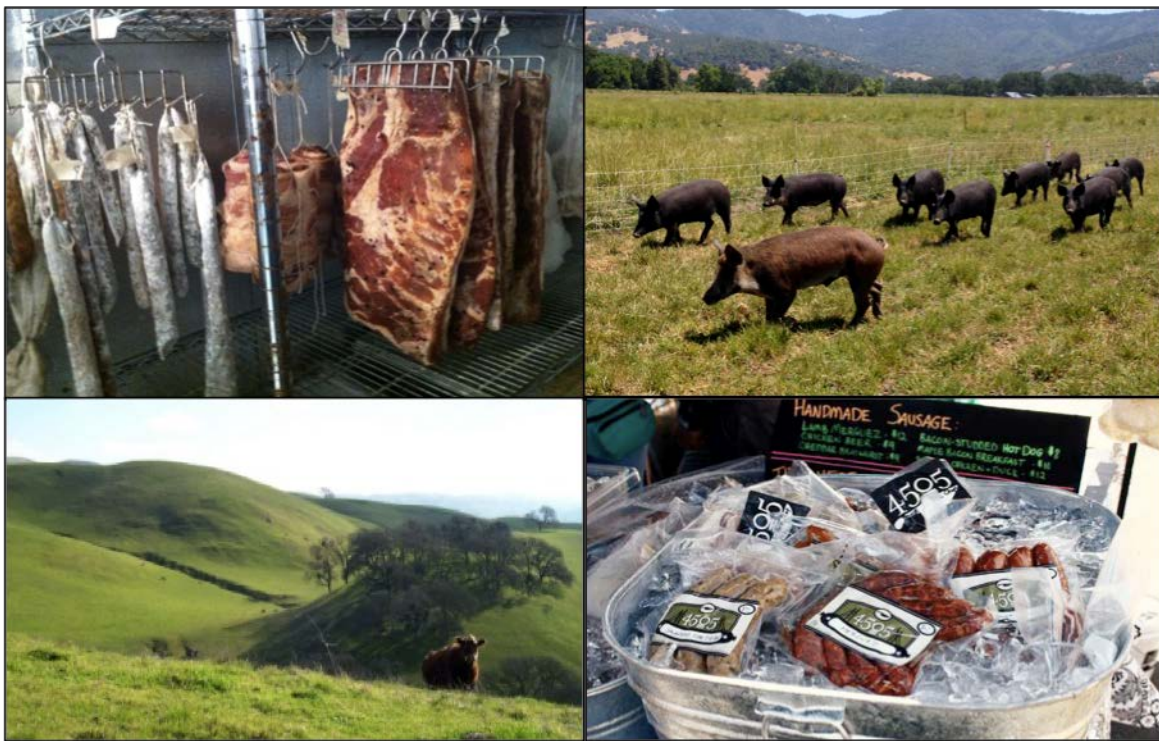


Characterizing Demand for Local Meat Processing: A Needs Assessment for Livestock Processing Services in San Francisco's East and South Bay



December 2015

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Characterizing Demand for Local Meat Processing:
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East and South Bay

Report Summary

Susan Ellsworth¹
December, 2015

Concern about the availability of federally inspected slaughter and processing services for niche meats is increasingly common throughout California and the nation. Livestock producers in San Francisco's East and South Bay region have similarly expressed concern about access to such services and the related limitations this places on the growth of niche meat markets. This report assesses demand for meat processing service including slaughter and secondary processing or "cut and wrap" through a series of interviews with local producers, butchers and restaurateurs. These interviews are used to determine if sufficient demand exists to pursue the establishment of additional processing facilities as well as to examine other means of addressing limitations in local meat processing. Findings suggest that the distance to area facilities is an impediment to access and that some dissatisfaction with services exists. However, it also finds that current demand for these services, in terms of beef equivalents slaughtered each year, is not sufficient to merit a new facility at this time. Several collaborative solutions were explored and significant interest exists within the community of producers in pursuing a cooperative or aggregating business model that might streamline niche production and help to bring additional conventional producers into niche markets.

¹ Susan Ellsworth is a Food Systems Specialist with the Alameda County Resource Conservation District
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Characterizing Demand for Local Meat Processing: A Needs Assessment for Livestock Processing Services in San Francisco's East and South Bay

Susan Ellsworth, Alameda County RCD
December, 2015

Background

This report has been developed with support from a United States Department of Agriculture (USDA) Local Food Promotion Program (LFPP) Planning Grant to assist in addressing concerns about livestock processing capacity in California's East and South San Francisco Bay region. LFPP grant funding is intended to help support the development and expansion of local food enterprises and to increase consumption of locally and regionally produced products. Planning Grants are intended for the early stages of food business establishment to assist with market research as well as needs or feasibility studies. Specifically, the goal of this planning grant was to determine the following: a) is there sufficient demand for establishment of a new federally inspected slaughter and/or secondary processing facility within the grant area and b) what additional solutions to perceived limitations in processing might exist.



Figure 1: Three county needs assessment area

Challenges associated with access to USDA inspected slaughter and cut and wrap² facilities are increasingly well documented across the United States³, as well as California and Northern

² Cutting and packaging chilled primal, sub primal and retail cuts as desired for markets.

³ Gwin, Lauren, Arion Thiboumery, and Richard Stillman. Local Meat and Poultry Processing: The Importance of Business Commitments for Long-Term Viability, ERR-150, U.S. Department of Agriculture, Economic Research Service, June 2013.

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California, in particular.^{4 5 6 7} Limitations are particularly acute for producers of cattle, hogs, sheep, goats and other large livestock for which no allowances for on-farm or state-inspected slaughter are made if the product is to be resold. These challenges have received increased attention of late, in the context of rapidly growing demand for locally produced, niche meat products. A 2008 report by Gwin and Hardesty, focused specifically on the Bay Area and Sacramento Valley, corroborates this finding.⁸ Currently, there are no USDA inspected slaughter facilities within the primary grant area of Alameda, Contra Costa and Santa Clara counties. While several California Department of Food and Agriculture (CDFA) or state inspected facilities exist in closer proximity, all products destined for re-sale must be processed at a USDA facility. As such, the average producer must travel approximately 180 miles or nearly 3 hours roundtrip to bring animals to slaughter. See Appendix A for a map of facilities within 100 miles of the grant area. It should be noted that for those who are only processing meat for personal consumption, the general level of satisfaction with state inspected facilities was relatively high. These facilities are also somewhat more proximate to producers within the grant area.

Expression of Need

In light of anecdotal feedback from producers about limitations to slaughter and processing in the Bay Area, the Alameda County Resource Conservation District (ACRCD) hosted a workshop for beginning livestock producers on the topic of slaughter and processing in February 2013. The event was well attended by a range of producers all of whom expressed frustration with existing processing infrastructure. While several producers in attendance were already participating in direct markets, many were conventional cow-calf or stocker operations that don't typically interface with slaughter and processing, instead selling their animals live, typically at auction. Among these producers there is some interest in direct markets, however, this interest is significantly diminished by the perception that accessing slaughter and processing infrastructure is prohibitively time consuming and expensive by comparison to conventional markets. This feedback has been echoed by producers throughout the region who express a range of frustrations with the status quo including distance to processing facilities,

⁴ Hardesty, S. and J. Harper, "Mendocino County Meat Plant Study - Staying Local," *University of California Cooperative Extension Mendocino County, University of California Davis Department of Agriculture and Resource Economics, Mendocino Economic Development and Financing Corp, Award No. 07 79 06702, U.S. Department of Commerce Economic Development Administration* (2013).

