American Lamb Council

American Sheep Industry Association
Sheepusa.org

American Wool Council

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Sarah J. Helming
Supply Chain Resilience Coordinator
United States Department of Agriculture
Whitten Building – Suite 312-E
1400 Independence Avenue, S.W.
Washington, D.C. 20250

RE: Docket No. AMS-TM-21-0058; Investments and Opportunities for Meat and Poultry Processing Infrastructure

Dear Coordinator Helming:

The American Sheep Industry Association (ASI) appreciates the opportunity to provide comments on the above referenced "Investments and Opportunities for Meat and Poultry Processing Infrastructure". Since 1865, ASI has been the national trade organization representing the interests of the more than 100,000 sheep producers located throughout the country who produce America's lamb and wool. ASI supports the President's efforts to secure and strengthen America's supply chains.

The lamb processing sector is highly concentrated with two to three firms influencing the majority of market sales. Imported lamb is also very concentrated in the market place and influencing the other half of lamb meat sales in the United States. This concentration was highlighted during the outset of the COVID-19 pandemic, when the sudden loss of restaurant and food services sales forced the bankruptcy proceedings of our second largest lamb packing facility, Mountain States Rosen, owned by the Mountain States Lamb Cooperative. The loss of this lamb packer at the height of what is traditionally the lamb industry's busiest marketing season, the Easter/Passover holiday, exposed serious deficiencies in the industry's supply chain, namely the lack of adequate packing and fabrication capacity in the event of a market disruption.

Fortunately, at the time of this loss, a new packing facility was close to completion and in due to the sudden lack of processing, a second slaughter facility was re-opened. But it was several months before these new packing facilities came on-line. During that lag time, lamb producers and lamb feeders struggled to find packing capacity and were forced to either sell at any price taking a significant loss on their investment, delay processing incurring additional production costs and negatively impacting consumer product quality, or ship lambs long distance to multiple small state and regional facilities to piecemeal the needed capacity. Even a year later, these new small to mid-sized packers lack adequate fabrication facilities and labor to fully participate in the food supply chain and therefore lack the ability to fully realize the potential of their investment. Many local and regional processing facilities utilized by small to mid-size sheep and lamb producers lack the resources to invest in infrastructure and face labor constraints to meet the growing demand for processing lamb at a local level. This was further evidenced during the COVID-19 pandemic and the lack of processing capacity at the local level.

In direct response to the issue areas and questions for comment, ASI submits the following:

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? What resources exist at the State, tribal, and local level, as well as at academic research centers, to assist new entrants in addressing competition challenges, and how can the Federal government support the effectiveness of those resources?

The domestic sheep and lamb market is highly concentrated and as such suffers from a lack of adequate price and market data reporting needed for producers to make informed marketing decisions. Mandatory price reports are frequently unavailable and limited due to current confidentiality rules, making accurate forecasting and critical production decisions extremely difficult, especially for new and beginning farmers. Changes to the USDA/AMS confidentiality rule would quickly resolve this issue, providing lamb producers greater marketing information to assist with price discovery and access to risk protection tools.

Additionally, lamb processing remains highly regionalized, with large packing facilities located primarily in the west, leaving many lamb producers in other regions of the country with few marketing options, despite their proximity to areas of high lamb demand. This also coincides with increasing consumer demand for lamb. Investments through guaranteed loans for federal and state inspected processing in underserved regions of the country, particularly in the Northeast, would greatly benefit the overall industry, providing greater market participation opportunities for producers.

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

The American Sheep Industry continues to experience gaps in sufficient fabrication capacity across the country and pockets of demonstrated slaughter capacity across much of the upper Midwest and Eastern regions of the nation where the number of lamb producers have shown growth in flock size and demand for lamb has expanded for local and ethnic consumer markets. Sheep producers in these regions frequently comment that they are only offered one date, usually a year in advance, to get their lambs processed. If they miss that date or find themselves short or long of their anticipated head count, they have few if any viable alternatives available.

