

Concentration in the meat packing industry has advantages and distinct disadvantages

Five weeks ago, when the first wave of panic over the impact of COVID-19 hit grocery stores, consumers quickly emptied out the meat sections of grocery stores—especially hamburger and chicken. In response, our column that week provided readers with information on the quantity of beef, pork, and chicken that US processors had on hand in cold storage. Since then we also have talked about the challenge of diverting food that was destined for restaurants and other non-household food service operations to grocery stores that are providing record amounts of food to families who are sheltering in place.

Today we face a new challenge in ensuring that people have access to the meats that they want for their families, so we don't have a second wave of panic over the availability of meat. The issue is the detection of COVID-19 among meat packing plant workers who not only work shoulder to shoulder, they live in tight knit communities with a large number of people living in a small area. Whether the coronavirus spread from community settings to workers in the packing plants or vice versa, the immediate problem is that several large plants have been shut down.

Unlike China where the African Swine Fever resulted in a significant reduction in their swine herd, the current problem in the US is not the availability of chickens, pigs, and cattle; there are enough animals of staggered ages on US farms and ranches to continue to providing consumers with a stable supply of the meats they want to buy. At the other end of the supply chain, grocery stores have ample display cases from which consumers make their meat purchasing choices.

The problem is getting the meat from the farm to the table and the processing plants are the weak link in this chain. There was a time when this would not have been a problem. The US had many small to medium sized packing plants spread around the country. In addition, most communities had at least one slaughtering facility/butcher shop where a small number of animals could be slaughtered and processed. While each shop was relatively small, in aggregate they processed a significant amount of meat.

While consolidation in the meat packing industry can be traced to the beginning of the 20th century and the packing plants in Chicago, consolidation has really taken hold in the last couple of decades so that for beef in the US some 50 plants account for nearly 98 percent of the production. When COVID-19 appears among workers in a beef plant in Greeley, Colorado and those in a pork plant in Sioux Falls South Dakota that processes 5 percent of the US pork supply, it sends shivers down the spine of the US meat supply chain and we risk another panicked meat buying spree.

The current model of concentration in the packing industry has its advantages. The larger the plant the lower the per pound processing costs. They operate at near full capacity all the time and balance out shifts in consumer demand—beef for summer grilling, turkeys for Thanksgiving and hams for Christmas and Easter—with cold storage. That way they can process a relatively steady number of animals each week. These plants are economically efficient resulting in meat prices that cost consumers a smaller percentage of their annual income than ever before.

While this model has its advantages, it also presents us with problems. The obvious problem in the current situation is the lack of resilience in the industry. If the Sioux Falls plant goes down, none of the other plants, even in combination, can make up the difference. If more

plants have to close because of the disease or any other unrelated problem, US consumers can no longer assume that the cut of meat they want will be on the grocery shelf.

The shutdown of a plant in a concentrated industry affects not only the company, the workers, and consumers, it also has a major impact on farmers and ranchers.

Even in normal times, concentration in the meat processing industry has an impact on farmers because they have few if any alternatives for marketing their animals. In the past farmers could look at the prices being offered at several markets and taking transportation costs into account and decide where to market their animals. Today livestock producers find themselves in a take-it-or-leave-it situation with only one buyer close by.

And when a processing plant shuts down, farmers and ranchers find themselves in an even more precarious situation. They can continue to feed their animals in hopes that the plant will quickly reopen. But that means taking on more costs as feeding those animal increases the chances that they will have to take a loss on that pen of animals. If they decide to take them to another plant, they have the costs of a long drive. Even then the next nearest plant may be at capacity and unable to handle increased animal numbers.

This did not have to happen. Some farm and ranch groups have consistently opposed the concentration of the meat industry to no avail, as economic efficiency arguments prevailed. Today we may be seeing that, while economic efficiency is great, it can come at a cost; including in this case: industry resiliency and consumer confidence.

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