⁵ Doran, Morgan, Temra Costa, John Harper, Theresa Becchetti, Stephanie Larson, Shermain Hardesty, and Rodger Ingram, "Need assessment for small-scale livestock harvesting and processing facilities in Northern California," *University of California Cooperative Extension Solano County* (2007).

⁶ CalaverasGROWN, "Final Link: Getting livestock from farm to fork," *USDA: Rural Business Enterprise Grant* (Sept. 2012).

⁷ Giacomini, Pam. "Regulatory Streamlining White Paper". *Next Steps: Implementation of Small and Very Small Niche Meat Harvesting and Cut-and-Wrap Facilities in California. 2013 California Meat Summit, Placerville, CA, March 27, 2013. <http://ucanr.edu/sites/placervevadasmallfarms/files/164099.pdf>. Accessed 12.25.15.*

⁸ Gwin, L and Hardesty, s, "Northern California Niche Meat Market Demand Study," *University of California Cooperative Extension Small Farm Program* (2008).

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long wait times and poor service. These sentiments are similar to the “commonly cited concerns about local meat processing” enumerated in a 2013 report by Gwin et al – See Figure 2 below.⁹

Anecdotal feedback from area processing facilities also echoes findings in the Gwin et al report. Specifically, representatives of Rancho Feeding Corporation, prior to its closure, and Marin Sun Farms, the new owners of the facility, indicated that it is not at capacity, particularly during the winter, spring and fall. These processors and others have made clear in various venues that the high cost of doing business and seasonal variability in demand create a precarious business model that stands to be adversely impacted by the addition of a competing facility within the region. The loss of a USDA inspected facility is a practical consideration critical to the process of assessing demand and feasibility within the grant area.

What farmers say	What processors say
There are not enough processing facilities. ¹	There aren't enough farmers bringing me enough livestock.
Processors don't have the right services or inspection status.	Farmers ask me to do new things, but they don't have enough volume to cover my costs.
I have to schedule a processing date too far in advance.	Farmers don't come when they say they will, or they bring fewer or different animals than they said they would bring.
I can't get a processing date during the fall.	I have no business in the spring.
Processing costs too much.	Farmers don't want to pay what processing really costs.
Processors make cutting, packaging, and labeling mistakes.	I don't have enough year-round, steady business to hire skilled labor and pay them a good wage.
My order wasn't ready on time, and my customers are unhappy.	Farmers don't pick up their orders on time, using up valuable cooler space.

¹Particularly for poultry: there are far fewer inspected poultry plants than red meat plants, in part because profit margins are thinner, in part because many States allow the sale of poultry processed under one of the Federal exemptions, and in part because poultry production at smaller scales is typically very seasonal. Farmers must cross State lines for federally inspected processing or be shut out of the market in States that do not allow such sales and in which there is no inspected small plant.

Figure 2: Farmer/Rancher and Processor Concerns about processing from Gwin et al, 2013

Changing Landscape

The last five years have seen several significant changes to the meat processing industry within the greater San Francisco Bay Area including the closure of several plants and opening of others. Most significantly, the Rancho Feeding Corporation's slaughter facility in Petaluma closed after a large-scale meat recall and was purchased and re-opened by Marin Sun Farms. The new facility recently received organic certification as well as the Animal Welfare Approved endorsement.

⁹ Gwin, Lauren, Arion Thiboumery, and Richard Stillman. Local Meat and Poultry Processing: The Importance of Business Commitments for Long-Term Viability, ERR-150, U.S. Department of Agriculture, Economic Research Service, June 2013.

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Additionally, severe and ongoing drought has affected cattle producers, causing many to reduce herds and contributing to high cattle prices. High prices, in turn, have created a disincentive for some to pursue direct marketing options which require considerably more time and management than taking animals to auction. According to the World Bank, beef prices in 2015 were nearly 2.5 times that of twenty years ago.¹⁰ Irrigated pasture is limited within the grant area and precipitation ranges from approximately 8-20" during the late fall, winter and early spring. This results in limited green forage which makes it difficult or even impossible for some producers to grass-finish animals, contributing to a further contraction of demand for processing services from those producers.

Other Efforts in the Region

Livestock producers across California and the nation have expressed concern about insufficient meat processing options for years. As such, a number of studies have been undertaken and meetings convened throughout the region to attempt to address this challenge. These include a 2008 needs assessment for additional slaughter and processing capacity in Yolo County and surrounding areas¹¹, as well as several slaughter plant feasibility studies including a 2012 study for Amador, Calaveras, Mariposa and Tuolumne counties¹² and a 2013 study for Mendocino and Lake Counties.¹³ A summit of producers, processors, regulators and other experts was convened in 2013 in El Dorado County to discuss much of this work throughout the region.

Finally, a report assessing need for meat processing along the Central Coast and evaluating three different approaches for addressing that need has just been concluded.¹⁴ As this report and the research underpinning it was conducted simultaneous to our needs assessment process for the East and South Bay, and entailed an adjacent geography, project managers made an effort to coordinate and share resources during the grant period.

An additional report published in 2008 clearly documents growing demand for niche meats within Northern California¹⁵ and in particular, urban areas within and adjacent to the grant area.

¹⁰ <http://www.indexmundi.com/commodities/?commodity=beef&months=360>

¹¹ Doran, Morgan, Temra Costa, John Harper, Theresa Becchetti, Stephanie Larson, Shermain Hardesty, and Rodger Ingram, "Need assessment for small-scale livestock harvesting and processing facilities in Northern California," *University of California Cooperative Extension Solano County* (2007).

¹² CalaverasGROWN, "Final Link: Getting livestock from farm to fork," *USDA: Rural Business Enterprise Grant* (Sept. 2012).

¹³ Hardesty, S. and J. Harper, "Mendocino County Meat Plant Study - Staying Local," *University of California Cooperative Extension Mendocino County, University of California Davis Department of Agriculture and Resource Economics, Mendocino Economic Development and Financing Corp, Award No. 07 79 06702, U.S. Department of Commerce Economic Development Administration* (2013).

¹⁴ Quanbeck, Kathryn, "Options for Increased Processing Capacity in California's Central Coast Region," *Niche Meat Processor Assistance Network* (2015).

¹⁵ Gwin, L and Hardesty, s, "Northern California Niche Meat Market Demand Study." *University of California Cooperative Extension Small Farm Program* (2008).

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This flurry of recent studies provides useful background both in terms of demand throughout the region as well as methodologies for capturing feedback from local producers. The ability to evaluate the outcomes of these studies and meetings also highlights the challenges of developing new facilities, retrofitting older or state certified facilities or pursuing regulatory streamlining even when demand is present. However, these studies are not redundant to this report, as they do not expressly address slaughter and processing resources for the East and South Bay. It is important, in examining local need, to understand the nuances of that need within each specific region given different forage bases, producer preferences, markets and local capacity to creatively problem solve.

Methodology

Ensuring stakeholder feedback during the entirety of the needs assessment process was a priority for this project. As such, the first critical component of our methodology was the identification of a Steering Committee (SC) composed of various stakeholders from throughout the grant area including livestock producers, a restaurateur, as well as agricultural and resource professionals. A local livestock processor was invited to all meetings but was unable to participate. These stakeholders were convened on four occasions for in-person or phone meetings and were consulted by email routinely over the course of the project. In turn, feedback was used to help clarify goals of the assessment, refine the assessment tool, target stakeholders for outreach, interpret findings and propose next steps. Many Steering Committee members also participated in the assessment.