What seasonal throughput issues (e.g., under- and over-utilization during parts of the year) or regional challenges need to be considered for plant expansion or development?

Lamb production is seasonal in nature as most lambs are born during the first five months of the year. This can cause inefficiencies for lamb processing facilities and market volatility. Lamb processors prefer a year-round lamb supply to better manage processing capacity and to serve their customers. While these regions have access to high areas of lamb demand, processing capacity still faces challenges of seasonality for peak demand and supply that should be considered.

How do processing needs and challenges vary by species and by value-added product types (e.g., organic, local, grass-fed, kosher, halal)? Do these needs require special types of funding (e.g., to encourage continued innovation)?

The demand for lamb in markets serving ethnic communities such as kosher and halal has grown significantly in recent years. These markets are vital to increasing awareness, consumption and sales of American Lamb. The requirements to be in accordance with religious/ritual slaughter practices and humane slaughter rules set forth by USDA can be an additional cost and operational challenge to processors wanting to supply these ethnic markets.

How can USDA and industry stakeholders partner with institutions of higher education, including community colleges and other academic institutions invested in the local community, such as Tribal colleges or land grant institutions, or other partners to start up or expand meat and poultry operations including workforce development and training programs related to entrepreneurship, meat cutting, or other necessary skills? Could these programs serve as technical education opportunities for non-university students? What type and level of funding would be required to support such programs?

USDA and stakeholder partnership with Tribal and land grant institutions is critical in securing the needed workforce to maintain adequate processing capacity in the United States. Workforce conditions remain a major challenge for both existing and proposed processing facilities, despite the potential for these operations to bring long term economic benefit to rural areas across the nation.

3. Loans and Other Financing Considerations

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). Please also consider the prospective borrowers' type of business model (e.g., cooperative, farmer joint-ownership, employee-ownership, mobile meat- and poultry processing operations).

Federal grants and federally backed loans are critical in this effort to securing the needed finances to undertake a processing operation for the American Sheep Industry. Major investments can and have been made in this industry, but the initial capital needed prior to realizing an income remain a large hurdle to both startups and expansion.

4. Grant Considerations

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

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

There is a growing trend in the number of lambs being processed in smaller state inspected plants, which was intensified during COVID-19. In 2020, 85% of lambs were processed in a federally inspected plant compared to more than 90% a decade earlier. As the industry continues to trend away from processing lambs in federally inspected plants to state inspected plants processing more lamb, grants for state plants would be beneficial.

While expanding slaughter at federally inspected plants would be beneficial, many regions experiencing a lack of processing capacity cannot currently comply with federal mandates for inspection and would benefit more from cooperative interstate shipment type agreements.

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

Grant funds provide an incentive for new market participants facing the challenges associated with the needed capital for new processing plants.

5. Technical Assistance Considerations
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)?

Industry estimates that the cost to construct a new meatpacking plant is $100,000 for every 25-head facility which is a significant investment. The cost to expand current facilities is also quite large. As consumers value food safety and humane handlings, these areas will be priorities for constructing, expanding and retrofitting processing facilities. Important to the sheep industry is the assistance with religious/ritual slaughter practices to serve the kosher and halal ethnic communities.

6. Partnerships and Combined Funding Considerations
Who can USDA partner with to best leverage the federal funds (e.g., State and local governments, private investors, philanthropic organizations)?

Partnering with state and local agencies that have the expertise as well as policies and regulations in place pertaining to livestock handling, meat processing and food safety would be beneficial. As the lamb industry trends away from processing lambs in federally inspected plants to state inspected plants it would be beneficial for USDA to partner with state and local governments.

Should loans and grants be combined to support these facilities? If so, what criteria should be used to determine what portion of the funds are offered as loans versus grants?

Any program implemented should allow for the greatest flexibility to meet the differing demands of those processors and stakeholders that could potentially utilize the program.

In conclusion, ASI appreciates the opportunity to comment on these and other potential Investments and Opportunities for Meat and Poultry Processing Infrastructure

Sincerely,

American Sheep Industry Association