August 30, 2021

Ms. Mae Wu,
Deputy Under Secretary for Marketing and Regulatory Programs,
U.S. Department of Agriculture
1400 Independence Ave., S.W.
Washington, DC, 20250-0506

RE: Docket No. AMS-TM-21-0058

Deputy Under Secretary Wu;

On behalf of the United States Cattlemen's Association, we write in response to the Request for Information posted on the Federal Register on July 16, 2021, "*Investments and Opportunities for Meat and Poultry Processing Infrastructure*."

The United States Cattlemen's Association (USCA) partners with independent local, state, and federal meat processors to ensure that American beef is an option on every American plate. We value the processors' role in our supply chain and believe that our enhanced collaboration can bring policy changes that are both mutually beneficial and economically sustainable. USCA supports increased competition in this sector by increasing the opportunities for independent processors to succeed.

Background

COVID-19 exposed inherent flaws in the U.S. meatpacking industry, resulting in a compromised food supply chain and exposing the vulnerability of our meat processing sector. The top four beef processors control approximately 80% of the U.S. meat supply; the closure of one or more of these plants can have a serious impact on the nation's beef supply.

The U.S. Department of Agriculture (USDA) Food Safety and Inspection Service (FSIS) needs to work to replace the influence of foreign meat processing entities with locally owned, regional, and independent processors. The $500 million available for investment opportunities in meat and poultry processing infrastructure should be used to build a resilient, robust, and domestic-driven food supply chain; one where U.S. cattlemen and women are rewarded for the high-quality, nutrient-dense, and economically sustainable product they produce.

The distribution of this funding should be done in a manner that shifts federal dollars from major meat packing plants, distributors, and retailers to small- and medium-sized meat packing plants, distributors, and retailers.

The cost to build a new construction meat-processing facility is estimated at approximately $400 per square foot, inclusive of permits, site prep, utilities, property, building, refrigeration and other costs.[1] At that estimation, a small 20 head-per-week operation would need at least a 3,000

[1] Newlin, Lacey. *So you want to build a slaughter plant?,* High Plains Journal, July 6, 2020.

to 4,000 square feet of facility at an estimated cost of $1.2 million. Repurposing an existing building is slightly more economical, at a cost of approximately $150 per square foot.

Before breaking ground, however, there are pre-occupational capital expenses to be accounted for, including design of the facility, blueprints, consulting, utility prepayments, soil tests and environment impact. These expenses are estimated at 20% of the overall plant. For our small plant example listed above, we estimate $300,000 in pre-occupational capital.

Next, the facility will need to be filled with the necessary equipment for slaughter and processing, which includes rails, hand tools, cookers, smokers and grinders. New equipment will run approximately $300,000 to $400,000.

Just in the above example, this small operation would require $1.8 million just in start-up capital. To meet this need, they may turn to private or public financing depending on their individual situation. Examples of public financing opportunities include: Tax Increment Financing; Tax Abatement; the Rural Economic Development loan and grant program; or the Small Business Administration's (SBA) Certified Development Corporation ("504") Loan Program.[2]

However, more public funding opportunities are needed; in addition to streamlining and increasing the efficiency of current loan and grant programs. USCA commends USDA for soliciting public comments on how to best address challenges and increase competition in meat and poultry processing through the distribution of $500 million in infrastructure and other investments.

Please find our responses to select questions posed in the USDA's *Request for Information* below:

1. **General Considerations**

- What competition challenges and risks might new entrants face from high levels of market concentration or other relevant market conditions, and how can USDA and other Federal government agencies assist new entrants in mitigating those risks?

    - Market access continues to be the biggest challenge facing independent processors. Perishable products, like meat, need to be moved out of cold storage as soon as possible to maximize returns. Two possible fail points within this system is a backup in inventory that will result in the operation becoming cash flow starving, or excess inventory through brokers that results in lesser value placed on the livestock.

- What business and operating structures (*e.g.*, cooperatives, farmer-owned facilities, sole proprietorship, limited liability company, B corporation, etc.) can sustain these operations?

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[2] Niche Meat Processor Assistance Network. *Finding Capital: Financing Options for Meat Processors*. https://www.nichemeatprocessing.org/finding-capital:-financing-options-for-meat-processors/

    - The best entity to sustain operations is a corporate structure, as the company can be better managed under the direction of a smaller, defined group of people or one person. However, the best entity that will be sustained financially is the farmer-owned model, as that structure will have the greatest access to capital and can keep supplying the company with inputs.

