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**Part I**

**SUMMARY OF ISSUES, FINDINGS,  
AND CONGRESSIONAL OPTIONS**



HOUSE WARES

RENT

NOW IT'S TIME TO PLANT

Calif. Carrots  
2 1/2

Red Cabbage  
15

EGG PLANT  
25

Green Peas  
29

29

## Summary of Issues, Findings, and Congressional Options

### INTRODUCTION

Food grading is basically a sorting process, a method of separating a food product into two or more groups through the use of chosen base criteria. Once separation is accomplished, the grade assigned should directly impart the criteria used in its determination. Grades are not used for sorting across products—i.e., apples from pears—but rather within products—i.e., apples from other apples.

Present Federal food grades impart little information to the consumer. Federal grade criteria for sorting products are based on sensory characteristics—such as taste, flavor, color, or exterior appearance—and evolved as a mechanism to facilitate wholesale transactions in industry. To benefit consumers, simple, uniform terminology, increased nutritional information, and standardized systems for grading might be established. The question now arises as to whom grades should serve: consumers, industry, or both?

Industry and consumers are affected by:

- which food products are graded;
- what criteria are chosen for the grade;
- how the grade is designated on the product; and
- where grading occurs in the food distribution channel.

This study assesses the social, institutional, and economic consequences of modifying or changing the present grading system to a retail- or consumer-oriented grading system. Public policy issues of significant concern to Congress and the Nation surrounding Federal retail food grading are defined.

These issues are:

- 1) the criteria (or sorting rules) used for grades;
- 2) whether or not retail grades should be mandatory; and
- 3) the nomenclature used for grades.

The Office of Technology Assessment found that each major food category—processed foods, fresh fruits and vegetables, and fresh red meat—poses a different problem. Therefore, potential costs and benefits (with respect to a retail-oriented food-grading system useful to consumers for

making better food-purchase decisions) differ for each category. The issues, as they relate to each of these broad product categories, are discussed in the text (see centerfold), and possible congressional options for each grading issue are identified. Each option has a cost; none are free. Also, each option has potential benefit to consumers. Careful consideration should be given to the net benefit (cost in relation to benefit) prior to adoption of any particular option. In this report, a full range of congressional options are stated regardless of the potential relative or absolute net benefit to various participants in the food distribution system.

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**NOTE: A Glossary of major terms used throughout this report appears on page 87.**

## ISSUE I: GRADE CRITERIA-COMBINING SENSORY CHARACTERISTICS AND NUTRITIONAL CRITERIA

Current food grades are based on criteria reflecting sensory characteristics such as flavor, texture, color, or other palatability or cosmetic factors. A major issue in food grading is whether to change this basis to reflect sensory and nutritional factors simultaneously. The issue is complex. One general problem associated with making nutritional content a basis for grades is that nutrition deals with diet. As one food grading workshop (see methodology) participant states:

We can conceive of a nutritious diet, but the con-

cept of a nutritious food product has never been developed. There are many components of a nutritious diet, and the concept of getting them all in a product is very repulsive to nutritionists and, I think, the populous in general. So there is a very great difficulty in nutrition labeling. Any product is a component of a diet, and it may be a useful component although it is very lopsided in its individual characteristics. What makes a nutritious product is what other products it is combined with in a day or a period of several days. We have a conception of nutritional diet; we do not have a conception of nutritional product.<sup>1</sup>

### FINDINGS

Current Government programs for processed foods include regulation of food products for wholesomeness and safety, standards of identity, fair labeling and packaging, and optional nutritional labeling and grading systems. In addition, most major food manufacturers have elaborate quality control programs that assure compliance with Government regulations and their own specifications. Retail grade criteria should not be changed to reflect some combination of sensory and nutritional factors, as it is not meaningful to grade processed foods on both. Problems include an inverse relationship between sensory and nutritional characteristics and the time lag necessary to establish nutritional content and grade and label the product. For processed foods, analysis by OTA indicates that the most appropriate vehicle for conveying nutritional information to consumers is the nutritional labeling program already in operation.

