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Sarah J. Helming
Supply Chain Resiliency Coordinator
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United States Department of Agriculture
Suite 312-E
1400 Independence Ave., SW
Washington, DC 20250

Re: Docket No. AMS–TM–21–0058; Investments and Opportunities for Meat and Poultry Processing Infrastructure; 86 Fed. Reg. 37728 (July 16, 2021)

Dear Ms. Helming:

The National Chicken Council (NCC) appreciates the opportunity to submit comments responding to the United States Department of Agriculture's (USDA's) request for information (RFI) on investment opportunities for the meat and poultry processing infrastructure. NCC represents the vertically integrated broiler chicken production and processing companies that provide more than 95 percent of the chicken marketed in the United States.[1] The broiler chicken industry is geographically diverse, highly competitive, and the proud provider of the nation's favorite wholesome, affordable animal protein. NCC member companies are deeply involved in local agriculture, and NCC supports efforts to further enhance the already resilient and competitive chicken industry.

These comments provide general context about the chicken industry, followed by several points for consideration when developing a government-run investment program.

Background: The Chicken Industry is Robust, Resilient, and Competitive

The chicken industry has developed into a highly efficient sector that combines the benefits of localized agriculture with modern production efficiency, resulting in low prices and an abundant supply of chicken for consumers and a globally competitive export sector of American agriculture. Understanding the factors that make the industry competitive is important for identifying the most appropriate opportunities for investment.

[1] Throughout these comments, references to "chicken" are intended as references specifically to broiler chickens.

A Diversified Sector

The broiler industry is highly diversified. Chicken processors operate 224 establishments in 32 different states, and across 125 Congressional districts. This geographic diversification provides inherent protection from local and even regional disasters and disruptions while also ensuring that companies remain deeply rooted in their local economies. The industry is likewise diversified in its market concentration. Based on USDA data, as of 2018, the top four chicken processing companies by volume account for only 51 percent of the industry's total output, as measured by pounds processed, and that is down from ten years prior.[2] Chicken is by far the least-concentrated among the major animal protein industries. This lack of concentration insulates the chicken industry from supply chain risks associated with single choke points or bottlenecks simply because there are no narrow chokepoints in the chicken industry. For example, if a single chicken plant – even a large one – were to be taken offline for an extended period of the time, the nation's overall supply of chicken and related markets would be relatively unaffected.[3]

At the same time, the chicken industry is efficient, and the price consumers pay for chicken has decreased dramatically over the years. Compared to 1935, consumers today pay 62% less for chicken on an inflation-adjusted basis, making chicken a very affordable and highly nutritious protein source. And consumers have never had more choice than in the wide variety of chicken products available today.

The Chicken Industry's Vertical Integration Promotes and Protects Local Farmers

NCC members are vertically integrated companies. The typical chicken processor, called an integrator, owns the food processing establishments and the birds, and contracts out the raising of those birds to a network of farmers.[4] The integrator typically provides chicks, feed, veterinary supplies and care, and animal husbandry guidance. The farmer provides housing, farm-related inputs such as fuel, and his or her expertise in caring for the birds.

This arrangement provides benefits for both integrators and farmers. Integrators have access to local expertise in the form of farmers who own and operate chicken houses, often as part of diversified family farming operations. Farmers get a steady and predictable source of revenue and access to expertise and resources that likely would not otherwise be available to a small business. Economic risks get shifted to the party best able to bear them – the integrator. This arrangement proved to work well during the COVID-19 emergency, as independent farmers were able to rely on their contracts with integrators to be paid for the birds they were raising, drastically reducing their economic risk. The resiliency created by this structure likewise protects the supply chain in the face of other economic shocks, such as natural disasters, input costs, and other disruptions.

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[2] It would take ten chicken processing companies to account for 80 percent of overall production.

[3] There is historical evidence demonstrating this, as chicken plants have been damaged or destroyed in fires and hurricanes without affecting markets overall.

[4] This is a generalized overview; each NCC member company is unique, and there are variations in how each company chooses to structure its operations.

