

Part V

**PERSPECTIVES ON FEDERAL FOOD GRADING:
USDA, INDUSTRY, AND CONSUMERS**

Perspectives on Federal Food Grading: USDA, Industry, and Consumers

Issues surrounding the present Federal food-grading system are voluntary or mandatory grading, uniform grade nomenclature, and criteria used for determining grades. This section provides perspectives from the U.S. Department of Agriculture, the food processing industry, and consumers.

U.S. DEPARTMENT OF AGRICULTURE

USDA's perspectives were acquired through interviews with USDA officials, primarily AMS. The following perspectives are drawn from statements made by those interviewed.

Purpose for Grading

Some USDA officials emphasize that grading systems were devised primarily for wholesale use. The 1974 *Yearbook of Agriculture* has a passage which notes:

They (grading services) were originally established as an aid in wholesale trading . . . Today, most grading is still done for this purpose, and the consumer is usually the indirect, instead of the direct, beneficiary.¹

The 1946 Agricultural Marketing Act so mandates the system. USDA officials who made this point were not suggesting consumers should not benefit from grading, only that grading was established primarily to expedite food industry wholesale transactions.

However, the Agricultural Marketing Act of 1946 does not mandate that the food-grading program serve only wholesale transactions.

The word quality is interpreted by USDA to be a synonym for grades and the modifying clauses are also interpreted by USDA to mean

wholesale transaction only. While the General Counsel's Office in USDA recognizes that the wording of paragraph (h) is general and does not restrict food grading to wholesale use, AMS prefers a narrow interpretation.² This partially explains the reluctance of USDA to modify food grades.

One USDA official maintains that the use of grades has declined over the past few years for several reasons: (1) Costs charged by USDA for inspecting and grading food products have increased; (2) A result of a 1973 General Accounting Office (GAO) report was the execution of a USDA-FDA Memorandum of Agreements.³ Under the agreement USDA would have informed FDA of products headed for human consumption that did not meet minimum standards for a grade. Some elements of the food industry apparently did not want to deal with FDA if a product could not meet minimum requirements for a grade, since this might be due to failure to meet minimum sanitation requirements as well as minimum quality standards; (3) The Federal Government has reduced its purchases for the military, specifically the Army, for the School Lunch Program, and for the Needy Persons

²Mr. Richard Merryman, General Counsel's Office, Marketing Division, Interview.

³*Processed Fruits and Vegetables: Potentially Adulterated Products Need To Be Better Controlled—Sanitation in Some Plants Need Improvement*, U.S. Government Printing Office, February 21, 1973.

¹Eleanor Ferris, "USDA Grades Can Help Out Food Shoppers," 1974 *Yearbook of Agriculture*. U.S. Government Printing Office, 1974.

Program. Thus, grading no longer has significance for sales to Government it once had.

Other USDA officials feel that the food industry generally is against alteration of the present grading system. USDA believes that industry executives fear change because they have no idea how the changes will affect costs or brand share of their products at retail. Food industry people fear losing markets. Fear of the unknown hinders change, although industry occasionally requests changes of USDA if problems cannot otherwise be rectified.⁴

Mandatory Grading

USDA maintains that the cost of mandatory grading would be high. Estimated costs for the present voluntary grading system and for a mandatory grading system for the same products appear in the 1975 GAO food labeling report.* The 1974 cost estimated by USDA for a voluntary grading system for six categories of food products (less than 100 percent of the products in the six categories were graded) was approximately \$183 million. If the grading system became mandatory (100 percent graded for the same six categories), USDA estimated cost would increase by about \$327 million to a total of \$510 million. Inference is that the cost of mandatory grading for all products would be considerably above \$510 million. USDA's belief that cost becomes a significant factor during this time of economic difficulty may well be correct. However, at this time there is little documentation of the costs being discussed for mandatory grading.

Grading Designation or Nomenclature

The Department's official position on uniform grade nomenclature is expressed in its comments on GAO's food labeling report, sent to the Senate and House Committees on Government Operations in 1975. USDA's position is that it "continues to support the goal of reducing consumer confusion regarding the use of grade nomenclature," but it feels

⁴Dr. Clark Burbee, Project Leader, Consumer Interests, Interview.

⁵*Food Labeling: Goals, Shortcomings, and Proposed Changes*, U.S. General Accounting Office, p. 122, January 29, 1975.

*These estimates were supplied by USDA with no supporting data and were not analyzed for their accuracy by GAO.

there are "too many quality variables among different classes of food products to enable a single system to cover all food products." Instead, USDA prefers to develop "uniform grade designations within several groups of similar products."