With regard to fresh fruits and vegetables and red meat, nutritional factors apparently cannot be combined with sensory factors and serve as basis for retail grades. Evidence in this report indicates that the nutritional content of fresh products is quite similar within any particular commodity. For example, apples, regardless of variety, tend to have similar nutritional characteristics, as does round steak regardless of cattle breed. This means that nutrition information cannot serve as a meaningful basis for sorting (therefore grading) various products within a commodity category.

There are a number of options for increasing the flow of nutritional information to consumers, the intent being that such information would facilitate food purchase decisions. The range is wide. Some options deal directly with grade criteria changes, while others deal with increasing consumer nutrition education.

### CONGRESSIONAL OPTIONS

The following are some of the options available to Congress for the grade criteria issue:

- Congress could direct the Department of Agriculture (USDA) to facilitate the adoption of a voluntary/mandatory nutritional labeling program for fresh retail meat cuts.

- Congress could support or provide incentives for education programs by Government agencies or the private sector to inform consumers about:

<sup>1</sup>Transcripts from food grading workshop conducted by OTA on July 28-29, 1976 (hereafter referred to as Workshop vol.—). Workshop, vol. I, pp. 136-137.

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1. The nutrition of fresh fruits and vegetable products and also the differences in nutritive content from one commodity to another; and
  2. The nutrition of processed food products and interpretation and use of the current nutritional labeling program and/or grades for processed food products.
- Congress could direct the Food and Drug Administration (FDA) to disseminate information to consumers concerning those programs currently in operation that assure the safety, wholesomeness, labeling, and identity of most manufactured or processed food products.
  - Congress could direct USDA to administer a standard labeling and variety identification program for fresh fruits and vegetables that are sold in retail packages.
  - Congress could direct USDA to institute a voluntary/mandatory program of retail meat grades where grade criteria are based on yield per pound or per serving. Such a program should not be instituted, however, prior to a program that would assure uniform identification of retail meat cuts.
  - Since net benefit of any retail grade scheme for meat is highly dependent upon the type of meat distribution system in existence, committees of Congress with jurisdictional authority could examine the potential for improving the distribution costs of meat from various systems (such as conventional compared to centralized frozen) in oversight hearings. Such hearings could produce further evidence on the potential impacts and benefits of retail grade alternatives for meat.

## ISSUE II: VOLUNTARY OR MANDATORY SYSTEM

There are three basic systems that might be used for grading under the voluntary or mandatory issue:

### Private Voluntary System

With a private system, the development of standards for grading and the adoption of those standards are done by industry and used voluntarily.

### Voluntary/Mandatory System

Under a voluntary/mandatory system, Federal Government grades are established. Any business firm that elects to enroll in the Federal program would be required to adopt the established grades.

### Mandatory System

The mandatory system would establish the Federal grades, and use of these grades would be required by law.

## FINDINGS

A private voluntary system would be of little use as an information aid in purchase decisions as it would not be expected to have wide industry adoption. From a consumer information viewpoint, the only beneficial grading system would be either an improved voluntary/mandatory system or a mandatory one. Federal grade systems for all food products are currently voluntary/mandatory, and the relative advantages and disadvantages of this system-as opposed to a completely mandatory grading system-are as follows:

Mandatory grading of food would be more costly than the current voluntary/mandatory system. This means that for a mandatory system to produce a positive net consumer benefit, the benefits from a mandatory system must exceed those of a voluntary/mandatory system.

For processed foods, OTA's analysis indicated that a mandatory system probably would not produce a positive net consumer benefit. Brand names partially substitute for retail grades. They have allowed society to exercise its perception of quality by selection of one brand name over another. A mandatory grading system would largely duplicate the information brand names currently provide consumers.

If retail grades were mandatory for processed foods, an inevitable consequence would be to suppress differentiation or variability and evolution of product characteristics. Thus,

if society looks at the choice of whether or not to institute retail grades for processed foods, an important implication of that choice is what products should be stabilized in terms of characteristics, and what products should be permitted to continue to evolve.