Engaging livestock processors was another component of this project's methodology. We were eager to ensure that our stakeholders hear from at least one representative of a local facility to facilitate deeper understanding of mutual challenges and limitations. In our case, the Director of Operations of Marin Sun Farms joined one of our SC meetings to provide some background on the recently re-opened facility as well as answer questions. Notably, this representative shared concerns about the overall cost of running their plant and its continued viability in the face of a new facility in the region. She also emphasized that the plant was not at capacity and willing to modify their slaughter schedule to accommodate additional producers should the need arise.

The core of our approach rested on outreach and engagement of stakeholders through individual interviews. Initially, we proposed using surveys, either electronic or paper, which would allow us to reach a larger segment of the ranching community more efficiently. However, after identifying our primary outreach targets - namely producers already utilizing slaughter and processing services or those considering doing so - the limited number made this alternative approach possible. Additionally, guidance from those experienced in needs assessments, in particular representatives of the Niche Meat Processor Assistance Network (NMPAN), suggested that feedback from one-on-one interviews would ultimately be more

useful in developing a nuanced understanding of the issues at play which often don't come out in surveys.

Who We Interviewed

A total of 24 interviews were conducted across Alameda, Contra Costa and Santa Clara Counties engaging 25 unique stakeholders. Interviewees were identified through collaboration with UC Livestock Advisors, Brand Inspectors, local resource conservation professionals, niche meat retailers and members of the SC. All interviewees were also asked to refer additional niche producers.

Of the 24 interviews, 21 were conducted with livestock producers and 3 with retail or butcher representatives. Various members of the SC assisted with the interview process: 4 interviews were conducted by the Contra Costa County Resource Conservation District (RCD), 3 were conducted by the Guadalupe Coyote RCD (Northern Santa Clara County) and 17 were conducted by the Alameda County RCD. With regards to livestock producers engaged in slaughtering or processing their animals for re-sale of meat products, it is estimated that our interviews reached approximately 80% of those within our grant area. Extensive outreach and consultation with producers in this sector, UC Livestock Advisors and other agricultural and resource professionals indicates that the overall number of these producers is quite limited.

Of the 21 interviews of livestock producers, 14 were conducted with producers who are currently processing meat at facilities within the region. 5 of the 21 producers are considering processing meat in the future and 2 do not anticipate including meat processing within their business model. See Figure 3. Interestingly, 14 of the 21 producers interviewed are selling cattle live - also referred to as on-the-hoof- including 8 of the 14 producers who are currently processing livestock for meat. For most, the vast majority of sales (80-99%) are on the hoof with meat sales making up just a small portion of their overall livestock-related income.

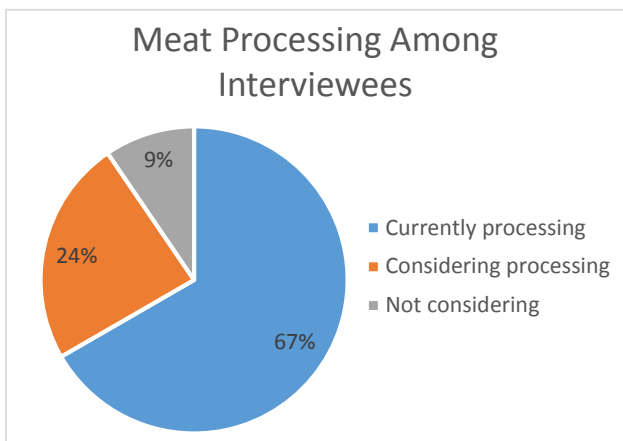


Figure 3: Percentage of interviewees currently processing meat, planning to process meat or not planning to process meat.

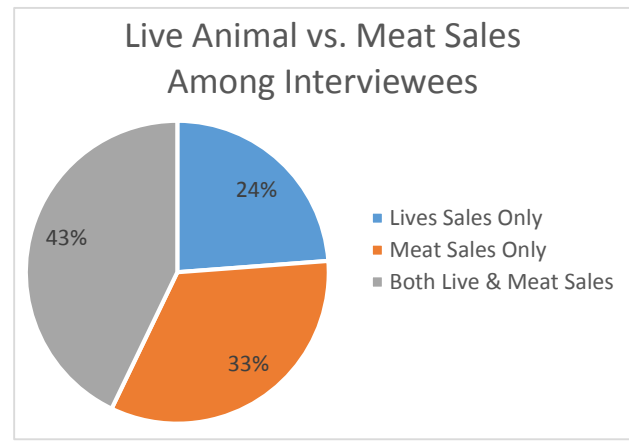


Figure 4: Percentage of interviewees selling live, as meat or both.

These numbers demonstrate that even within the small community of producers who are processing meat, there is significant potential for expansion of slaughter and processing demand should these individuals shift their production focus from auction to meat. This project focused deliberately on those already engaged in some form of meat processing as opposed to the many producers not yet pursuing this sales avenue.

The successful establishment of new facilities relies on concrete commitments from producers to bring their animals to that new facility. Given the significant start-up costs associated with bringing a new facility online, most investors will want to know that a certain volume of head/year are committed to utilizing their services once available. Similarly, requests to existing processors to modify their services must be accompanied by specific feedback from existing customers on what those modified services should entail.

Nevertheless, it is also valuable to acknowledge that there is significant latent demand within the grant area given a large ranching community (approximately 58 thousand head of cattle, hogs, goats, sheep and lambs)¹⁶ that might utilize slaughter and processing services if such services were more readily available.

Three retail and butcher stakeholders who engage directly with meat processors were also interviewed as part of the assessment. Not only is the number of these stakeholders within this category relatively small, their feedback indicates that the majority of challenges associated with slaughter and processing (transportation, scheduling, processing costs, proper packaging etc.) are typically born by the producer. In general, these individuals expressed far fewer concerns with the current infrastructure than producers, and as such were less a focus of this report.

Quantifying Processing Need

As describe above, one significant outcome from this work was the basic quantification of demand for processing services within the region. Through outreach and interviews, it has become clear that the total number of livestock producers engaged in routine slaughter and processing within the grant area is quite limited. Of the 14 producers within this category, 13 currently utilize USDA certified facilities – 7 exclusively and 7 sometimes using state facilities depending on the final market for the product. Half of those utilizing some form of slaughter and processing services are currently selling only to friends and family, further limiting the total pool of producers with consistent demand. It is evident that many producers prefer to utilize State inspected facilities when possible largely due to their closer proximity. At least one producer is utilizing ranch kill services exclusively.

Table 1 quantifies the total number of animals, as well as beef equivalents, brought to slaughter by interviewees in 2013, 2014 and 2015. Beef equivalents (BE) are used to harmonize demand

¹⁶ 2012 United States Department of Agriculture, Census of Agriculture. Table 2 Livestock Numbers by County and Type Produced

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for processing services across species of different sizes. One BE is one beef = 2 hogs = 3 lamb or goats. The numbers in Table 1 can be used as a rough proxy for slaughter demand in the three county grant area. In terms of total numbers, the greatest demand is for processing of hogs, followed by sheep or lamb, goats and then cattle. However, these numbers are skewed by the large number of animals slaughtered in association with county fairs. More than 63% of demand for hog slaughter, 54% of sheep and 40% of goats derives from county fairs. In general, these are animals raised by youth enrolled in 4-H or other educational programs and sold at auction before being shipped to slaughter. As such, these animals do not represent significant potential for market growth and should not be considered an integral component of the niche meat market. Livestock auction managers were interviewed from Alameda and Santa Clara Counties and are each counted as one “producer” for the purposes of this assessment. The remainder of non-fair related hog, lamb/sheep and goat numbers are roughly split between three producers.

