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Summary

- The US meat sector has been hard hit by the impacts of coronavirus, with loss of food service channels followed by plant closures causing interrupted supply chains, low farm gate prices, supply-demand imbalances, forecast meat shortages and rising consumer prices.
- At the heart of these challenges are the meat sector's efforts to balance worker (and inspector) safety with the need to continue slaughtering and processing animals coming to maturity. The latter is critical in order to meet demand and avoid animal welfare issues.
- In response, President Trump has issued an Executive Order classifying meat processing plants as "critical infrastructure" and deploying the Defense Production Act to ensure their continued operations to the greatest extent possible.
- The US industry has emphasised that there is no shortage of (potential) meat production to supply the local market.
- But COVID-19 is exacerbating ongoing trends in the protein markets. Eleven states attorneys general have called for a review of the impact of consolidation on competitive behaviour in the processing sector as the margin between processor and producer returns continues to widen.

Report/findings

1. The US meat sector has been hard hit by the impact of the coronavirus. It has lost a significant area of demand through the shutdown of most of the food service sector, yet it has still not been able to reliably supply the remaining consumer sector due to high rates of COVID-19 infection at meat processing plants.

Processing plant closures central to supply chain challenges

2. With meat processing work characterised by long hours of "shoulder-to-shoulder" work and often supported by close-knit community networks, meat plants have become important sites for coronavirus outbreaks. To date some 10,000 meat workers of an estimated labour force of 130,000 have tested positive for COVID-19, with some like the Smithfield pork processing facility in South Dakota, representing the most significant outbreaks in their states. Up to 30 workers are reported to have died from the virus so far.
3. Federal employees have also been impacted, with [reports suggesting](#) that as of 30 April nearly 140 USDA Food Safety Inspection Service (FSIS) inspectors have been infected by the illness, while at least 2 have died. FSIS inspectors have reportedly been given a US\$50 stipend by the department to source their own protective equipment, rather than having had it provided directly.

4. At least 20 processing plants have been closed for some period of time through March and April, either following action by State governments, or through a lack of available staff. With the consolidation of meat processing capacity both at company and factory level, the closure of a single plant can reduce processing capacity by up to 6 percent and have a significant impact on the supply chain.
5. The American Farm Bureau Federation has estimated that [pork processing capacity](#) has been reduced by as much as 20 percent over recent weeks, while beef has been reduced by as much as 10 percent. This has seen pork and beef slaughter down about 30 percent (other sources have this at up to 40 percent for pork) from their March highs, and a little less than that from the same period the previous year.

Animal welfare, rather than meat availability the key supply chain challenge

6. Loss of demand in the dairy and specialty crops sectors has resulted in significant food loss and the dumping or composting of product that no longer had a market. However, this is not an option for the livestock sector, with animal welfare issues requiring continued availability of humane slaughter for animals.
7. There are significant concerns around the ability to slaughter animals coming through the pork and poultry sectors in particular, with real concerns about the potential need to euthanise up to 150,000 hogs per day if capacity is not returned to the system. Similar challenges have emerged in the poultry sector, while cattle producers are changing feed regimes to keep cattle on farm for longer.
8. It has also led to price volatility through the supply chain. Despite strong wholesale prices, which have risen 67 percent since January, falling prices paid to farmers for cattle (down 24 percent since January) have seen many raise questions about meat packers market behaviour. Both Senators, notably Chuck Grassley, and States' attorneys-general pushing for USDA, Department of Justice and Commodity Futures Trading Commission reviews of company behaviour.
9. It doesn't yet appear that these price increases are being passed on to consumers, with USDA only forecasting between 1-3 percent retail price increases across beef, pork and poultry categories this year. But media have highlighted numerous examples of temporary shortages at the retail end, including a full page New York Times advertisement from Tyson Foods warning the "food supply chain is breaking" and reports of a [burger chain with no burgers](#). Some large supermarket chains like Costco have responded by placing per person limits on meat purchases in their stores.

President seeks to address the crisis

10. Faced with these headlines, President Trump issued an [Executive Order](#) on 28 April classifying meat processing plants as "critical infrastructure" and delegating powers under the Defense Production Act (DPA) to Secretary of Agriculture Sonny Perdue to ensure meat processors continue operations to the greatest extent possible consistent with guidance from the Centers for Disease Control and Prevention (CDC) and the Occupational Safety and Health Administration (OSHA).

11. In letters to [governors and stakeholders](#), Secretary Perdue emphasises the need to “work together to ensure the health and safety of those who help keep food on the table”. Central to Secretary Perdue’s approach is deploying the protocols and practices within [interim guidance](#) released by the CDC and OSHA as the mechanism for determining whether plants may continue or reopen operations. He cautions, however, that “[f]urther action under the Executive Order and Defense Production Act is under consideration and will be taken if necessary”.

Despite criticism, Order having affect

12. Union leaders and Democratic congressional representatives were quick to condemn the order as prioritising the profits of processors over the health and safety of meat workers. However, a US District Court ruling on 5 May [dismissed a case](#) brought against pork producer Smithfields Foods which evoked the Executive Order. In the case the judge ruled that OSHA has primary jurisdiction over the matter.

13. Tyson Foods [reopened their largest pork plant](#) on 7 May, having originally closed it on 22 April. In announcing the reopening, Tyson highlighted operational changes which would “promote social distancing and protective measures that meet or exceed CDC and OSHA guidance”. The President of the Local Union of Food and Culinary Workers supported the reopening at the time, noting that “the measures they’ve put in place are an example of how to effectively set up a safe work environment for the employees.”

14. On 8 May, USDA issued a [press release](#) listing 13 additional meat plants which would be opening in the coming week following the implementation of CDC and OSHA guidelines.

US sector confident of rebounding, with support

15. The National Cattlemen’s Beef Association (NCBA) CEO Colin Woodall has stressed that there is no need for imports to satisfy US demand arguing that there was “no US nationwide beef shortage”. The US Cattlemen’s Association went further, asking Secretary Perdue by [letter](#) that “US Department of Agriculture work with meatpackers to ensure preference is given to procuring cattle that have been born and raised in the US” to support domestic production.

16. As part of the coronavirus response, USDA has already committed to spend US\$3 billion purchasing food, including meat, to distribute via “food boxes” through food banks, community and other groups. The Coronavirus Food Assistance Program (CFAP) will also provide the livestock sector with direct payments of US\$5.1 billion for cattle producers and US\$1.6 billion for the pork sector. USDA is still determining how these funds will be calculated.

Increased predictability for New Zealand imports

17. While the US meat sector is likely to remain volatile and subject to ongoing, rapidly evolving challenges, we expect the actions outlined above to increase predictability in the market for New Zealand exporters.

18. The loss of the food service market, coupled with Covid-19 infection and quarantine, initially witnessed a significant shortage of cold storage capacity impacting New Zealand imports. We have not heard of further cold store challenges on either the East or West Coast.

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