For example, with the position advocated by USDA, the Livestock Division of AMS would have uniform grade designations such as those presently used. However, fresh fruits and vegetables would have a different nomenclature but uniform within that commodity category. There already has been some movement in this direction with the previously mentioned proposal for fresh fruits and vegetables published in the October 6, 1975, Federal Register, Mr. Floyd F. Hedlund, Director of the Fruits and Vegetable Division of AMS, feels, however, that because of food industry resistance to the new grades, it might take up to 10 years for voluntary use by a significant number of firms.

Program Reform

While the Department supports some reform of its grading program, the Office of the Special Assistant to the Secretary of Agriculture for Consumer Affairs under the Ford Administration favored major reforms of the program. Specifically, this office wanted mandatory retail grading with uniform nomenclature for all four AMS divisions presently grading food. The reasoning behind this position was that a grading system aiding the consumer should benefit the marketing system as a whole, from farmer to consumer. The office also felt that if a new grading system did come into being, considerable effort would be needed to educate consumers and that such education should be a requirement in implementing any new grading system.⁶

Congress is looked upon by some USDA officials as the only possible and proper branch of Government to change the present grading structure. Most USDA officials feel that without congressional action grading reform in the manner which consumer groups prefer would be unlikely.

⁶Mr. Andrew Gasparich, Assistant to the Special Assistant to the Secretary of Agriculture for Consumer Affairs, Interview.

FOOD PROCESSING INDUSTRY

The National Canners Association represents processors. The Canners have a membership of 500 firms that process 85 to 90 percent of all canned foods. Also, the National Association of Food Chains (NAFC) stated in interviews that it supported the position the Canners advocate. Moreover, NAFC represents 200 companies in a country where 50 percent of the value of food for at-home consumption is sold in chain supermarkets. Since the Canners Association is vehemently opposed to any grade labeling at retail, the weight of the food processing industry's opposition to increased food grading at retail is apparent.

Grade Criteria

At present, many food processors maintain that they are not using the USDA grading system at either retail or wholesale. Del Monte and General Foods, major food companies in canning and packaging of fruits "and vegetables, explained that they have their own food quality standards which may differ from the USDA grades. They said their standards of quality were more rigorous than USDA standards. General Foods asserts that this is one reason that Birdseye products, for example, command a premium price. Some firms maintain they have their own quality specifications for raw products in their contractual arrangement, have mechanisms different from USDA's to measure raw product quality, and have stringent quality control requirements. They also admit that in some cases they do use USDA grades.

USDA grades are not used by some firms because they prefer different criteria. As Mr. Angelotti stated:

Major food manufacturers may not put the official (USDA) grade on any of their products. They have their own grade standards, and it is their perception of quality which they think the consumer wants or is telling them and they build that into their product. They have their own standards which they apply to their product.⁷

⁷Workshop, vol. I, p. 97.

One company, for instance, argues that though canned Freestone peaches lack uniform appearance, many consumers prefer their taste to other canned peaches.

An objective test of taste, as a criterion, was attempted at Cornell University Agricultural Station (Paper No. 1, *Merchandising Experiences*, September 1959). After USDA inspectors were presented with eight different applesauce to grade, 652 people tasted all eight applesauce and registered their preferences. The results of the study demonstrated that most people preferred the two applesauce graded USDA Grade C.⁸ This study supports arguments of food processors. Industry fears the average consumer will interpret "A" or other higher sounding grade to mean that product flavor is "best" when that may not be true.

Historically, food-processing industry opposition to grading at retail dates back at least to 1935. In hearings that year before a subcommittee of the Senate Commerce Committee, Henry Stude, representing the American Bakers Association, testified against portions of a bill that was to become the Federal Food, Drug, and Cosmetic Act of 1938. He said: "We feel that it is . . . impracticable and unwise to standardize the taste, likes, and dislikes of the consuming public. The result of such an attempt to define standards of quality and identity would be to bring all food makers down to a common denominator. . . ." Inference is that the basis for quality is taste. Mr. Stude also testified that consumers could distinguish by themselves what is good quality.⁹

Mandatory Grading

Some members of the food industry still maintain that mandatory grading may reduce competition by discouraging introduction of superior products. They insist that food manufacturers would have no incentive to im-

⁸O'donna Mathews, *Grade Labeling*, June 14-August 13, 1971.