Livestock Slaughtered and Processed by Year, 2013-2015								
	Cattle	Hogs	Hogs as BE	Lamb/ Sheep	Lamb/ Sheep as BE	Goats	Goats as BE	Total BE
2015	173	259	130	240	80	200	67	450
<i>2015 without fair animals</i>	113	95	48	110	37	120	40	238
2014	170	259	130	240	80	200	67	447
<i>2014 without fair animals</i>	110	95	48	110	37	120	40	235
2013	183	259	130	240	80	200	67	460
<i>2013 without fair animals</i>	123	95	48	110	37	120	40	248

Table 1: Total head of livestock slaughtered each year by species both with and without animals from County Fairs. Note that numbers for hogs, lamb/sheep and goats are based on estimates from county fair livestock managers hence the identical numbers from year to year.

While the overall number of cattle brought to slaughter in 2015 was lower than that of other species, the number is derived from a significantly larger number of producers. The 173 cattle harvested in 2015 originate from 12 different producers throughout the grant area. While this shows that cattle production for meat is fairly disaggregated, it also shows that demand for cattle processing is more widespread than that for other species. Overall, including animals sold on the hoof, the number of cattle in Alameda, Contra Costa and Santa Clara Counties is significantly greater than that of pigs, sheep or lamb or goat. Only 35% of cattle brought to slaughter were raised for fair as compared to 63% of hogs, 54% of sheep/lamb and 40% of goats.

Notably, 3 of the 14 interviewees currently processing livestock for meat plan to scale up production in the coming years. Nine of the 14 plan either to scale down or remain the same.

This may be indicative of both the challenges associated with meat processing as well as the ongoing drought. Separately, 4 producers who are not currently processing livestock plan to start or re-start in the coming years. At least two of those producers stand to scale-up rapidly, indicating in their interviews a potential to increase the total number of animals requiring slaughter within the region by 100-300.

Very few producers in the region raise species other than cattle, hogs, lamb, sheep or goats. Though several raise poultry, a different regulatory framework makes slaughter and processing less challenging for small-scale producers and for this reason, poultry is not addressed in this assessment.

Slaughter and Processing Facilities

Producers within the grant area utilize a number of different facilities for slaughter and processing. For a map of current facilities, see Appendix A. With regard to USDA slaughter, facility use is as follows:

- 7 producers utilize Marin Sun Farms – Sonoma County (cattle, hogs, sheep/lamb, goats)
- 6 producers utilize Los Banos Abattoir – Merced County (cattle only)
- 4 producers utilize Superior Farms – Solano County (lamb/sheep and goat)
- 1 producer utilizes Creston Valley Meats- San Luis Obispo County (all species)
- 1 producer utilizes Yosemite Meat Locker- Stanislaus County (hogs)
- 1 producer utilizes Jim’s Farm Meat – Merced County (hogs)

Use of state-inspected facilities for slaughter is less common. Instead, several producers utilize ranch kill services when the animal is not intended for resale.

USDA cut and wrap services are somewhat more abundant than slaughter services in the grant area, however, these facilities are also often at capacity, with long wait times. For this reason, and in light of several new facilities opening in the region, producers tend to move between cut and wrap establishments more than they do between slaughter establishments. With regard to USDA cut and wrap, producers utilize the following facilities:

- Sonoma County Meats – Sonoma County
- Marin Sun Farms – Sonoma County
- Manas Ranch Custom Meats – Yolo County
- Golden Gate Meat Company – Sonoma and San Francisco County
- Creston Valley Meats – San Luis Obispo County

Producers often prefer to utilize state inspected facilities for cut and wrap when the meat is not intended for re-sale, generally in light of greater proximity. The following state inspected facilities are utilized by producers:

- Austin Meat Service – San Joaquin County

- Bud’s Custom Meats – Sonoma County
- Fagundes Meats – San Joaquin County
- Sanders Meat Locker – Stanislaus County
- Dave’s Meat Service – Stanislaus County
- Freedom Meat Lockers – Santa Cruz County
- Willow Glen Meats & Smokehouse – Santa Clara County
- Los Gatos Meats – Santa Clara County

Driving distances to slaughter facilities range between 50 and 185 miles one-way with an average of 92 miles. Distances to cut and wrap range between 35 and 100 miles with an average of 88 miles one-way. Typically, if it is not cut and wrapped in house, meat is transported from the slaughter facility to cut and wrap by the slaughter establishment. In general, most producers will drop their animals off at slaughter and pick-up the cut and wrapped product at whatever location has provided the cut and wrap services. Interestingly, these average distances are not significantly different than the distances that producers are driving to auction (Turlock and Galt), however sales through auction require only one trip and sales of meat requires a trip to the slaughter facility and another trip to pick-up the product, not to mention transportation to the end market.

Timing of Slaughter and Processing

Understanding seasonal demand for slaughter and processing services is also important when assessing overall need for new facilities. Within the grant area, demand for hog processing is essentially year round while demand for lamb, sheep and goat processing is somewhat greater in the summer months. Cattle processing is concentrated generally between April and July, which corresponds with the end of green forage availability, depending on the year. However, contrary to expectation, some producers do continue to bring cattle to slaughter throughout the year, albeit in smaller numbers, suggesting that demand is not entirely seasonal. It should be noted that there is a big bump in processing, particularly for hogs, lamb, sheep and goats, in mid-summer at the time of County Fairs.

Because demand for cattle processing is more disaggregated than that of other species (12 producers of cattle for meat vs. 5 for hogs, sheep, lamb and goats), there are technically more cattle producers seeking those services even though the overall number of animals is roughly the same (see Figure 1). Understanding seasonal demand from cattle producers is particularly important as this is the area of meat production within the region most poised for upscaling in light of the significant number of beef producers who also sell cattle on the hoof.

When asked about flexibility of timing for slaughter, cattle producers in particular cited the constraints of forage availability for grass-finishing. One producer noted that the issue of forage seasonality is, in part, the impetus for grain finishing animals as it enables them to be fattened year round. Some producers also expressed a willingness to consider shifting their slaughter schedule if kill fees were reduced, as this reduction in fees would allow for the purchase of

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supplemental forage such as alfalfa. Similar considerations exist for sheep, lamb and goats, which also typically rely on forage for finishing. Hogs, which are monogastrics, rely on non-forage based feeds and therefore have more flexibility in terms of when they are finished and brought to slaughter.

