



## Commodity Processing

### 1. What is Commodity Processing?

Commodity Processing allows State distributing agencies and eligible recipient agencies such as school districts to contract with commercial food processors to convert raw bulk USDA commodities into more convenient, ready-to-use end products.

USDA began commodity processing in 1958 to permit agencies to maximize the use of donated commodities. Most of the commodities processed through the program go to schools participating in the National School Lunch Program.

Commodity Processing expands donated food use from a limited number of commodities to a broader array of nutritionally sound, popular items, while keeping labor costs to a minimum. Also, State distributing agencies and food processing companies have learned that working together is mutually beneficial to the food industry and program participants alike.

That is, the processing of donated foods provides industry the opportunity to market its finished products while eligible States and recipient agencies have the opportunity to receive a wider variety of popular table-ready end products.

### 2. Who is eligible to participate in Commodity Processing?

Any State distributing agency and recipient agencies, such as school districts, are eligible.

### 3. What benefits do processing participants receive?

By participating in Commodity Processing, State distributing agencies and recipient agencies find that they can:

- Stretch their commodity dollars by ordering lower-cost bulk products;
- Eliminate back-hauling charges because USDA vendors deliver commodities directly to processors;
- Increase their variety of end products;
- Reduce labor costs and cash outlays for food preparation; and
- Reduce storage costs.

### 4. How does Commodity Processing currently operate?

USDA offers States an estimate of the dollars planned to support a particular commodity. Multiple forms of a commodity are available as ordering options, one of which is bulk for reprocessing.

For example, funds to support the turkey market may be spent on turkey roasts, turkey ham, whole turkeys or bulk pack turkeys. The bulk pack is specifically designed for efficient processing into end products such as sliced deli meat, hot dogs, etc. The State coordinates with school districts the best forms in which to order this commodity to meet schools needs.

For raw bulk donated foods to be further processed into selected end products, the State distributing agency or recipient agency contracts with commercial food processors to have the donated foods converted to more useable forms.

## **Food Distribution Fact Sheet**

### **Commodity Processing**

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This legally binding agreement (or processing agreement) allows the processor to receive USDA donated food like bulk chicken as an ingredient in the production of a finished end product like chicken nuggets or patties. In turn, the value of the donated food is passed through to the recipient agency in the form of a lower cost for the finished product. USDA purchases and delivers bulk donated foods to the designated processing location as ordered by the State. Some State agencies delegate certain processing functions, such as ordering, bidding, and monitoring, to school districts. Others manage these functions themselves.

#### **5. How does the commodity value get passed on to the recipient agency?**

Processors entering into these types of agreements must ensure that the full value of the donated food contained in the finished products is returned to the recipient agency. This value can be returned to the recipient agency by:

- (a) discounting the normal commercial price of a product; or
- (b) paying a refund to the school,
- (c) charging a fee for service for converting the donated food.

End products made from meat or poultry are usually produced under fee-for-service agreements. Under this arrangement the end products are sold at a processing fee, which represents the processor's costs for labor, packaging, other ingredients, and administrative overhead. With a fee for service, the value of the donated commodities in the end products is not included in the price of the product.

#### **6. What is the purpose of a Commodity Processing Agreement?**

As with any contractual arrangement, the processing agreement is designed to protect

the interests of all parties involved—i.e., the distributing agency, the recipient agency and the processor. Under this agreement, the processor agrees to protect and account for all USDA donated foods delivered to them for further processing.

Processors also agree to produce the end products in the specific form requested by the State distributing agency or school.

#### **7. Is there only one type of Commodity Processing Agreement?**

No. Processing agreements can be between FNS, a distributing agency and a processor, or a recipient agency and a processor. There are four basic types of agreements:

**National Processing Agreement (NPA).** To reduce costs and paperwork, FNS has taken on the role of holding the agreement with the processor, monitoring the bond and approving all of the end products manufactured under the agreement. Almost all States are participating in some NPA. By SY 07 all multi-State processors must have a national agreement in place. For additional information on NPA, click here: [www.fns.usda.gov/fdd/processing/national/](http://www.fns.usda.gov/fdd/processing/national/)

**State Master Agreement.** Under a State master agreement, the distributing agency enters into an agreement with the processor and designated eligible recipient agencies may purchase end products from their processor.