- What regions show demonstrated processing needs, at what levels, and for which species?

    - The Eastern, Mid-Atlantic, and Southeastern regions of the United States are the most deficient in processing facilities for all species.

- How can USDA support access to processing services for smaller-scale producers? Are there opportunities for producers to engage in cooperative or collaborative arrangements with each other or other facilities to both ensure access and provide a sufficient supply for a plant to operate? If so, what government assistance would be needed to facilitate that type of arrangement?

    - Currently, there exists an app/database that identifies all USDA FSIS inspected establishments. More should be done to promote this directory of services to benefit producers that are seeking this information.

2. <u>Fair Treatment of Farmers and Workers and Ownership Considerations</u>

- What conditions should be placed on federally funded projects to ensure fair and equitable outcomes (*e.g.,* requirement that jobs that can support families; transparency in pricing; fair dealing)?

    - USDA should identify and remove any current meat subsidy programs that benefit foreign-owned entities.

- What conditions should be included related to the sources of materials being used to construct or expand the facility (*e.g.,* buy American)?

    - Source materials used to construct or expand a facility should support domestic production. Per President Biden's *Executive Order on Ensuring the Future Is Made in All of America by All of America's Workers*[3] it is current policy that the "United States Government should, whenever possible, procure goods, products, materials, and services from sources that will help American businesses compete in strategic industries and help America's workers thrive."

- Should USDA have the ability to block the sale of processing facilities built or invested in through federal funds to large or foreign-owned corporations? What other options should USDA consider in order to prevent new, expanded, and successful facilities from

[3] https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/25/executive-order-on-ensuring-the-future-is-made-in-all-of-america-by-all-of-americas-workers/

being acquired by the large corporations whose consolidated operations can suffer from bottlenecks and create significant supply chain vulnerabilities?

- Yes, whenever federal funding is used to build or expand processing facilities, there should be restrictions in place to prevent the sale of that facility to foreign-owned corporations. The Institute for Agriculture & Trade Policy said the growth of Brazilian meatpacking businesses has benefited from subsidized loans and other resources from the Brazilian National Development Bank.[4] Ownership investment of an U.S. based meatpacking company by a foreign corporation threatens national security interests by unnecessarily risking the safety of our nation's food supply.

  To prevent the acquisition of facilities built or expanded through the use of federal dollars by a foreign entity, USDA should explicitly outline in any grants, loans, or cost-share agreements that the sale of a facility should trigger a merger review by the U.S. Federal Trade Commission and the Department of Justice. Should the sale be found to "substantially lessen competition", the sale shall not be approved. Further, no sale should be approved wherein the buyer is a foreign entity.

3. <u>Loans and Other Financing Considerations</u>

- What financing tools facilitate access to capital for small meat and poultry processing companies? In your response, please consider the stage of corporate development (*e.g.,* startup, onsite expansion, restarting an idled facility, new location), the potential use of funds (*e.g.,* working capital, construction, credit lines, equipment), and the type of financing (*e.g.,* grants, installment loans, balloon payment loans, equity like investments).

  - Currently, the only financial access available is to individuals or corporations that possess "cash-on-hand"; borrowers need to have $1.30 in cash for every $1.00 borrowed. This narrows the pathway to obtaining capital access to hedge or venture funds. However, hedge and venture fund managers want to see from borrowers an exit strategy within the next 3-5 years should the investment no longer serve the investor.

    There is no funding mechanism currently in place that serves long-term, infrastructure-driven investments. Because of this, a facility built today will often see up to three bankruptcies before becoming financially viable.

4. <u>Grant Considerations</u>

- Would a small plant expansion program structured similarly to USDA's Meat and Poultry Inspection Readiness Grant (MPIRG), but with a focus on expanding slaughter and

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[4] https://www.iatp.org/the-rise-of-big-meat

processing capacity for small federally inspected plants, be beneficial? If so, at what award ($) level per grant and for what types of costs?

  - Surveys, to-date, have shown that updating existing facilities will cost an average of $750,000. However, this number assumes significant investment by the city or town to update municipal water, power, and sewer systems.

    USDA should provide capital infrastructure improvement grants to communities for water sewage systems to support the development of independent slaughter and processing facilities.

- Are grant funds (or other funds) needed for marketing or outreach activities, including recruiting new participants in the industry?

  - Yes, grant funds are needed to recruit new participants to the industry. These funds should be made available to nonprofit organizations and higher education institutions with a focus in the livestock industry. These organizations often employ communications professionals that can help develop and deploy marketing materials.

