

State Investments and Innovations in Meat Processing

Jairus Rossi
University of Kentucky

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The COVID-19 pandemic disrupted supply chains in many industries. Since 2020, it is not uncommon to visit a grocery store and see a lack of meat products. Reduced labor in large processing facilities was a major contributor to the shortages. Though many factors contribute to these shortages, processing capacity in large facilities was reduced by labor shortages. Processing facilities are designed to have human labor efficiently working with machinery. They also force workers into close proximity in an enclosed space. Consequently, large-scale meat processing facilities are not conducive to social distancing and are not easily reconfigured to create safer spaces. In some cases, processing facilities became hotspots for the spread of COVID and the resulting labor shortages reduced the output of meat from these facilities. Combined with COVID-related labor shortages all along the supply chain, meat supply often did not meet consumer demand in mainstream consumer venues.

Consumers responded to these shortages by searching for alternative venues for purchasing animal proteins. Some visited farmers markets or bought a share of an animal directly from farmers. Retailers also sought to fill gaps in their supply chain by buying from more local and regional processors and distributors.

Farmers and ranchers – some of whom lost accounts due to closures of restaurants and institutional dining halls due to COVID – saw market opportunities in direct sales. Taking advantage of these opportunities required the use of small and medium-sized processing facilities. In general, these smaller processors lacked the capacity to deal with the influx of animals necessary to meet consumer demand from direct purchases and retailers. Additionally, many smaller processors were not certified by the USDA which, in some states excluded direct and intermediate sales, and sales in other states. Prior to COVID-19, the standard wait time for a farmer to get their animals into many of these smaller processors was 4-8 months. However, after the start of the pandemic many processors were scheduled out 12-18 months.

Recognizing the fragility of meat supply chains that operate at a national scale, State Departments of Agriculture engaged in creative investments to improve the capacity of local and regional meat supply chains. By supporting small and medium-sized processors, states sought to improve market access for animal producers who serve consumers in their regions. These investments also focus on developing food systems that can operate effectively at a various of scales during moments of disruption. In this Innovation Brief, we review some of the investments made by the states of Iowa, Colorado, and Kentucky. These investments focus on three areas: equipment and infrastructure, market development and policy initiatives, and technical assistance and education.

Equipment and Infrastructure Investments

Each state recognized the importance of improving the capacity of existing meat processing and distribution businesses that serve small and medium scale producers. They also sought to develop new facilities in places of need.

Iowa saw an increase in consumers turning to direct purchases from meat lockers – butchers or processing facilities that often have a store front – as the pandemic intensified national supply shortages. The State Department of Agriculture responded by materially supporting capacity expansion for these meat lockers with the intent of making it easier for farmers to process and sell meat within the state. Starting in 2020, they provided \$35k grants to individual meat lockers to buy equipment such as labelers, bone saws, and smokehouses. This program was quite popular and resulted in over \$4 million in investments during that year. It enabled lockers to create more processing capacity and develop value-added products. In 2021, the Legislature created a grant program (\$50k, 1:1 match) to make this program permanent and established a task force to study workforce challenges in the meat processing industry.

Kentucky had been investing in diversified meat processing capacity prior to COVID through funds from the Tobacco Master Settlement Agreement. These investments blunted the impact of supply chain disruptions, though additional investments were made in conjunction with CARES Act funding at the onset of COVID.

Since then, \$12 million has been given to stakeholders to expand existing and create new processing facilities through the Meat Processing Investment Program. These funds included a combination of state loans, forgivable loans, state and county grant funds, and CARES Act funds.

All proposals were reviewed by a committee and grant applicants must have a business plan and work with a cooperative development organization. Smaller grants of up to \$37.5k (per facility) were given to existing facilities for improvements such as expanding kill floor and freezer space, buying grinders or other machines, or improving operational efficiency. Larger grants of up to \$250k were given to applicants interested in creating new facilities and require a match. The committee reviewed the geography of these proposals to make sure new facilities are not outcompeting each other due to over saturation. While more than 150 individuals have inquired about new facility creation, fewer than 20 have completed the application process.

Colorado has been investing in processing for many different types of agricultural products. They have a revolving loan program using state stimulus money to provide \$10 million to developing processing capacity in general (meat, produce, hemp, etc.). Forty percent of these loans are designated for animal processing capacity expansion. Some of these funds also go toward developing distribution infrastructure—specifically, with items like freezers and refrigerated trucks which support cold chain capacity. A separate loan program was developed for a broader variety of uses including gaining access to land

and equipment, especially for early career farmers and food businesses. Since 2020, this program has dispersed \$5 million with another \$4 million in the pipeline to be awarded. They can also be used to expand the businesses of existing processors. The focus of the latter was the expansion of custom processing facilities. When COVID began, many ranchers tried to shift to direct sales, but it was difficult to find USDA-inspected facilities that operated at an appropriate scale.