Satisfaction with Processing Services

Many producers within the region were affected by the beef recall at Rancho Feeding Corporation and expressed significant distress about the state of processing following the plant's closure. However, a year later, after the re-opening of the facility under management of Marin Sun Farms, the level of concern appears to have diminished somewhat. With regards to this assessment, the majority of interviewees (8 of 14) were generally satisfied with the services provided by their slaughtering facility. This finding is similar to that of the 2007 report by Morgan et al.¹⁷ Nevertheless, interviewees cited the following issues with slaughtering services:

- Insufficient hang time (2 producers)
- Concerns about traceability and getting the correct meat back/lost animals (2 producers)
- Busy at certain times of year, such as fair time, resulting in wait times (3 producers)
- Difficulties coordinating between slaughter and cut & wrap (1 producer)
- Inability to process bulls (1 producer)
- Inability to process animals over 30 months (1 producer)

Similarly, the general level of satisfaction with cut and wrap services, often provided by separate entities, was relatively high (9 of 14). Specific complaints included the following:

- Poor packaging, specifically leaky cryovac (3 producers)
- Challenges accessing services or long wait times (1 producer)
- Disorganization (1 producer)
- Ability to hold product after cut and wrap (1 producer)

Prior to the closure of Rancho Feeding Corporation, many producers noted challenges accessing secondary processing services in a timely manner. Interestingly, these concerns also seem to have diminished in the last several years as additional cut and wrap facilities have come on line.

Not included within these considerations is the larger issue of transportation distances. Nearly all interviewees noted that their facility choice was impacted in some way by its location. In addition to driving distance, producers cited traffic (the grant area includes San Francisco's East and South Bay) as well as tolls. Despite a relatively high level of satisfaction with processing

¹⁷ Doran, Morgan, Temra Costa, John Harper, Theresa Becchetti, Stephanie Larson, Shermain Hardesty, and Rodger Ingram, "Need assessment for small-scale livestock harvesting and processing facilities in Northern California," *University of California Cooperative Extension Solano County* (2007).

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services, nearly all those interviewed expressed a desire for slaughtering services in closer proximity to the grant area.

Markets for Niche Meats

Understanding the primary markets to which producers are selling their meat products is also important in terms of assessing overall need for new facilities. As described above, any meat that is being sold must be slaughtered and processed at a USDA inspected facility. Livestock that is sold live, in advance of slaughter, can be killed at either a USDA or state inspected (CDFA) facility and then cut and wrapped at either at USDA or Custom Exempt processing facility. This meat can then be consumed by the “owner” as well as family and non-paying friends and employees. Livestock producers have the additional option of having animals slaughtered on the farm or ranch, provided the meat is consumed by the producer’s household and not sold. The scale of the facility will determine whether it can produce fresh cuts in addition to frozen or whether it will only be able to produce frozen cuts. This is important as much of the higher volume demand for niche meats is for fresh cuts, however a processing facility that can accommodate demand for fresh meat generally requires significantly more throughput to offset the cost of more sophisticated infrastructure.

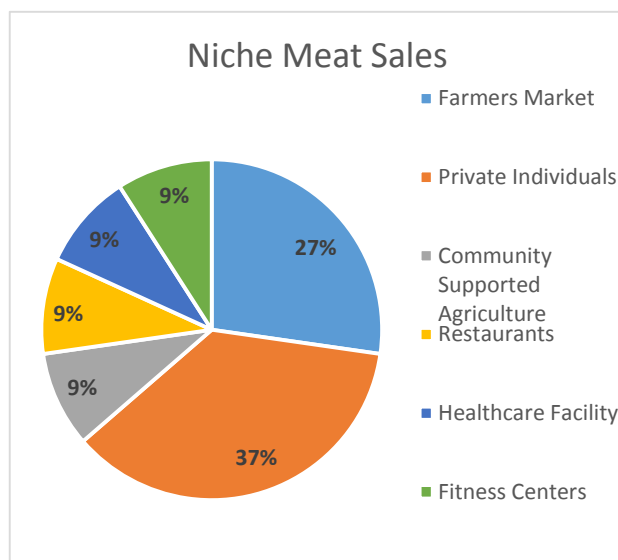


Figure 5: Niche meat sales by percent

Of the producers interviewed, 4 market their meat products almost exclusively to friends and family. In some cases, the sale of the animal precedes slaughter, thereby skirting the need to utilize a USDA inspected facility. Others manage the slaughter and processing in advance of sale and then market the meat to their network of friends and family, thereby necessitating use of a federally inspected facility. In either case, the volume of meat sold is not substantial and generally undertaken as a hobby by the producer as opposed to a primary income generating venture.

Of the remaining meat producers interviewed, 3 individuals sell meat at farmers markets, 4 to private individuals, 1 via Community Supported Agriculture Meat Share, 1 direct to local restaurants, 1 to a healthcare facility and 1 via local fitness centers. This does not include meat sold through county fairs.

While nearly all producers interviewed utilize USDA slaughter facilities, only those with meat sales are required to do so. As such, the total number of animals requiring slaughter at a USDA inspected facility is significantly less than the number of animals listed in Figure 1 above. The

approximate number of head sold as meat in 2015 compared to the number technically required to utilize USDA inspected facilities is presented in Table 2 below.

	Cattle sold for meat	Cattle requiring USDA	Hogs sold for meat	Hogs requiring USDA	Lamb/ Sheep sold for meat	Lamb/ Sheep requiring USDA	Goats sold for meat	Goats requiring USDA
2015	173	103	259	95	240	110	200	120

Table 2: Animals sold for meat in the grant area vs. animals that must be processed using USDA facilities.

By comparison, the number of animals sold through conventional markets such as livestock auctions or video auctions is extremely high – approximately 60 thousand in the three county grant area. These animals typically go on to be grain finished at feedlots before slaughter at a plant owned by or integrated with the feeding operation such as Harris Ranch. Of the 21 producers interviewed for this assessment, 14 sell livestock on the hoof. Interestingly, 2 of these 14 producers currently sell their animals to larger companies focused on natural, organic or grassfed meat products. Though these producers are not responsible for slaughtering or processing, they are nevertheless engaged in niche meat markets.

Niche Meat – Opportunities and Challenges

When asked why they participate in or plan to expand into niche meat markets that require slaughter and processing, producers cited a number of different rationales. These include:

- An ethical commitment to locally, humanely and/or environmentally raised meat products (2 producers)
- A method of diversifying to cushion against fluctuations in conventional beef markets (2 producers)
- Potential profitability (2 producers)
- Because friends and family ask for it/building community (2 producers)
- To tell the story of the farm or ranch (1 producer)
- Because it aids in perception of sustainability that might help in acquiring new lease holdings (1 producer)

Only two respondents specifically cite profitability as a driving motivation. This may be an indication that the majority of these producers are not generating significant revenue from niche meat markets and/or that their motivations are not profit oriented even if the markets are, in fact, profitable. Regardless, this is important as it may provide some additional insight into the nature of demand for meat processing services within the region. Here again it should be noted that this assessment was conducted at a time of high cattle prices.

Regarding challenges associated with producing and marketing niche meats, interviewees cited the following:

- Logistics of meat sales and marketing (4 producers)

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- Seasonality of forage/consistency of product over the course of the year (3 producers)
- Ability to process animals in a timely manner around county fair time (1 producer)
- Concerns about liability (1 producer)
- Issues associated with scale to enable slaughter/processing to be cost effective (1 producer)
- Regulations (1 producer)

Though 4 producers specifically cite logistics of meat sales and marketing as a challenge, this should be distinguished from lack of demand. The majority of producers actively engaged in niche meat markets indicate that there is no shortage of demand, rather that the logistics of meeting that demand (transportation, storage, managing customers) is actually the challenge.

Findings – Interest in Collaboration

As demonstrated in a number of other assessment and feasibility studies, even if sufficient demand is present, opening a new slaughter or processing facility is exceedingly difficult and may not always address issues identified within the community. For this reason, interviewees were also asked to consider various alternative and potentially more viable solutions.

