

FINANCING OPTIONS FOR LOCAL/ REGIONAL MEAT PROCESSING INFRASTRUCTURE

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SCOPE OF PROBLEM

The COVID-19 pandemic has overwhelmed the already overburdened national meat processing industry. As a result, the small meat processing sector, which serves primarily local and regional markets, has been pushed to near collapse. Small processors have simultaneously endured high costs and regulatory burdens including COVID-19 related costs, no decrease in regulatory or audit pressure, and a lack of state or USDA inspectors. They have also been challenged by significantly higher demand from new and existing customers. Small processors are facing historic wait times for machinery, parts, and other supplies, and staffing shortages, as well.

Independent farmers and ranchers, including those raising pasture-based animals, who wish to expand operations to meet the rapidly growing market opportunities are experiencing significant negative impacts as a result of the constrained slaughter and processing infrastructure. For farmers to be able to sell meat to consumers, grocers, or other markets, they need increased access to inspected slaughter and processing facilities.

However, most states have only a handful of these small processing facilities spread across wide distances. Indeed, only 4,000 small meat and poultry processing plants exist in the United States, and not all of these plants slaughter both livestock and poultry – in fact, only about 720 small establishments slaughter livestock and poultry.¹ Many farmers and ranchers must drive significant distances to these slaughter plants, consuming up to 25% of their total working hours.

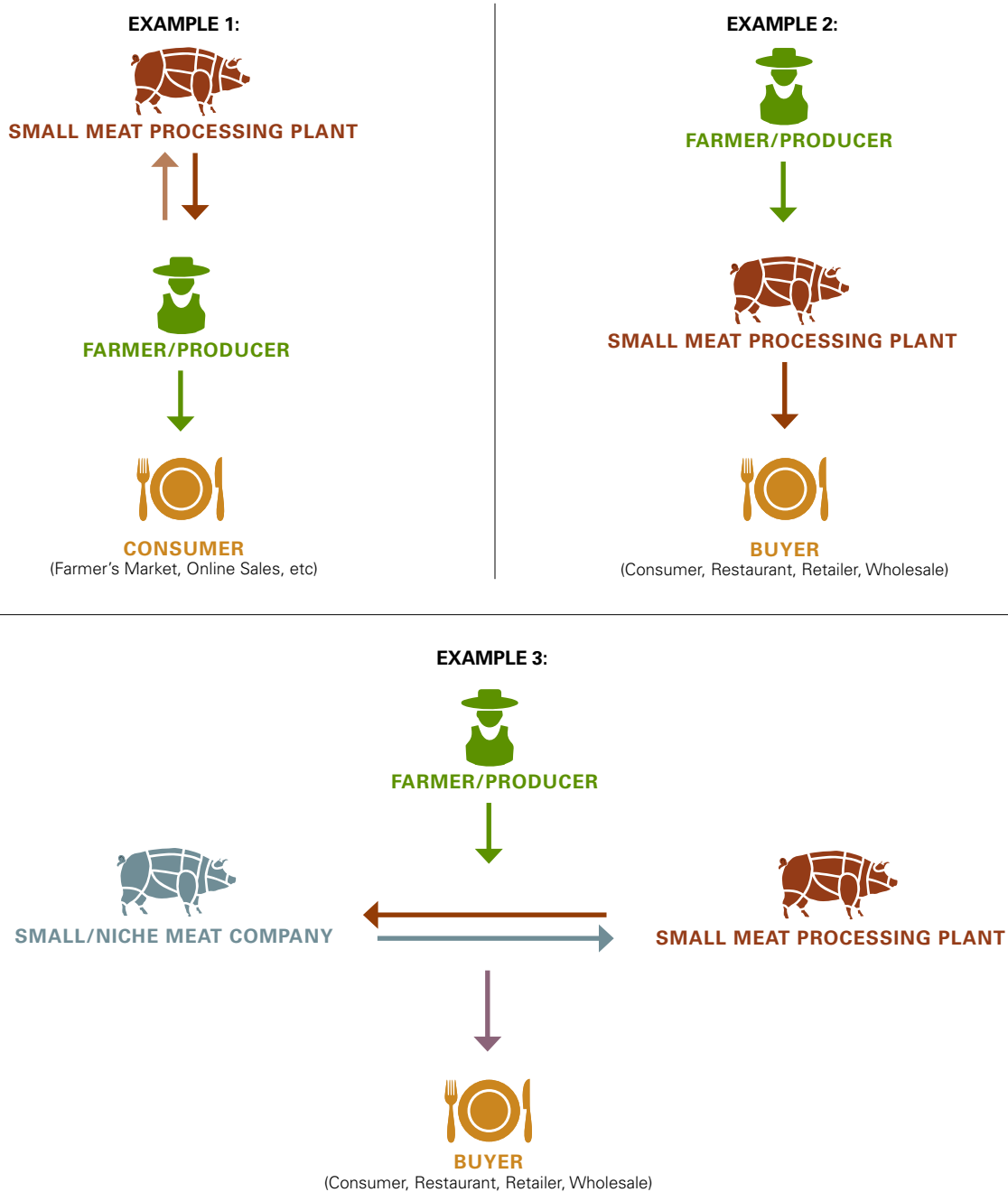
As we have seen with COVID-19 associated closures at large plants, backlogs created by limited throughput at only a few, large facilities created added pressure on small and mid-sized plants that were already fully booked with clients. This situation, and the need in some areas for additional infrastructure even prior to the pandemic, has created a massive bottleneck that is now limiting access to slaughter at existing facilities for many small and mid-sized farm and ranch operations. The lack of processing creates extra costs for farmers and ranchers, including longer travel distances to slaughter, extra feed, and care for animals, while physical barriers limit the number of animals small producers can bring to market.