**State Agreement.** Under a State agreement, the distributing agency negotiates bids/and/or prices, selects the processor and the end products which will be produced, and enters into an agreement with the processor.

**Recipient Agency Agreement.** Under a recipient agency agreement, the recipient agency or school enters into an agreement with the processor. This kind of arrangement requires the approval of the distributing

## **Food Distribution Fact Sheet**

### **Commodity Processing**

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agency. Once approved, the recipient agency may purchase end products from that processor. A recipient agency agreement should be used after the agency has completed its procurement process.

#### **8. Who is responsible for the procurement of processing services?**

- Under a National agreement, the State DA or recipient agency is responsible for conducting procurement depending on who controls the finished product.
- Under a State agreement, the State is responsible for conducting procurement.
- Under both the State master agreement and the recipient agency agreement, the recipient agency is responsible for conducting the procurement.

Regardless of the type of agreement that is used, processing services should be procured as stipulated in 7 CFR 3016.36.

All procurements are subject to the most stringent procurement thresholds whether that is Federal, State, or local thresholds.

#### **9. What should be included in the Processor Agreement?**

It is essential that the processing agreement be accurately completed. The agreement must contain the following:

- State distributing agency information-- State, agency name, agency representative or contact person, address, and telephone number;
- Processor information--company name, company representative, address, and telephone number;
- List of all donated foods used by the processor--the processor must be very

specific about what donated foods will be used;

- Specific information regarding the processor's plant location(s);
- Effective dates of the agreement--both beginning and ending dates must be specified;
- Information regarding the value pass-through system(s) the processor will use—e.g., discount system vs. refund system;
- Debarment certification which states that the processor has not been debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from certain transactions with the Federal or State government;
- Specific information that may be required in a "Special Provisions" article of the agreement, such as subcontracting information, delivery requirements, information regarding by-product credits (particularly for meat and poultry processing), etc.; and
- Names, addresses, titles, and signatures of the authorizing persons who represent the distributing agency and the processor.

#### **10. How many processors participate in Commodity Processing?**

Over 150 processors.

#### **11. How many processors have processing agreements in more than one State?**

Over 100 processors.

**12. What is the value of the foods processed under Commodity Processing Agreements?**

In SY 2005/6 approximately \$1 billion worth of USDA commodities were made available to schools. Of that total, over half was diverted for further processing under processing agreements.

**13. What foods are available for reprocessing?**

At least 70 products are reprocessed. Those that are reprocessed most often are:

<u>Basic Commodity</u>	<u>Processed End Products</u>
<b>Pork</b>	Cooked sausage patties and links, pizza topping, pork bar-b-que
<b>Beef</b>	Charbroiled patties, crumbles, meat balls
<b>Frozen fruit</b>	Fruit pops, turnovers
<b>Chicken</b>	Nuggets, patties, roasted pieces, breaded chicken
<b>Turkey</b>	Turkey ham, bologna, breast deli slices
<b>Flour, mozzarella, tomato paste</b>	Pizza

**14. What regulations govern Commodity Processing?**

Commodity Processing is governed by regulations contained in the Code of Federal Regulations @ [7 CFR Part 250.30](#). For a complete copy of 7 CFR 250 regulations may be found on the Food Distribution website at: [www.fns.usda.gov/fdd/regs/fd\\_regulations.htm](http://www.fns.usda.gov/fdd/regs/fd_regulations.htm)

**15. Who should I contact for more information about Commodity Processing?**

For more information about Commodity Processing, we suggest that you contact your State distributing agency. A list of these State Contacts may be found on the Food Distribution web site at: [www.fns.usda.gov/fdd/contacts/sdacontacts.htm](http://www.fns.usda.gov/fdd/contacts/sdacontacts.htm).

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