Specifically, producers were asked about three different collaborative solutions: 1) livestock transportation to slaughter 2) back-hauling of cut and wrapped meat products and 3) establishment of a production cooperative.

Solution 1: Cooperative livestock transportation was proposed as a means of limiting time and cost associated with accessing facilities outside of the immediate three county grant area. Further, this option was put forward in recognition of the relatively small number of animals being trucked by most producers in the area, resulting in many trips being made with only partially full trailers. When asked if cooperative transportation would be of interest, 6 producers indicated yes, 4 indicated maybe and 3 were not interested. For 2 additional producers not yet processing animals for meat, cooperative transportation was of interest but only if provided as part of a larger production cooperative. Nearly all producers, even those in support of collaborative transportation, cited a myriad of concerns about this approach. These concerns included the following:

- Need to limit animal stress
- Safe driving
- Scheduling and logistics related to transportation timing
- Animal handling skill
- Ability to maintain good animal traceability
- Liability

Despite these reservations, numerous producers noted that such an arrangement would save time and money if logistics could be navigated. Several noted that cooperative

transportation should really be no different than a commercial hauler picking animals up for sale which happens regularly within conventional production models.

Solution 2: Similarly, cooperative backhauling of cut and wrapped products was proposed as a means of limiting mileage and associated costs when retrieving meat. Such an arrangement would necessitate different and likely fewer logistical considerations than livestock transportation, and might provide different benefits. When asked if they would be interested in such an arrangement, 4 producers said yes, 4 said maybe and 6 said no. Those who were interested cited the potential for shared cold storage, the fact that current freight options are typically too large-scale and inflexible for small-scale meat producers, and the potential to save time and money. Concerns included liability, challenges associated with logistics and coordination, or the fact that the producer already has the appropriate systems in place.

Solution 3: The concept of an overarching production cooperative, brand or similar aggregating business entity was proposed as a means of addressing a number of challenges associated with slaughter and processing simultaneously. Examples of such businesses include Country Natural Beef, a national cooperative based Oregon, as well as Marin Sun Farms, SunFed Ranch, Eel River and Panorama Meats who work directly with numerous ranchers to aggregate their production of meat under one label.

In particular, such an approach would have the potential of providing support with marketing and customer service, an issue of concern noted by many interviewees, as well as transportation and other logistics. It would also provide an increased scale of operation necessary to improve efficiencies and possibly access a wider range of markets. Eight producers expressed interest in a production cooperative, 5 indicated maybe and 3 said no. Interestingly, several producers who otherwise would not consider niche meat markets due to challenges associated with slaughter and processing expressed significant interest in a collaborative business model which might allow them to sell their animals on the hoof.

Of those expressing interest, potential benefits were cited as the following:

- Improved efficiency in production
- Support with marketing and customer service
- Access to additional markets (wholesale etc.)
- Streamlined hauling

Reservations included the following:

- How to accommodate and compensate for different standards of production (grassfed, humane, natural etc.)
- Cost of investment/risk of capital loss
- Need for systems of standardization/ability to maintain consistent product
- Desire to maintain individual product and ranch identity

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Several producers indicated that they would be willing to participate in a cooperative if they had the ability to maintain their label or some degree of brand identity. Two interviewees were already selling to larger regional cooperatives but expressed interest in cooperating on a more local level. At present, there is no production cooperative based in the East or South Bay focusing specifically on niche meats.

Finally, interviewees were asked if they would consider working with a processor to more directly address deficiencies in processing infrastructure. This might include collaborating with other producers to purchase equipment not currently available at a particular facility (smoker, sausage maker etc.). Under such an arrangement, the owners of the equipment could lease it to the facility or utilize it just for the processing of their products. This concept was presented at a meeting of producers in early 2015 at the EcoFarm Conference and was met with some interest. 5 producers indicated they would be willing to consider this type of solution, 1 indicated maybe and 5 were not interested.

Summary of findings

A number of key findings emerged from the 24 interviews conducted for this assessment. These findings help to provide context for a deeper and more nuanced conversation about the need for additional slaughter and processing infrastructure within the grant area. Some of these findings are as follows:

- **Processing demand:** At present, the total number of producers regularly requiring slaughter and processing services within Alameda, Contra Costa, and Santa Clara Counties is quite limited – likely not exceeding 20. This may be, in part, a reflection of a perceived scarcity of processing facilities and associated challenges that thereby limits interest in these markets, as well as climate and forage base, which limits grass-based finishing during much of the year. Recent high cattle prices have likely compounded this phenomena, despite significant and growing demand for niche meats.

While a good number of ranchers may harvest several animals a year for friends and family, the number engaged in regular sale of niche meat to a larger customer base is likely insufficient at this time to justify a new USDA inspected facility within the region.

Animals slaughtered in association with county fairs constitute a significant percentage of total slaughter demand in the region. Otherwise, demand is equally spread between cattle, pigs, goats, sheep and lamb. Despite general parity in the overall number of animals slaughtered, the number of niche beef producers is nearly twice that of pork, lamb, mutton or goat meaning there is a larger number of beef producers seeking those services with generally smaller number of animals per producer.

Notably, potential additional demand for niche beef processing services is significant with several large-scale producers currently considering expansion into this market. In the near

term, these new additions to the market are not likely to be sufficient to merit a new facility.

- **Facilities:** Producers primarily utilize USDA inspected slaughter facilities, with the majority transporting their animals to either Marin Sun Farms in the North Bay or Los Banos Meats in the San Joaquin Valley. Several utilize Superior Farms in the Sacramento Valley. None of these facilities are within the grant area and driving distances average 92 miles (1.5-2 hrs) one way.

For secondary processing services, producers utilize both USDA and state inspected facilities, often depending on the ultimate market for the meat product. Many producers prefer to utilize state inspected facilities when the product is not intended for resale due to the greater proximity of those facilities. The average driving distance to cut and wrap services is 88 miles one way.

It should be noted that in a prior assessment by Morgan et al,¹⁸ approximately 90% of producer respondents were willing to travel 60 minutes to meat processing services, 55% were willing to travel 90 minutes and only 28% were willing to travel 120 minutes. This supports findings from this assessment which indicate that travel distances of nearly 100 miles (90-120 minutes depending on traffic) continues to be a significant barrier to access.

- **Timing:** Demand for processing services is largely seasonal, particular for cattle, goat, sheep and lamb, with a concentration in the summer months. This is primarily a reflection of forage availability as well as traditional production cycles; most producers did not feel they had significant flexibility to modify this timing without additional expense for supplemental feed. The seasonal concentration of demand for processing services is a critical consideration when evaluating the viability of a new facility, which would typically require some consistency of throughput throughout the year.

This phenomenon is exacerbated by county fair auctions, which send large numbers of animals to slaughter in mid-summer.

- **Satisfaction with Services:** Just over half of interviewees expressed satisfaction with services provided by both slaughter (8 of 14) and cut and wrap (9 of 14) facilities within the region. Producers cited a wide range of complaints, however there was little clustering of these complaints aside from long waits, traceability and insufficient hang times for slaughter, and poor packaging quality for cut and wrap.

¹⁸ Doran, Morgan, Temra Costa, John Harper, Theresa Becchetti, Stephanie Larson, Shermain Hardesty, and Rodger Ingram, "Need assessment for small-scale livestock harvesting and processing facilities in Northern California," *University of California Cooperative Extension Solano County* (2007).

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This feedback does not capture the over-riding concern of producers that meat processing services are too far away to be readily accessed, therefore creating a barrier to successful niche meat production.

