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Research Update: Optimizing the Use of American Rescue Funds in Pork and Beef

Keri L. Jacobs [a,Φ] and Dermot J. Hayes[b]

[a]*Associate Professor of Agricultural and Applied Economics, 216 Mumford Hall, University of Missouri, Columbia, MO 65211, USA*

[b]*Professor, Department of Economics, 260 Heady Hall, 518 Farm House Lane, Iowa State University, Ames, IA 50011, USA*

Abstract

The American Rescue Funds Program seeks improvements to infrastructure, capacity, and diversification in meat and poultry processing, with clear prioritization of increased competition via small- and medium-sized processing facilities.[1] The need to euthanize animals at a time when retailers were rationing meat sales was one of several examples of market failures during the COVID-19 pandemic, and the U.S. Department of Agriculture estimated the disruptions to agricultural meat, poultry, and egg production at $15 billion based on CFAP and CFAP2 payments.[2] Marani et al. (2021) estimate the probability of a repeat event at 1% to 2% per year, justifying the use of these public funds to add surplus capacity and infrastructure to mitigate disruptions in case of recurrence.

Economics of scale are modest beyond slaughter of more than 125 head per hour in beef plants and 2,000 head per day in pork plants (Duewer and Nelson, 1991; Ollinger, MacDonald, and Madison, 2005). Dozens of such "medium-sized" U.S. pork and beef processing plants have survived since 2000, typically relying upon niche market connections. Given historic processing plant construction costs for medium-sized plants (Aherin,333333 2021) and an assumed 20% USDA grant to incentivize construction, a $100 million expenditure on each of the beef and pork

[1]https://www.federalregister.gov/documents/2021/07/16/2021-15145/investments-and-opportunities-for-meat-and-poultry-processing-infrastructure

[2] "Coronovirus Food Assistance Program 2 Cost Benefit Analysis," September 15, 2020. https://www.farmers.gov/sites/default/files/documents/CFAP2-CBA-09252020.pdf

ΦCorresponding author: Tel: (573) 882-8005
Email: keri.jacobs@missouri.edu

plants creates an opportunity to add as much as 5% additional capacity for each species, easing current capacity as the industries prepare for local and export growth.

Whether producer-ownership of capacity can generate stability and additional benefits in the supply chains is of key interest. Models of producer ownership—including cooperatives and carefully structured LLCs—allow livestock producers to capture processing margins and remove some of the price uncertainty around live animal prices to the plant and producer. It follows, too, that producer-ownership can therefore reduce the ability of existing larger plants to poach supply from medium-sized plants during the crucial startup phase and ensure that plants run at optimum capacity. A significant portion of the additional capacity added to the pork industry in the last 15 years exhibited some form of producer ownership. Anecdotally, the pork and beef sectors may be moving away from commodity production and into systems that maintain animal identity from farm to consumer. Producers have an opportunity to capitalize on this shift by collectively investing in medium-sized plants with the ability to preserve identity and be more responsive to evolving consumer preferences. An overarching concern is of the need to maintain capacity into the future and the potential of existing packers to acquire this subsidized capacity should medium-sized processing fail.

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