

## II. Unfunded Mandates Reform Act

The Unfunded Mandates Reform Act of 1995 (Public Law 104-4), requiring cost-benefit and other analyses, in section 1531 (a) defines a significant rule as "a Federal mandate that may result in the expenditure by State, local, and tribal governments in the aggregate, or by the private sector, of \$100,000,000 (adjusted annually for inflation) in any 1 year." This final rule is not a significant rule under the Unfunded Mandates Reform Act.

## III. Industry Profile

The meat and poultry pizza industry affected by this final rule consists of manufacturers who produce refrigerated pizzas, frozen pizzas, pizza kits, and mixes. Because frozen pizzas are the dominant products of this industry, making up 99 percent of the affected market, FSIS is focusing on this segment of the industry in this analysis.

It is estimated that there are about 155 manufacturers of frozen pizzas<sup>1</sup> (manufacturers of both brand and private label frozen pizzas) and these consist of 6 major manufacturers, 20 private-label manufacturers, and approximately one hundred twenty nine regional contract manufacturers.<sup>2</sup> The major manufacturers produce brand-named frozen pizzas on a national basis and the contract manufacturers produce brand-named frozen pizzas on a regional basis. Some restaurants make pizzas, freeze them, and then sell them to the local grocery stores on a contractual basis. Finally, there are several companies, like chain supermarkets, warehouse clubs, restaurants, and franchises, that contract out the production of frozen meat pizzas to approximately 20 private label manufacturers and regional contract manufacturers.

Four major suppliers to pizza manufacturers supply meat toppings, such as pepperoni, sausage, and chopped meat, to both major and contract pizza manufacturers. There are also some small regional companies that supply meat toppings to regional manufacturers. FSIS has determined that the suppliers of meat pizza toppings will most likely not be adversely affected by the final rule because even though pizza manufacturers may reduce the amount of meat toppings on pizzas, these suppliers can still supply other markets with their meat toppings, *e.g.* deli, frozen dinners, etc. In addition, these

suppliers offer several product lines of pizza toppings other than meat, and they may experience an increase in demand for these other toppings. The agency believes, however, that as a direct result of the final rule, the overall demand for frozen pizzas will increase, and therefore the total demand for pizzas with meat toppings will also increase.

## IV. Benefits

The final rule removes the standard of identity for meat and sausage pizza and requires that for a 3-year period, the labeling of products identified as pizza that lists a meat or poultry component as part of the product name will bear a statement that conveys the percent of meat or poultry in the product. The percentage statement must appear contiguous to the ingredients statement.

The following sections contain qualitative descriptions of consumer and manufacturer benefits that will ensue from eliminating the meat and sausage pizza standards of identity.

### A. Consumer Benefits

The final rule will allow consumers to choose from a greater variety of meat and poultry pizzas, some of which may have improved nutritional profiles. Consumers will have a greater opportunity to improve their diets, should they desire to do so, because manufacturers will now be able to market meat and poultry pizzas that contain less meat or poultry and may contain non-meat toppings such as soy-based toppings,<sup>3</sup> and other innovative toppings that contain a lesser amount of meat than the amount of meat (12% cooked or 15% raw) that they are currently required to contain.

Consumers may also benefit because they may be able to purchase less costly meat and poultry pizzas. In addition, some consumers may be willing to pay more for some pizzas if they perceive that these meat and poultry pizzas are healthier than other pizzas. In either case, consumers will benefit because both the low and high end of the market can be expanded.

Under the final rule, consumers will also be protected from any misrepresentations of the amount of meat or poultry contained in pizzas. Percentage labeling of meat and poultry in pizzas, which is required for the next three years, will benefit those consumers who have come to expect a

certain amount of meat or poultry on pizzas (*i.e.*, consumers who rely on standards) by allowing them to become familiar with and accustomed to a variation in meat or poultry amount on pizzas. Percentage labeling will also help reduce any confusion consumers may experience when they are comparing the amounts of meat or poultry in pizzas. During the 3-year period, consumers will be able to reduce their search costs when comparing pizzas because when selecting meat or poultry pizzas, they will be able to readily ascertain the amount of meat or poultry in different products. Consumers will be able to make choices consistent with their desire to have more or less meat or poultry on pizzas, and the percentage labeling will help them make accurate selections.

Finally, consumers, who live in areas where there are very few restaurants, or in areas where the restaurants do not sell pizzas, or in areas where pizza delivery is limited, will benefit because they will have access to a greater variety of non-traditional pizzas in their local supermarkets.

### B. Manufacturer Benefits

Manufacturers of pizzas containing meat or poultry will benefit from the final rule because the elimination of the traditional FSIS pizza standards of identity will make them more competitive with non-meat and non-poultry containing pizza producers and retail outlets. Currently, manufacturers of FDA-regulated pizzas and pizzas sold by restaurants and carry out/delivery services, whether frozen or fresh, are able to experiment with innovative recipes and ingredient profiles, in offering consumers new products. These innovative pizzas that are sold in retail stores need not contain cheese or tomato sauce, as FSIS requires.

Manufacturers of non-traditional pizzas will potentially experience an increase in sales and therefore revenues, when they achieve economies of scale while producing a large variety of these pizzas. Since the manufacturers will not be restricted to manufacturing a prescribed recipe pizza, they can become more innovative and create new markets by offering new products and mass producing them. Also, these manufacturers can use less costly ingredients and eliminate or reduce certain ingredients, thereby offering more economically priced meat and poultry pizzas. For some manufacturers, this may increase their market share and revenues.

<sup>1</sup> Final rule affects all meat and poultry pizzas produced in federally inspected establishments.

<sup>2</sup> The exact number of regional contract manufacturers is unknown.

<sup>3</sup> One large manufacturer has begun producing Smart Pizza for the school lunch program. Smart Pizza is the first of its kind to utilize soy protein. By utilizing soy in the pizzas, sodium is reduced by up to 22 percent and total fat is lowered by as much as 35 percent.