- **Markets:** Of the 14 producers currently bringing animals to slaughter, 4 are selling almost exclusively to friends and family. This leaves a fairly small number of producers who are utilizing meat processing services for more regular commercial sales.

The number of animals sold through conventional markets, such as livestock auctions or video auctions, is extremely high by comparison to sales through niche markets – approximately 60 thousand in the three county grant area. 54 thousand of these are cattle, signifying that there is ample potential demand for slaughter and processing services should just a small fraction of these producers seek to pursue niche meat markets. However, high live cattle and beef prices for conventional production – 2014 was an all-time high – will continue to depress interest in niche meat production where prices are not tied to the cattle futures markets.

- **Collaboration:** When asked about potential collaborative solutions to slaughter and processing challenges, interviewees were most enthusiastic about a cooperative or aggregating business model whereby several or all aspects of production and processing would be combined under one umbrella. This might include standards for production, combined transportation, and co-marketing and distribution possibly under one label or brand. Several larger-scale producers not yet engaged in processing animals for meat expressed interest in this approach, particularly the opportunity to participate in niche markets without having to handle slaughter and marketing directly. This suggests that such a cooperative arrangement might generate increased participation in such markets and therefor, increase demand for meat processing services in the region.

Collaborative transportation to slaughter as a stand-alone service was also of interest to a good number of interviewees while producers showed less interest in collaborative back-hauling of cut and wrapped products.

Overarching observations

Research and prior experience suggests that even a small slaughter plant with limited services will require throughput of approximately 1130 beef equivalents¹⁹ per year to break even.²⁰ Alameda, Contra Costa and Santa Clara counties are likely to provide less than a half the required beef equivalents for such a facility, assuming all those producers utilize the facility.

¹⁹ One beef equivalent is equal to two pigs or three goats or lamb.

²⁰ Gwin, Lauren, Arion Thiboumery, and Richard Stillman. Local Meat and Poultry Processing: The Importance of Business Commitments for Long-Term Viability, ERR-150, U.S. Department of Agriculture, Economic Research Service, June 2013.

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Even when combined with beef equivalents from the Central Coast, where a similar study was conducted in 2015²¹, the total number is still not sufficient – see Table 3 below.

2015 Beef Equivalents				
	Cattle	Hogs (as BE)	Lamb/Sheep/Goats (as BE)	Total BE
Alameda, Contra Costa, Santa Clara	173	130	146	449
Central Coast	480	121	48	649
Total	653	251	194	1098

Table 3: Total number of beef equivalents from East and South Bay and Central Coast regions.

As described in a 2013 report by Gwin et al, “the processing business is complex, high risk, and marked by thin profit margins. Building even a very simple new facility requires hundreds of thousands of dollars. To do this, the prospective processor and funder need to feel confident about the ability of the processor to service loans and other financial commitments and make a profit. This requires assurances of real demand, or enough farmers who will consistently bring enough animals and pay for the real costs plus a margin.”²² Similar numbers would be required for a USDA inspected mobile facility.

Additional research suggests that an “anchor tenant,” who can commit a consistent number of animals on a regular schedule throughout the year, may be critical to the success of a new facility.²³ An anchor tenant might include a single large producer or a cooperative (e.g. Country Natural Beef) or aggregator (e.g. Marin Sun Farms or Panorama). In some cases, as with Marin Sun Farms, the anchor tenant may be a part or full owner of the facility, which is also a strategy to help ensure consistent throughput and commitment to the facility in early years. Currently, no such business exists in the East or South Bay, but as noted in the findings above, is of significant interest to producers interviewed for this assessment.

A cooperative or aggregating business (brand) would have the potential to address other challenges associated with niche markets as noted by interviewees. In particular, such a model could enable producers to sell animals on the hoof, a preference expressed by many, thereby avoiding many of the logistics associated with processing and marketing. Additionally, it has the potential to offer a consistent price for producers, eliminating the peaks and valleys of more conventional markets. Such an approach would likely draw interest from a number of larger

²¹ Quanbeck, Kathryn, “Options for Increased Processing Capacity in California’s Central Coast Region,” Niche Meat Processor Assistance Network (2015).

²² Gwin, Lauren, Arion Thiboumery, and Richard Stillman. Local Meat and Poultry Processing: The Importance of Business Commitments for Long-Term Viability, ERR-150, U.S. Department of Agriculture, Economic Research Service, June 2013.

²³ Gwin, Lauren, Arion Thiboumery, and Richard Stillman. Local Meat and Poultry Processing: The Importance of Business Commitments for Long-Term Viability, ERR-150, U.S. Department of Agriculture, Economic Research Service, June 2013.

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conventional producers who are currently interested in niche markets but not willing to engage in the steps necessary to access these markets.

Limited forage production at certain times of year, as well as ongoing drought, are yet additional challenges faced by producers interested in niche markets which directly affects demand for slaughter and processing. While the formation of a cooperative or aggregating brand would not directly affect the amount of available forage for niche products, it might allow for more coordinated and strategic utilization of forage resources to help spread out production and meat processing demand over the course of the year. Working not only to grow demand but to spread it across the year will be important for the establishment of a new facility.

For all these reasons, a production cooperative or aggregating business model appears to be a promising first step towards addressing processing demand in the East and South Bay. Additionally, it would help to build supply for rapidly growing Bay Area markets from within a community of producers with demonstrated interest and latent capacity. Progress towards this goal should be driven by interested producers and other direct stakeholders, with support provided by resource or agricultural professionals as desired by the stakeholder community.

Systemic Solutions

In the face of near term constraints on the ability to enhance slaughter and processing services in the region, members of the Steering Committee for this assessment proposed several more system-wide solutions. These include the following:

- **Public Policy Solutions**: In light of the seeming universality of shortages with meat processing for small and mid-scale producers across the state and the country, SC members suggest that the ecosystem services lens be applied to niche meat production. In the same way that payments for ecosystem services are under discussion for certain agricultural best management practices, SC members note that small and mid-scale meat production provides numerous ecosystem services for which payments should be considered. Specific ecosystems services associated with niche meats include maintaining healthy rangelands (avoiding conversion) which enhances nutrient cycling, infiltration, and habitat and species diversity, not to mention providing cultural services such as opportunities for recreation and the maintenance of landscape aesthetics. Payments would be made to meat processing facilities that directly support small and mid-scale producers as a means of ensuring the continued viability of these services in a climate of stringent regulation which has exacerbated a trend towards consolidation within the livestock sector.

The SC also recommended direct advocacy by resource and agriculturally focused organizations and agencies such as Resource Conservation Districts, land trusts, agricultural non-profits, the Natural Resources Conservation Service and the University of California Cooperative Extension. Such advocacy efforts are not unprecedented in California or the

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nation as a whole, as evidenced by numerous publications, conferences and summits convened within the last 10 years. However the SC would encourage ongoing engagement with state and federal officials and regulatory agencies in an effort to continue pushing for creative, system-wide solutions, particularly given a markedly improved state budgetary outlook.

