific group Packers
1903-1904	Low beef cattle prices and unusually large margins between beef cattle and fresh beef	First official data of industry concentration; price spread between fresh beef and beef cattle not reliable indicator of industry performance given value of byproducts
1910-1912	Allegations of price fixing and maintained livestock polls	Jury acquitted the packers
1915-1918	Declining livestock prices with increasing exports and declining imports	Evidence was found of international allocation of sales and rotational price cutting to eliminate small firms
1970-1980	Rapid consolidation in market share of Iowa Beef Processors (IBP)	No misconduct
1992-1996	Concerns about concentration in the red meat packing industry	Steady sustained monitoring and analysis net provides meaningful information as the industry falls in market conditions change.
2020	Allegations of Price Fixing -> Holcomb Fire, COVID-19	Current Investigation

Source: P&S Reports and Azzam (1998)

Government Policies to Address Current Public Concerns

Market Transparency
- Various bills in the U.S. House and U.S. Senate

Reauthorization of LMR

Resilience vs. Efficient
- Grants for small and medium processors

Information on Packing Structure

1. Federally Inspected Plants (USDA-FSIS)
https://www.fsis.usda.gov/inspection/establishments/meat-poultry-and-egg-product-inspection-directory

2. Plant Size and Annual Slaughter (USDA-NASS)
https://usda.library.cornell.edu/concern/publications/r207tp32d

3. Packers and Stockyards Annual Reports
https://www.ams.usda.gov/reports/psd-annual-reports

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Grant Opportunities for New and Existing Meat Processing Plants

Gary Sullivan
Associate Professor, Meat Processing
University of Nebraska

Overview

- Points to cover
  - Meat Inspection and Requirements
  - Covid in Meat Processing Operation
  - Grant Opportunities

Requirements for Sale of Meat

- Must be inspected
  - USDA FSIS Inspection
  - State Meat Inspection
    - Nebraska does not have State Meat Inspection
- Custom Exempt– cannot be sold
  - Service provided for the owner of the animal
  - Must be labeled "Not For Sale"
  - Can be multiple owners – Identified prior to harvest
    - Herd Shares

USDA Definitions

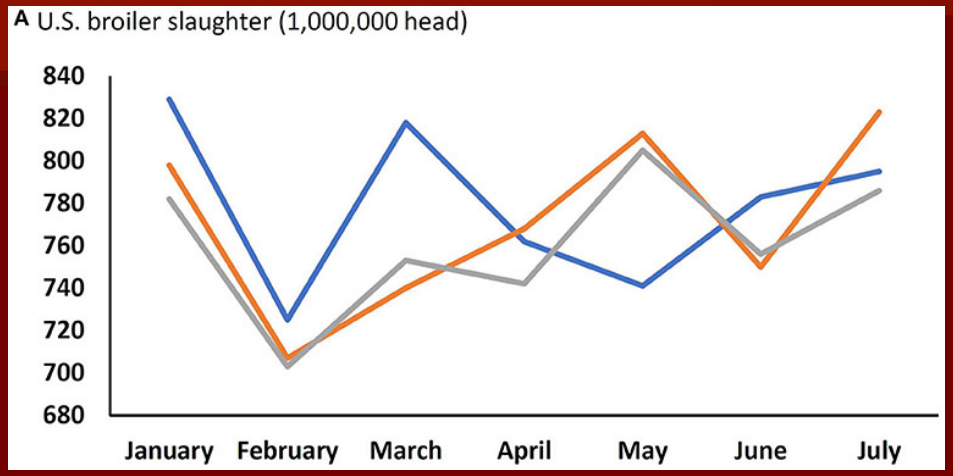
- FSIS Plant Size
  - Very Small
    - Fewer than 10 employees or less than $2.5 million in sales
  - Small Plant
    - 11 to 499 employees
- Rural Development
  - Rural
    - Less than 50,000 residents