There is no concentration point of firms in the handling of fresh fruits and vegetables relative to other product-marketing channels. This means no economical point exists in the fresh fruits and vegetables marketing channel for interception of large quantities of a product for the purpose of mandatory grading. A strictly mandatory system of grades, therefore, could be extremely expensive because the industry is structurally dispersed. A mandatory system probably would not produce a positive net benefit to consumers, since mandatory grading costs would be substantial and the additional information provided would likely be of marginal benefit to most consumer purchase decisions.

The current fresh red meat marketing channel, unlike fresh fruits and vegetables, does have points of relative concentration of firms. Given this structure, mandatory retail grading is viewed as potentially more feasible. However, net consumer benefit from mandatory grading as opposed to the *current* voluntary/mandatory system depends on the type of retail grading system implemented and on the type of distribution system for red meat assumed prior to net-benefit calculations.

Three possible systems for red meat grading are analyzed in this report:

- 1) yield per pound or per serving;
- 2) uniform mandatory retail cut identity labeling; and
- 3) a combination of current grades with the other two systems.

There is however, a direct relationship between the type of meat distribution system and the cost of any mandatory retail grading system. This means that net consumer benefit varies by both the type of grading base and the type of distribution system. Further detailed analysis, beyond the scope of this report, is necessary before net consumer benefit from any combination of grading and distribution systems can be determined.

## CONGRESSIONAL OPTIONS

The following are some of the options available to Congress for the voluntary or mandatory grading issue:

- Congress could make grading mandatory:
  - for processed foods, designation of current grades could be made mandatory on retail packages for selected products.
  - for fresh fruits and vegetables, the current wholesale grade criteria could be used and designation of the grade could be made mandatory at retail.
  - for fresh red meat, the current carcass-grade criteria could be used, and the

grade could be designated on all individual retail meat packages.

- Congress could make grade designations at retail mandatory for any food product which is currently graded on a voluntary/mandatory basis. That is, if the product is graded, then the retail package must display that grade.
- Congress could provide incentives for widespread adoption by industry of the current voluntary/mandatory system for each major product category. Incentives could include a tax break for business firms that adopt the program and/or a direct subsidy to defray the initial cost of the program.



## ISSUE III: GRADE DESIGNATION OR NOMENCLATURE

Confusing grade designation or nomenclature is a major problem for consumers in both fresh fruits and vegetables and processed foods. Uniform, easily understood terminology across grades is a basic need to aid consumers in making food purchase decisions.

There are two basic concerns regarding uniform nomenclature. One is the trade-off between meaningfulness and simplicity in terminology. That is, extremely simple designation for grades (such as A, B, C) impart no meaning in terms of grade criteria. More

descriptive grades (such as young, tender, or extra fancy) are more complicated to use but may be more meaningful.

A second concern is that nearly all conceivable grade designations imply rank. One objection to the implication of rank is that a second- or third-grade product may in fact be superior to the top grade, depending on its use or relative price. If simple grade designations were uniformly adopted, such implications of rank might mislead consumers or impart incorrect information to them.

### FINDINGS

There are unsettled questions regarding the optimum terminology for grades of fresh fruits and vegetables and processed foods. However, no reasons have been found for not instituting uniform designations for these products, regardless of the terminology chosen.

The terminology currently used for fresh red meat is uniform for all such products.

However, one of the more significant consumer information needs is standard identification of individual retail meat cuts and standardized retail package labels. Voluntary identification and labeling standards devised by the National Livestock and Meat Board, exist for fresh beef. This voluntary program has been adopted as law in some States.

### CONGRESSIONAL OPTIONS

The following are some of the options available to Congress for the grade designation issue:

- Congress could standardize nomenclature for the first, second, third, and fourth grades for both processed foods and fresh fruits and vegetables, so they would be consistent from one product to another.
- Congress could direct USDA to immediately adopt the new simplified grade nomenclature for fresh fruits and vegetables it announced in July 1976. This would mean that adoption of this program would not remain at the discretion of growers or processors of these commodities.
- Congress could direct USDA to administer a standard labeling and variety identification program for fresh fruits and vegetables sold in retail packages.
- Congress could make the current voluntary program on meat identification standards mandatory for all retail meat cuts. This would facilitate uniform identification of retail meat cuts.