- State Meat and Poultry Inspection Programs: SC members also called attention to State Meat and Poultry Inspection (MPI) Programs²⁴ in 27 states across the nation. Within these states, small and very small state-inspected facilities operate under a cooperative agreement with the US Food Safety Inspection Service to enforce standards “at least equal to” those imposed by the Federal Meat Inspection Act and the Poultry Inspection Act. In this way, these establishments produce meat products that may be sold to the same markets as those from Federally Inspected facilities, with the exception of selling interstate. Due to budget cuts, the state of California eliminated its MPI program in 1976 and the USDA now handles inspection of the majority of plants with a few exceptions. These exceptions include state inspected custom exempt facilities where meat can be utilized by the producer, his or her friends and family, employees and non-paying guests, as well as retail exempt facilities, wherein a butcher purchases the meat from a USDA inspected slaughter plant for sale directly to consumers. In either case, the meat cannot be re-sold by the producer.

A 2012 white paper by Pam Giacomini examines the potential for regulatory streamlining of CDFA and USDA plants including the potential for a reinvigoration of the state’s MPI, which would require the state to re-assume the costs of inspection.²⁵ At the time of publication, the state’s budget was in crisis, however, with the budget now on firmer footing and issues with meat processing now widely acknowledged, the reception in Sacramento might be somewhat different.

The white paper specifically calls attention to the high cost of converting state inspected facilities to USDA specifications including Hazard Analysis and Critical Control Point (HACCP) requirements and lays out two approaches to streamlining. The first, referred to as the Producer Transparency Act, would allow exemption from USDA inspection provided the plant caters specifically to small-scale, direct market oriented producers and has in place a HACCP Plan as well as a set of certifying measures that producers must comply with to ensure product traceability. The second would allow for the licensing of Mobile Slaughter Units by the state and enable this slaughter to happen on a licensed producer’s property. While both approaches appear well-researched and grounded, the white paper makes clear

²⁴ <http://www.fsis.usda.gov/wps/portal/fsis/topics/inspection/state-inspection-programs/state-inspection-and-cooperative-agreements>

²⁵ Giacomini, Pam. “Regulatory Streamlining White Paper”. *Next Steps: Implementation of Small and Very Small Niche Meat Harvesting and Cut-and-Wrap Facilities in California*. 2013 California Meat Summit, Placerville, CA, March 27, 2013. <http://ucanr.edu/sites/placervevadasmallfarms/files/164099.pdf>. Accessed 12.25.15.

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that the prospect of implementation is dim in the opinion of subject experts and USDA and CDFA representatives.

Next Steps

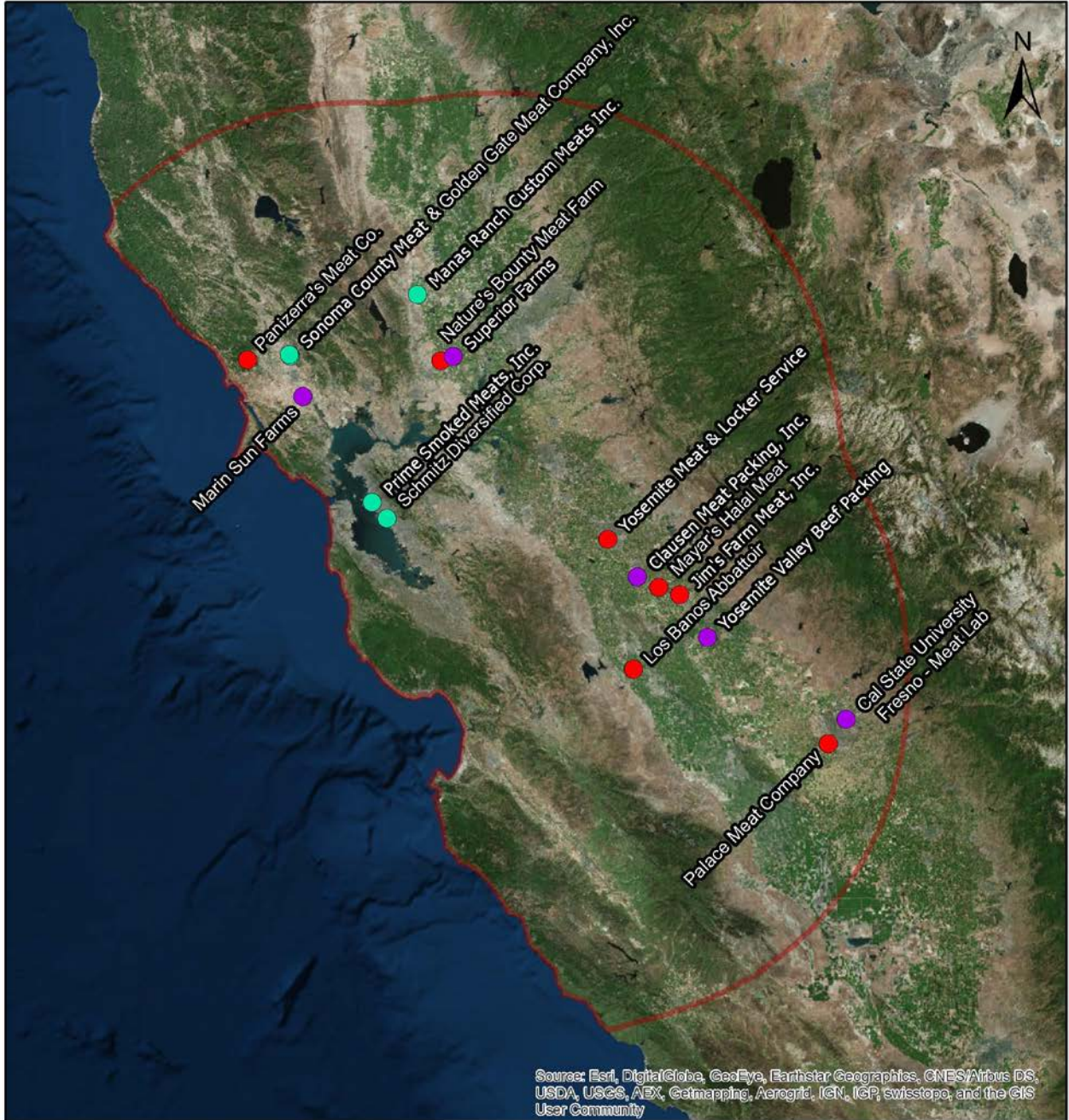
This report attempts to characterize and quantify need for meat processing services within the San Francisco East and South Bay region. Findings suggest that while there is demand from existing producers for enhanced and particularly for more proximate services, that demand is not sufficient to recommend establishment of a new federally inspected facility. However, the report also lays out several approaches to building capacity within the community of niche meat producers that may lay the groundwork for expanded processing services down the line. In particular, working towards the establishment of an aggregating or cooperative entity for niche meat producers is recommended, given feedback from assessment participants. This concept should continue to be explored by niche meat producers invested in collaborative solutions to limited meat processing within the region. Specifically, this report recommends the following ongoing next steps:

- Continued discussion amongst the stakeholder community, most critically niche producers, about the development of a cooperative/aggregating business model. This discussion can be supported by outside experts but should be driven by stakeholders.
- Continued discussion about public policy solutions such as ecosystem service payments for processing facilities serving small and mid-size niche producers.
- Continued collaboration with other producer groups and issue experts throughout the region and the state to build on previous work and dovetail current efforts.
- Continued open communication between producer groups and area processors to better address the needs of both constituencies.

Appendix A

Bay Area Slaughter and Processing Facilities

USDA inspected slaughter and processing facilities within 100 miles of Alameda, Contra Costa, and Santa Clara Counties.



Facilities

- Slaughter/Cut & Wrap
- Cut & Wrap Only
- Slaughter Only

100 mile radius



0 25 50 100 Miles

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