

Cost of Production Adjustments. As was discussed in the PRIA, it is expected that a series of *Lm* contamination events may occur in some establishments. The PRIA expected that most—about 85 percent—of the establishments that obtain one positive FCS test result could remedy the cause of the *Lm* contamination at no additional cost through more stringent sanitation and handling techniques. The remaining 15 percent of establishments are expected to encounter a greater degree of difficulty. Some of these establishments (as discussed in the PRIA) will probably encounter *Lm* contamination problems that could be remedied at a cost of \$2,000 per line (these establishments consist of 7 percent of the establishments experiencing at least one positive FCS verification test result); another 7 percent are expected to encounter more serious contamination problems that would need to be remedied by actions costing up to about $\frac{1}{10}$ of one percent of gross sales; and a final group made up of 1 percent of the establishments that discover that they have a chronic *Lm* contamination problem and have to cease their RTE MPP production altogether. No comments were received that would either support or refute this scenario or the set of assumptions needed in

describing it. Some commented at the May 2001 public meeting that inclusion of these possible eventualities would help complete the analysis. These results are expected to only apply to establishments in EG 4 who face the highest level of FCS verification testing. The underlying assumptions and resultant cost implications are given in Table 18.

Some explanation of the cost estimates of this impact is needed. First, the calculations for cost estimates for minor remedies are the same as in the PRIA. That is, the number of firms in each establishment group is faced with a \$2000 per line cost times the number of lines in the establishment for production adjustments. Second, the cost estimates for major repairs are slightly different from those in the PRIA. In the PRIA, the value of shipments for the 1,479 establishments was available and estimated by Census at \$25.2 billion for 1999. In the PRIA, this value of shipments was distributed across the 133 large establishments, 840 small ones and 506 very small ones using an average distribution for value of shipments by those size categories of 80-percent (for large), 15-percent (for small), and 5-percent for very small). This average distribution was derived from averages across broad categories of

agricultural commodities. A much different distribution of value of production was found in the Fall 2002 FSIS survey of hotdog and deli meat establishments. It found a value of production distribution of 48-percent (large), 48-percent (small), and 4-percent (very small). The final regulatory impact analysis uses a distribution of 65, 35, and 5 in conjunction with the original \$25.2 billion for total value of shipments. This calculation produced average per establishment value of shipment estimates of \$123 million for large establishments, \$9 million for small establishments, and \$2 million for very small establishments. This estimate is important because it serves as the basis for calculating the costs to remedy the major cases of *Lm* contamination. As in the PRIA it is expected that a small number of establishments whose contamination problems will be perceived to be prohibitively costly to “fix” and/or not feasible to undertake without complete modernization or renovation. Without making these needed capital improvements, their only option is to either partially or entirely cease RTE MPP production. FSIS expects that up to two small and four very small establishments may be in this situation.

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