¹USDA FSIS, FSIS - Establishment Demographic Data - Meat and Poultry Inspection (MPI) Directory Supplement. (2020), <https://catalog.data.gov/dataset/fsis-establishment-demographic-data-meat-and-poultry-inspection-mpi-directory-supplement>; USDA FSIS, Meat, Poultry and Egg Product Inspection Directory (2020), <https://www.fsis.usda.gov/inspection/establishments/meat-poultry-and-egg-product-inspection-directory>

ALTERNATIVE SUPPLY CHAINS AS THE SOLUTION

The establishment and expansion of independent, small-scale meat processors would create a stronger, resilient meat supply chain that would better support and serve the needs of farmers and ranchers seeking more direct connections to consumers within their region as compared to the complex, consolidated, and increasingly-fragile conventional supply chain. This shorter, local or regional supply chain that defines the small-scale meat sector has continued to provide meat and poultry to consumers throughout COVID-19 and is an appropriate model to serve the vast network of small farms in the United States.

PAINTING THE PICTURE OF ALTERNATIVE SUPPLY CHAINS:



POLICY ISSUES AND RECOMMENDATIONS

There are a host of economic development tools available to help make this simplified supply chain a reality, many of which involve creative and innovative financing strategies that go beyond typical grants. Without coordinated public policies and financing options to improve the infrastructure needed by the small and very small meat processing sector, we will continue to see independent plants and farms go out of business and a brittle nationwide meat supply chain pushed to its limits.

Existing meat processors need more capital to increase their capacity. The limited number of small USDA-inspected facilities and state-inspection capacity has created bottlenecks that have forced farmers to schedule months, or sometimes even years, to have their animals processed. If provided with financial assistance, existing state and federally-inspected small plants could expand their processing capacity to ensure more animals can be harvested. COVID-19 expenses have left small plants operating on even thinner margins, and in need of financial assistance in order to expand.

Infrastructure costs are often a barrier for custom exempt and state-inspected plants to achieve federal inspection. Small state-inspected and custom exempt slaughter plants could benefit from additional financial resources to expand their state-inspected facilities and/or pursue federal inspection if they are interested. Small plant infrastructure, especially that which meets USDA inspection requirements, requires significant financial investment.² The steep cost is a barrier for many custom exempt or state-inspected small operations wishing to obtain a grant of federal inspection. Overcoming this hurdle could improve processor capacity to help meet the market need of small farms wishing to grow their businesses. The U.S. Department of Agriculture recently released a grant program to support this transition.³ Additional resources beyond this grant program will ensure that small state inspected plants are fully supported in this transition.

POSSIBLE FINANCING PROGRESSION

There are several options to address these systemic problems in the small meat processing industry, some of which are already beginning to be explored at a local and regional level. Grants have historically been seen as a solution for funding issues in agriculture, but this sector will likely require a broader and more creative set of solutions to address a complex set of economic problems.

I. Fund Feasibility Studies and Business Planning. Funding made available to individual processing facilities would be used to commission feasibility studies to determine the economic or industry benefit of expanding or enhancing existing facilities. These small grants should have a low application burden so as not to exclude busy plant operators and include planning efforts in targeted regions. If a study indicates that enhancements or improvements would be feasible, the plant would be graduated into an expanded, government-supported financing strategy.

II. Capital Implementation Programs. Participating facilities may be offered grants or direct government loans to implement strategies identified during a feasibility planning process. Eligible uses of the funds should include capital projects at the facility, such as expanding or repairing infrastructure, modernizing equipment, increasing capacity, and more. Grant funds should also be used to support small plants facing financial stress from COVID-19 related costs. The Strengthening Local Processing Act (**H.R. 1258 / S. 370**) Section 5 is one example of a federal bill that supports financing to improve access to small-scale livestock slaughter and processing by providing a grant option for processors seeking to expand their capacity to meet demand.

²See https://www.nichemeatprocessing.org/wp-content/uploads/2016/08/CrashCourseThree.Final_revised_8.31.pdf

³See <https://www.ams.usda.gov/services/grants/mpirg>

CONCLUSION

As COVID-19 has demonstrated, the small meat processing sector has met the needs of farmers and ranchers from across the country to the best of its ability, but gaps still remain due to decades of consolidation in the meat sector. Small plants need assistance to both help recover COVID-19 related costs and continue operations as well as expand to meet burgeoning demand. Financial investments are necessary to support and grow this alternative supply chain, which will help create a more resilient and sustainable food system that will ultimately benefit producers, processors, and consumers.



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