    A skilled workforce is critical to the success of the meat processing sector. There is no better time than now to advertise a successful career in butchery, as millennials and Gen Z increasingly look for more diverse job opportunities.

- Would pilot grants that provide awards to small plants for training and other support (*e.g.,* cover wage gap during apprenticeships) to develop their local workforce be effective to address some of the labor challenges associated with operating a current, expanded, or new facility?

  - Subsidized apprenticeships would help both processors and possible entrants into the workforce be able to cover the wage gap while the apprentice is learning a new skill. Such a program should be closely monitored and continuously improved upon to ensure successful completion by applicants.

    Additionally, a program structured like the Veterinary Medicine Loan Repayment Program would help pull more individuals into the pipeline to becoming skilled butchers with the promise of loan repayment. This would be especially beneficial in rural areas experiencing a worker shortage. Applicants to the program would agree to serve in these areas for a period of up to three years, and earn a set amount of money each year to repay any educational loans.

5. <u>Technical Assistance Considerations</u>

- What are the top priorities for technical assistance that would facilitate processing expansion or increased capacity (*e.g.,* butchery for key markets, HACCP, humane handling best practices for plant operators, labeling approval and processes, brand and market development)?

  - All of the above. New facility owners are in need of technical expertise on all of these topics and more. It would be best if USDA partnered with industry groups to provide these trainings and workshops.

  - Specifically, USCA recommends working with independent processing facilities to ensure consistency in packaging. For instance, a producer in Florida recently noticed that the size of muscle cuts received back from local processing facilities can vary drastically – with ribeye steaks packaged at weights from 12 ounces up to 1.7 pounds. Packaging is a problem as the quality of the work suffers along with it, as each item has to be inspected and repackaged upon request at time of pick-up. The price for services compared to availability, consistency and efficiency is not to scale.

- Would regional or local cooperative agreements with strategic partners be the best way to provide this type of assistance, or are alternative ways preferable and more effective?

  - In addition to high capital costs, there are high levels of technical expertise needed to build and maintain a meat-processing facility. From developing a Hazard Analysis Critical Control Point (HACCP) plan to understanding the intricacies of food safety regulations, the regulatory landscape often feels wholly overwhelming to new processors.

    There already exists excellent peer networks, like the Niche Meat Processors Assistance Network (NMPAN), that connect meat processors to each other and to supply-chain actors that creates opportunities for peer-exchange, problem-solving, better understanding of different challenges and needs of the sustainable meat value chain.

  - Partnering with already established organizations, like NMPAN, would be the most effective way to reach new market participants or to help build a network of experienced processing professionals.

6. <u>Partnerships and Combined Funding Considerations</u>

- What conditions should be placed on grants or loans? If those conditions are not met, should the grants require repayment? If the conditions are met, should the loan be forgivable?

  - Grants repayment should not be assigned to market conditions. If conditions of a grant or loan are met, then USCA believes the loan should be forgiven. Specifically, those conditions could include the purchase of existing facilities and to upgrade the buildings to meet FSIS regulations for the development of independent slaughter and processing facilities.

7. **Other Processing Comments and Considerations**

- In 1924, Congress passed the United States Agricultural Products Inspections and Grading Act, and then in 1926, initial beef carcass grading systems were implemented as a free voluntary service to all meat processors in the United States. However, in 1946 Congress passed the Agricultural Marketing Act which established a fee to meat processors who sought out meat grading in the United States.

  Currently, there exists a lack of access to USDA meat graders in virtually every U.S. state. The additional cost of meat grading does not lead to a significant increase in income at small and very small plants due to a lack of product volume. Therefore, USDA recommends that meat plants classified by the USDA FSIS as "small" or "very small" should be provided a USDA licensed grader by the USDA AMS, free of charge. Further, independent slaughter and processing facilities be allowed to utilize electronic instrument grade augmentation systems within their plant. USDA would then allow current USDA FSIS inspectors stationed at independent slaughter and processing facilities to monitor the validation, verification, and calibration of the electronic instrument grade augmentation system utilized by the independent slaughter and processing facility.

Conclusion

Building additional facilities and adding processing capacity will add stable jobs in the area, provide a structured and more economically sound processing option for the independent cattle producer, strengthen the growing need for diversification of the cattle producers' operations, and continue to provide education to the consumer about where their food comes from.

USCA appreciates the opportunity to provide input and looks forward to working with the Biden Administration to address the points above. For questions, please contact usca@uscattlemen.org or at (202) 870-1552.

Thank you,

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/s/ Patrick Robinette

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