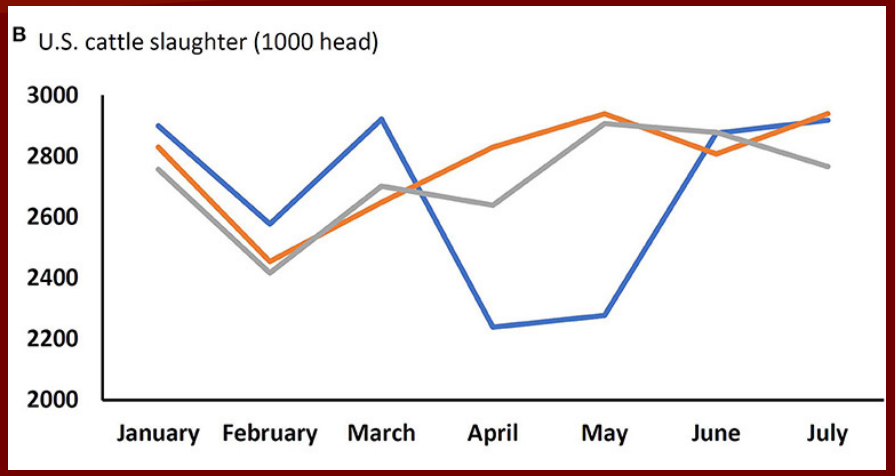
COVID Impacts on the Meat Industry

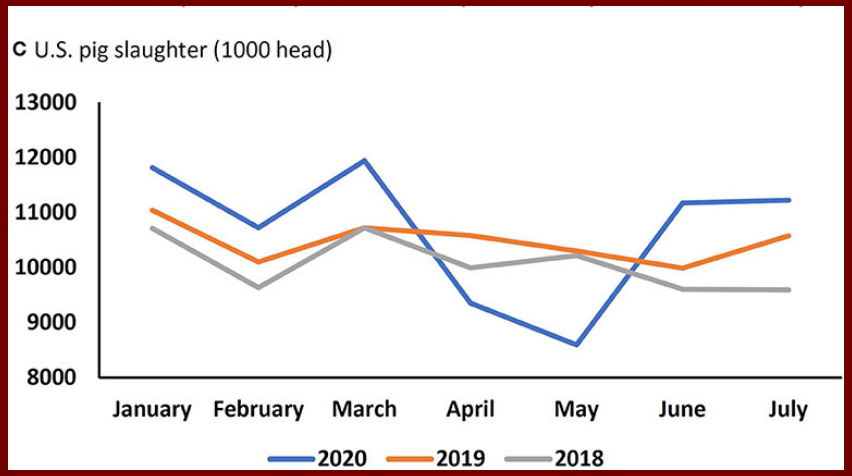
COVID Impacts on Employees

- In the first 6 months of the pandemic, COVID cases in the meat industry:
  - 42,534 positives employees and nearly 200 USDA FSIS inspectors
  - 203 meat industry employee and 4 FSIS inspector deaths
  - Across 494 meat processing plants

COVID Impacts on Harvest Capacity







49 plants closures due to covid outbreaks

Created a backlog of about 1 million cattle and 2.5 million hogs

Marchant-Forde & Boyle - Front. Vet. Sci., 30 September 2020 | https://doi.org/10.3389/fvets.2020.585787

Impact on Small, Very Small, and Custom Plants

Shortage of product in retail and surplus supply of live animals

Change from 1-3 month lead times to 18-24 month lead time to schedule harvest

Required small operators to look at optimizing efficiency and throughput

Several states directed CARES act funds toward small processors in 2020

Geared to increasing harvest and processing capacity

USDA Funding Opportunities

USDA Funding Stated Objectives

- Build Back Better (AMS administered)
  - Expanded Meat & Poultry Processing Capacity as Part of Efforts to Increase Competition, Level the Playing Field for Family Farmers and Ranchers, and Build a Better Food System
- USDA Rural Development
  - Committed to helping improve the economy and quality of life in rural America
  - Four key assistance types
    - Workforce development planning
    - Infrastructure and equipment financing
    - Industry and employer engagement, entrepreneurship, and local business development
    - Education, training, and apprenticeship

USDA portion of Build Back Better Initiative

- Announced $4 billion on June 8th, 2021
  - Food Production
  - Food Processing
  - Food Distribution and Aggregation
  - Markets and Consumers

- Plus, an additional $1 billion to address food insecurity
  - June 4th

BBB Initiative – Meat Processing

- $500 million toward meat processing
  - Small and Very Small plant directed
  - Meat and Poultry Inspection Readiness Grant
    - $55.2 million were due August 2nd
  - Overtime/holiday inspection fee reduction
    - $100 million
    - Reduces small plant costs by 30%
    - Reduces very small plant costs by 75%

BBB Initiative – Food Processing

- $500 million toward meat processing
  - Investments and Opportunities for Meat and Poultry Processing Infrastructure
    - $344.8 million
    - RFI August 30
    - Anticipate releasing framework at end of year and call for proposals
- $100 million Loan Guarantees – 10/4/21
  - Lender training webinar on 10/14/21

Additional Grant Opportunities

- Pandemic Response and Safety Grants
  - Due 11/22/21
  - $650 million (multiple ag industries)
  - $1,500 – $20,000 in actual costs incurred due to COVID from 1/27/2020 to 12/31/2021

Value-Added Producer Grants USDA - RD

- Helps agricultural producers enter value-added activities related to the processing and marketing of new products.
  - Up to $250,000
  - Producer must supply 50% of the total project
  - Next call anticipated in Spring 2022.

Rural Microentrepreneur Assistance Program

- Less than 10 employees in rural areas
- Provided through Microenterprise Development Organizations (MDOs)
- Provides
  - Loans (<$50,000)
  - Technical assistance
- For: working capital, debt refinancing, purchasing equipment/supplies, improving real estate

Rural Economic Development Loan and Grant Program

- Rural Utilities Services borrow funds and re-loan to local businesses to create and retain employment.
  - 20% match required by ultimate recipient
  - Funding decisions made quarterly

Intermediary Relending Program

- Provides low-interest loans to rural lenders to establish funds to lend to rural businesses for general business purposes
- Loans to final recipients of up to $250k
  - Loans can cover up to 75% of a project

Original Business and Industry (B&I) Loan Guarantee Program

- Lenders apply to provide loans for businesses
  - Requires collateral consistent with sound loan to value policy
  - Loans have 80% federal guarantee (FY 2021)

Renewable Energy and Energy Efficiency Loan and Grant Program (REAP)

- Funding of renewable energy systems or energy efficient improvements
- Loan guarantees of up to 75% of project
- Grants of up to 25% of project
  - Up to $500,000 for systems and $250,000 efficiency improvements