

importers, processors, and wholesalers), and \$49,581 to \$396,089 for retailers. Although the estimated incremental costs represent additional payments individual firms will incur to comply with the proposed rule, the sum of such payments does not represent the overall impacts of the proposed rule on the entire U.S. economy.

In effect, these incremental costs represent increases in the costs of production for the affected firms. Firms will need to recover these costs to stay in business in the long run. To do this, firms will either pass the higher costs back to their suppliers by paying lower prices for inputs or pass the higher costs forward to their customers by charging higher prices for outputs. The directly affected industries as well as other, indirectly affected sectors of the economy will thus adjust over the longer run to the higher costs imposed by the proposed rule.

To estimate the overall impacts of the higher costs of production resulting from the proposed rule, USDA used a model of the entire U.S. economy. USDA adjusted the model by imposing the estimated implementation costs on the directly impacted segments of the economy in a computable general equilibrium model developed by the USDA's Economic Research Service (ERS). The model estimates changes in prices, production, exports, and imports as the directly impacted industries adjust to higher costs of production over the longer run (namely, 10 years). Because the model covers the whole U.S. economy, it also estimates how other segments of the economy adjust to changes emanating from the directly affected segments and the resulting change in overall productivity of the economy.

Annual costs to the U.S. economy in terms of reduced purchasing power resulting from a loss in productivity after a 10-year period of adjustment are estimated to range from \$138 million to \$596 million. Domestic production for all of the covered commodities at the producer and retail levels is estimated to be lower and prices to be higher. In percentage terms, however, the production declines are larger than the price increases, so estimated industry revenue declines for all of the covered commodities. In addition, U.S. exports are estimated to decrease for all covered commodities, and U.S. imports also are estimated to decrease for all covered commodities except fish, which shows no change to a slight increase.

It may appear counterintuitive to have first-year incremental costs ranging from \$582 million to \$3.9 billion for directly

impacted firms, but smaller overall costs ranging from \$138 million to \$596 million in reduced consumers' purchasing power after 10 years of adjustment. Nonetheless, these results are consistent with each other.

Directly affected firms incur additional costs to implement the requirements of the proposed rule, which take the form of additional payments for capital, labor, and other operating expenses. For the most part, however, such additional expenses for directly affected firms ultimately return to the economy. For example, additional human resource costs incurred to develop and maintain recordkeeping systems, segregate and display product properly, and so forth are also wages that will be spent on food, transportation, housing, and other goods and services in the economy. Likewise, capital costs for warehouse reconfiguration or changes in processing plants involve equipment and supplies purchased from firms that pay wages, purchase raw materials, and supply goods and services. Thus, the implementation costs incurred by directly affected firms are not entirely lost to the economy, but these incremental costs do increase the costs of production and decrease the productivity of the affected industries.

The findings indicate that directly affected industries recover the higher costs imposed by the proposed rule through slightly higher prices for their products. With higher prices, the quantities of their products demanded also decline to the extent that total industry revenues also decline. Consumers pay slightly more for the products and purchase less of the covered commodities. Overall, however, the covered commodities account for a comparatively small portion of the U.S. economy and of consumers' budgets. Thus, the "deadweight" economic burden of the proposed rule is considerably smaller than the incremental costs to directly affected firms. The remainder of this section describes in greater detail how USDA developed the estimated direct, incremental costs and the overall costs to the U.S. economy.

Cost assumptions: The industries directly affected by this proposed rule are those responsible for producing and marketing the covered commodities at retail stores as defined by the law. Consumers of the covered commodities at these retail outlets are also directly affected by this proposed rule.

This proposed rule directly regulates the activities of retailers (as defined by the law) and their suppliers. Retailers

are required by the proposed rule to provide country of origin information for the covered commodities that they sell, and firms that supply covered commodities to these retailers must provide them with this information. In addition, all other firms in the supply chain for the covered commodities are potentially affected by the proposed rule because country of origin information will need to be maintained and transferred along the entire supply chain to enable retailers to correctly label the products at the point of final sale.

In general, the supply chains for the covered commodities consist of farm or fishing operations, processors, wholesalers, and retailers. Table 1 contains a listing of the number of entities in the supply chains for each of the covered commodities.

The total cost of this proposed rule will depend on the number of entities affected and the incremental cost to each affected firm in the supply chain for the covered commodities. The proposed rule requires that retailers provide consumers with country of origin information for the covered commodities and also requires that their suppliers provide them with the information needed to substantiate these country of origin claims. To provide credible country of origin claims, firms in the supply chain will need to create, maintain, and transfer information from one level of the chain to the next. The proposed rule allows industry participants to determine the recordkeeping and information transfer mechanisms needed for compliance. Consequently, firms will modify existing recordkeeping systems and business practices as necessary to ensure compliance with the proposed rule.

Number of firms and number of establishments affected: USDA estimates that approximately 1,377,000 establishments owned by approximately 1,339,000 firms would be either directly or indirectly affected by this rule. In general, the supply chain for each of the covered commodities includes agricultural producers or fish harvesters, processors, wholesalers, and retailers. Imported products may be introduced at any level of the supply chain. Other intermediaries, such as auction markets, may be involved in transferring products from one stage of production to the next. Table 1 provides estimates of the affected firms and establishments.