⁹74th Congress. Hearing before a subcommittee of the Senate Committee on Commerce, Vol. 276, March 2, 1935.

prove products if they are not already in the highest grade. They believe standards could lack flexibility needed to allow industry to seek improvements in growing, processing, packaging, or transportation.¹⁰

The main food industry objection to mandatory grading is its potential cost. Processors feel that small canning and packaging operations might be unable to meet mandatory inspection and grading costs and be forced to shut down. Larger plants, better able to absorb costs because of lower per unit grading costs, could continue to operate. Although small canning operations are the numerical majority of canning operations in this country, their total output is less than that of the eight largest canning firms. In 1972, of 1,201 canning firms, the eight largest accounted for approximately 50 percent of the Nation's canning production.¹¹ Industry maintains that many food chains depend on these small manufacturers to process their private labels and that the food distribution system would be hurt by shut downs of small manufacturers.¹² In general, the existence of numerous Federal agencies already regulating food processors in terms of labeling, safety, pollution, backhauling, pesticides, advertising, and energy results in a total cost that helps to drive out small processors.

This position is supported by research completed by C. R. Handy and D. I. Padberg. They found that very large retail chains have their private label stock processed by relatively small firms and that major brands--e.g., Del Monte--are sold primarily through medium sized and small retailers. These relatively small firm processors have little or no marketing capability. If they have a brand, it means little to consumers. Brand development costs are exorbitant for their small volume, and private label programs enable them to specialize in the physical functions of food processing--their primary competitive advantage.¹³

¹⁰Mr. Robert Wait, Washington Representative for General Foods, Interview.

¹¹Bureau of Census: 1970 *Annual Survey of Manufactures Report, Concentration Ratios, Table 4.*

¹²Richard Dougherty, Assistant Vice President, National Canners Association, Interview.

¹³Mr. C.R. Handy, and Dr. D. I. Padberg, "A Model of Competitive Behavior in Food Industries," *American Journal of Agricultural Economics*, May 1971.

While the cost of mandatory grade labeling is a legitimate concern of the food industry, a recent Grocery Manufacturers of America (GMA) survey (March 6, 1975) concluded that \$8.4 billion worth of food products would have nutritional labeling by the end of 1975. The survey indicated that for the \$8.4 billion the initial average cost of putting the information on labels per dollar of sales is .004 cents and that the average continuing cost of nutrition labeling is .00016 cents per dollar of sales.¹⁴ One food industry objection to nutritional labeling was its potential high costs. GMA's survey would indicate that industry's concern for nutritional labeling costs was overstated, at least for a voluntary program which currently operates for nutritional labeling. Thus, manufacturers' cost concerns regarding mandatory grading could be similarly overstated.

Arguments about costs hinge on cost/benefit ratios. Some food industry officials interviewed believe consumer benefit from mandatory grading would not be worth costs incurred by the consumer. Food industry position on cost-benefit is based on the following:¹⁵

- (a) The American consumer is already buying high quality foods at reasonable prices; and the quality and variety of this food is the best in the world.
- (b) Quality of food is high because industry is regulating itself. The competitive marketplace demands that a given company produce quality food, or the consumer will be dissatisfied and the firm will lose business.

Others would reply that brand names--i.e., Del Monte, Green Giant, and Birdseye--serve a function similar to retail grades. The argument is that brand names have proven themselves to consumers over time as providing high quality products. Consumers can easily identify products by their brand name and compare quality of various brand name products. If consumers like the product, then they would be able to identify the same quality product for future purchases by the brand

¹⁴*Packaging and Labeling*, Vol. 6, No. 26, July 2, 1975.

¹⁵Richard Dougherty, interview.

name. Brand names thus serve as a means of assuring consistent quality over time, but at some cost to the consumer by having to pay promotion costs of brand names.

Industry also argues that mandatory grading could not accommodate quality differences due to geography. They contend that quality of produce, for example, varies because weather and soil conditions differ in various regions. Some industry people fear mandatory grading could not take this into account. This argument may be valid. However, with regard to soil differences and their effect on product quality, FDA maintained that the nutritional variation of produce due to soil difference is nominal and does not ultimately effect food nutrient differences.¹⁶ In addition to possible soil-related natural quality variation, other factors such as the amount of sunshine and rainfall are important. One na-

tional processor indicates that tomato juice made from Midwest tomatoes may have an average Vitamin C content equal to 86 percent of that of juice packed from California tomatoes in the same season due to differences in sunshine. Conversely, juice from their California tomatoes may have only one-half the calcium of the Midwest juice due to harder water present in some Midwest locations.

