

per operation. Because average production per hog operation is comparatively large relative to other types of producer operations, estimated upper range costs per hog producer operation are relatively larger.

The lower range and upper range cost estimates do not reflect an absolute lower bound and an absolute upper bound on costs that may be incurred by affected firms during the first year of implementation of this proposed rule. Based on the wide disparity in comments received on the voluntary COOL guidelines and this rulemaking, the range of implementation costs for the proposed rule span from virtually nothing to many billions of dollars. Thus, USDA developed a range of cost estimates that reflects its assessment of costs that are reasonably likely to be incurred during the first year of implementation.

USDA believes that the major cost drivers for the proposed rule occur when livestock or covered commodities are transferred from one firm to another, when livestock or covered commodities are commingled in the production or marketing process, and when products are assembled and then redistributed to retail stores. In part, we believe that some requirements of the proposed rule will be accomplished by firms using essentially the same processes and practices as are currently used, but with information on country of origin claims added to the processes. This adaptation generally would require relatively small marginal costs for recordkeeping and identification systems. In other cases, however, firms may need to revamp current operating processes to implement the proposed rule. For example, a processing or packing plant may need to sort incoming products by country of origin in addition to weight, grade, color, or other quality factors. This may require adjustments to plant operations, line processing, product handling, and storage. Ultimately, we anticipate that a mix of solutions will be implemented by industry participants to effectively meet the requirements of the proposed rule. Therefore, we anticipate that direct incremental costs for the proposed rule likely will fall in the middle to upper end of the estimated range of \$582 million to \$3.9 billion.

One regulatory alternative considered by AMS would be to narrow the definition of a processed food item, thereby increasing the scope of commodities covered by the proposed rule. This could be achieved, for example, by deleting from the definition of a processed food item "a retail item derived from a covered commodity that has undergone a physical or chemical

change, and has a character that is different from that of the covered commodity."

There is insufficient information available to determine the cost impacts of expanding the number of items that would require country of origin labeling. There is, however, an indicator that provides a partial picture of how costs would increase with a wider scope of covered commodities. Altering the definition of a processed food item as indicated above would expand the scope of coverage to virtually all pork items, many of which would otherwise be excluded because they have undergone a physical or chemical change such as curing or smoking. This alternative would increase the scope of pork products required to be labeled at retail to virtually the entire carcass. As a result, the pounds of pork requiring retail labeling would increase from 2.2 billion pounds to 5.9 billion pounds. Upper range costs to retailers would increase by \$258 million, a 166 percent cost increase to retailers and a 38 percent cost increase to the pork supply chain. Supply chains for the other covered commodities likely would experience similar types of cost increases.

Another alternative for narrowing the definition of a processed food item would be to strike from the definition the phrase "a covered commodity that has been combined with \* \* \* other covered commodities." In other words, mixed products would require country of origin labeling. This would greatly increase the burden of providing and substantiating country of origin information. When products are mixed, the burden of tracking and identifying labeling information rises as a multiple of the number of commodities in the product and the number of countries of origin for each commodity. Given the wide array of mixed products available, the range of countries of origin for the component ingredients and the lack of available data, quantifying the cost impacts of this alternative is not possible. Nonetheless, USDA expects that the costs would be large.

A converse regulatory alternative would be to broaden the definition of a processed food item, thereby decreasing the scope of commodities covered by the proposed rule. Accordingly, such an alternative would decrease implementation costs for the proposed rule. At the retail level and to a lesser extent at the intermediary level, cost reductions would be at least partly proportional to the reduction in the volume of production requiring retail labeling. Start-up costs for retailers and many intermediaries likely would be

little changed by a narrowing of the scope of commodities requiring labeling because firms would still need to modify their recordkeeping, production, warehousing, distribution, and sales systems to accommodate the requirements of the proposed rule for those commodities that would require labeling under the proposed definitions. Ongoing maintenance and operational costs, however, likely would decrease in some proportion to a decrease in the number of items covered by the proposed rule. On the other hand, implementation costs for the vast majority of agricultural producers would not be affected by a change in the definition of a processed food item. This is because USDA assumes that virtually all affected producers would seek to retain the option of selling their products through supply channels for retailers subject to the proposed rule.

USDA expects that further broadening the definition of a processed food item would have a relatively small impact on the incremental cost estimates.

Reducing the number of items requiring labeling by expanding the definition of a processed food item would have a minimal impact on the estimated costs for producers and intermediaries; altering this definition would have the greatest impact on estimated retailer costs. However, the definition developed for this rule has taken into account comments from retailers and has resulted in excluding products that would be more costly and troublesome for retailers to provide country of origin information.

In any case, little information is available to determine the extent to which the volume of covered commodities changes under alternative definitions of a processed food item. Therefore, there is little basis for quantifying the cost impacts of changing the definition.

Another alternative considered by AMS would be to require that suppliers provide an affidavit for each transaction to the immediate subsequent recipient certifying that the country of origin claims and, if applicable, designations of wild or farm-raised, being made are truthful and that the required records are being maintained. USDA does not have an estimate of the number of transactions that would be impacted. Assuming, however, costs of just \$0.001 per pound of product sold by producers and intermediaries, and assuming that commodities are transferred at least twice between intermediaries, costs would increase by more than \$500 million compared to the alternative of having no affidavits. This would nearly double USDA's estimated lower range