Market Development and Policy Initiatives

States sought to capitalize on increased consumer demand for local meats by improving market access for farmers and promoting local products through marketing and policy initiatives.

Iowa used the pandemic to reinvigorate their “Choose Iowa” branding program. This program, which focused on improving consumer knowledge of food products made in Iowa, began in 2007 but was discontinued due to budget shortfalls. In 2022, state personnel suggested bringing it back to help producers take advantage of consumer interest in local meats. The consumer interest in local was driven by pandemic-related supply chain shortages along with concerns about inflation and fuel prices. Improved pricing of local meats, due to shorter supply chains, created greater competition amongst local processors. Buying meat shares and whole animals from local farmers may have started as a social trend and/or a response to pandemic risk mitigation, but it became a cost effective, common-sense food acquisition strategy.

In any case, “Choose Iowa” increased the visibility of Iowa-grown animals locally and in other states. This program encourages consumers to buy directly from meat lockers and processors with storefront sales.

Kentucky, via their committee for small scale meat investments, promote innovations that increase the supply of Kentucky products to diverse market channels. Developing wholesale opportunities is critical to supporting small and medium-sized producers in the commonwealth. One strategy involves pairing a local processor with multiple small-scale producers to marketing the food product – often beef – under a common name. Our Home Place Meat, for example, is a multi-farm brand that uses a mid-size processor to reach an appropriate scale for regional distribution that focuses on providing chefs with local products.

Another example is Beef Solutions, an initiative of the Kentucky Cattlemen, which involves aggregating cull cattle at a scale and quality for distribution in a major regional retail grocery chain. This brand uses local processors and creates value by using meat that would otherwise be lost in larger scale production settings. While Kentucky has the most beef cattle east of the Mississippi River, farmers generally run cow-calf operations which are lower in the supply chain. State investments in processing infrastructure have allowed smaller scale producers to find new value in their cattle operations.

Colorado, through investments in custom processors and cold chain logistics, is attempting to make it easier for farmers/ranchers to rapidly shift markets and access direct sales opportunities. One barrier, however, is that producers cannot sell meat from non-USDA approved processing facilities at farmers markets.

While the state allows direct purchases of whole animals processed at these custom, non-USDA processors, farmers markets are classified differently. Potential changes to legislation might open new market opportunities for producers.

Technical Assistance and Education

States also invested in technical assistance and educational initiatives to facilitate producer capacity, marketing, and infrastructure development.

Iowa funded educational activities for workers at small meat lockers and processing facilities. Community colleges and Iowa State University offered courses on business management, hands-on processing, and other topics necessary to expand processing opportunities within the state. They also offered internships for high school students to work at the front of the meat locker to gain experience and become familiar with the sales side of the industry. Iowa also provided technical assistance to existing processors to achieve USDA certification. This designation will allow these businesses to ship across state lines and build Iowa's brand more regionally.

Kentucky supported infrastructure and equipment investments by collaborating with farmers to build business plans and manage their operations more efficiently. They also offered technical assistance on how to access direct market, aggregation, and collective branding opportunities. Finally, Kentucky developed a website that tells farmer-entrepreneurs what to consider when thinking about opening a meat processing facility. Two of the primary requirements for applying for new facility funds were viable proposals and business plans.

KCARD, a cooperative development organization, provided various forms of technical assistance for applicants.

Colorado offered processors funds to hire grant writers to assist them with their applications for federal and state funds for infrastructure and equipment expansion. These funds were capped at \$5K per operator. Additionally, the state offered technical assistance in support of developing business plans, financing, keeping records, accessing loans, using data for decision making, accessing land market capital, and developing grants. Their goals are to 1) encourage capacity development among small and medium-sized processors, 2) use technical assistance to prepare producers for future events and disruptions, and 3) leverage expertise to give producers and processors a foundation for growing operations

Overall Goals

In general, the states highlighted here are hoping to improve the capacity of producers and processors to scale up and reach diverse market channels. They see these investments as supporting shorter, more resilient meat supply chains that can offer alternatives to national and international-scale industries. These investments also are focused on developing more robust and diverse market opportunities for smaller meat producers. As these states borrow ideas from each other, they are also developing connections between technical assistance providers and state departments of agriculture, thereby creating innovations within and between regions.

Thanks for reading!

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For more information and resources on Local and Regional Food Systems Response to COVID: Recovery and Resilience, visit www.lfscovis.localfoodeconomics.com.

Design and Edits by: Annelise Straw, U.S. Department of Agriculture – Agricultural Marketing Service

Reviewed by: Cindy Ragin, U.S. Department of Agriculture – Agricultural Marketing Service; Annelise Straw, U.S. Department of Agriculture – Agricultural Marketing Service

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