The Chicken Industry is Localized

Although chicken processors operate across 32 states, each plant's operations are inherently local. The chicken industry is organized such that processing plants are located near the farms that raise the chickens processed at that plant. This geographic arrangement ensures that much of the economic benefits generated by a chicken plant stay in the local community and creates a direct connection between processors and their communities, including local charitable involvement.

Recent Experience Has Shown the Chicken Industry is Resilient

The challenges presented by the COVID-19 pandemic have shown that the chicken industry is highly resilient, in large part because of its structure. The entire country faced tremendous challenges during the pandemic, and the chicken industry was no different. But throughout, grower contracts were honored, safety measures were implemented, and chicken was kept on grocery store shelves. In fact, the most significant hurdles the chicken industry faced were extrinsic.

As foodservice demand disappeared almost overnight at the beginning of the pandemic, the industry was faced with the challenge of how to redirect a significant amount of the country's chicken from foodservice channels to retail. The biggest obstacle turned out to be regulatory requirements, in particular specific labeling requirements that made it all but impossible to simply redirect foodservice product to retail. Limited cold-storage capacity made it difficult to store this product longer, and a nationwide shortage in qualified commercial truck drivers impeded redistributing products. These issues came on top of existing challenges in accessing skilled labor (exacerbated by the pandemic's effects) coupled with challenges such as securing needed personal protective equipment and concerns over the continuity of USDA inspection in the early months of the pandemic.

Importantly, all these challenges came from outside the industry. The chicken industry itself proved extremely resilient and competitive, driven in large part by its geographic breadth, strong local ties, and national reach and efficiencies.

Specific Points for Consideration

To the extent USDA believes that it would promote the chicken industry to develop a federal investment program, NCC encourages USDA to ensure the program integrates as closely as possible into the existing market structure. This would increase the chances that new entrants can successfully join a competitive and robust industry, minimize costs to entrants, promote participation, and increase the effects of each taxpayer dollar spent.

NCC encourages USDA to avoid creating a two-tier system whereby different sets of rules apply to participants in federal investment programs and to those in the existing marketplace. A successful investment program would provide support to new market entrants and help them position themselves to be competitive in what is a global chicken industry. In particular, NCC is concerned that characterizations in the RFI of certain practices as being anti-competitive or prone to abuse inappropriately jump to unsupported, subjective conclusions about the agricultural system that the RFI is intended to support. These types of assessments are beyond the scope of a rural investment program and only create confusion. Indeed, the data show that the existing market structure is functioning well, benefiting growers, processors, and consumers. NCC urges USDA to use investments to provide participants with maximum opportunity to build successful businesses that compete and provide value in an already existing global marketplace.

Moreover, NCC recommends that any government investment program be targeted to provide maximum value, flexibility, and opportunity for participants. This can be done by minimizing burdens on participants and administrative overhead in running the program. NCC strongly encourages USDA to consider devoting a significant portion of the contemplated resources to enhancing existing rural support programs. Access to credit has always been a critical catalyst for investment, especially for small and growing businesses. Lending also maximizes the impact of each federal dollar. NCC encourages USDA to review its existing lending programs, such as FSA loans, to determine whether limits can be expanded, restrictions can be loosened, and otherwise how these tools can be made more useful for small rural business. NCC also encourages USDA to work with the Small Business Administration (SBA) to ensure that SBA loans are appropriately supportive of rural investment. By focusing on credit access, the contemplated federal program would ensure that local entrepreneurs who know their communities and businesses the best can target investments where they are most likely to provide maximum value.

If USDA is looking to drive targeted growth and investment to remove bottlenecks and chokepoints in the agricultural sector, NCC encourages USDA to look to the key challenges faced during the initial stages of the COVID-19 emergency. In particular, USDA should consider driving expansion of the available cold-storage capacity and the nation's long-haul trucking fleet (including qualified drivers). Cold storage facilities and overland trucking are important sectors that support numerous industries. They also have relatively modest overhead and lower barriers to entry. Investing in these important supporting sectors would benefit a significant number of industries, amplifying the effect of any federal dollars invested.

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Thank you for the opportunity to present these comments. If you need any further information, please do not hesitate to contact me.

Sincerely,

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Senior Vice President, Scientific and Regulatory Affairs
National Chicken Council