The food industry representatives interviewed believe the industry will oppose any legislation establishing mandatory grading. They also saw little need for compromise since many feel that costs of a mandatory system would prevent it from being enacted. The National Canners Association supports consumer cost evaluations in the hope that consumers will stop much of the regulatory legislation if they understand how much it costs.

CONSUMER INTEREST GROUPS

Grade Criteria

Consumer groups and advocates, unlike USDA and industry officials, want mandatory quality grading as an information tool for consumers to compare food. Consumer representatives want grading criteria changed to reflect nutrition and "life-giving values."¹⁷ They feel present standards, based primarily on physical appearance, benefit the wholesaler but not consumers. Grades, they contend, should reveal whether the food product is nutritious and wholesome, not merely its appearance.

The term "quality" is loosely defined. Two definitions exist: one is quality based on preferences and sensory characteristics, while another is quality based on nutrition. Consumer representatives want Federal food grades to include the product's nutrition quality in addition to the already defined sensory product quality, with more emphasis on nutrition and less on sensory factors. USDA maintains that both nutrition and sensory

characteristics cannot be included in one standard but that nutritional labeling is a supplement to USDA grades.¹⁸

Both Ms. Ellen Zawal, National Consumers Congress, and Ms. Ellen Haas, formerly of the National Consumer League and presently a staff member of the Community Nutrition Institute, are confident that the grading system they and other consumers advocate can be designed to satisfy everyone concerned. They assert that the problems inherent in developing useful uniform, retail grades in which nutrient values are a factor can be overcome.

Though consumer advocates are quite confident that their positions are well-founded, they have presented little evidence supporting their positions. They want nutritional value to partially determine grades. However, they have little or no supporting evidence that nutritional value can be accurately measured or that such grades can be effectively implemented on a national scale. At the same time, consumer representatives will respond that

¹⁶*Federal Register*, January 29, 1973, Vol. 38, No. 13, p. 2150.

¹⁷Ellen Zawal, National Consumers League, Interview.

la Richard L. Feltner, Assistant Secretary of Agriculture. Letter to Senator George McGovern, Chairman, Senate Select Committee on Nutrition and Human Needs, October 8, 1975.

An Alternative to the Present Food Grading Program

Voluntary/ Mandatory System

Processed Food Products



Present—U.S. Grade A
Alternative—U.S. Grade A

Present Grade Criterion:

Canned Tomatoes—These typical samples of U.S. Grade A, U.S. Grade B, and U.S. Grade C canned tomatoes show that in the higher grades, the color is redder and more of the tomato portions are in whole or large pieces.

Alternative:

Same as the present grade criterion,



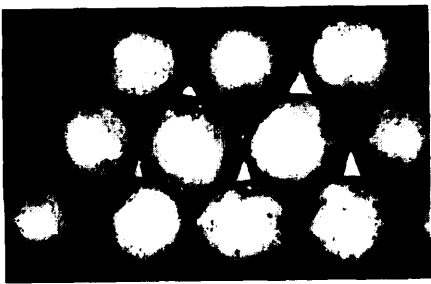
Present—U.S. Grade B
Alternative—U.S. Grade B



Present—U.S. Grade C
Alternative—U.S. Grade C

Us. Department of Agriculture photos.

Fresh Fruits and Vegetables



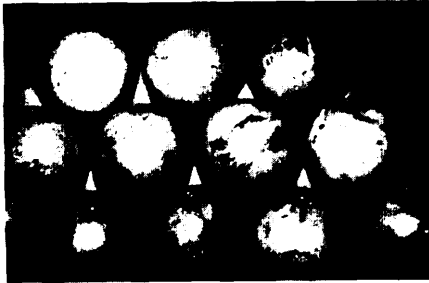
Present—U.S. Fancy
Alternative—U.S. Grade A

Present Grade Criterion:

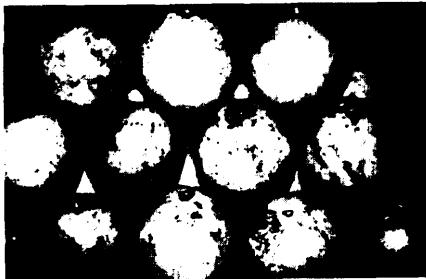
Florida Grapefruit—These samples of u.S. Fancy, U.S. No. 1, and U.S. No. 2 Florida Grapefruit show that U.S. Fancy grapefruit has better color and shape, smoother skin texture, and is free from bruises and other skin damage.

Alternative:

Same as the present grade criterion.



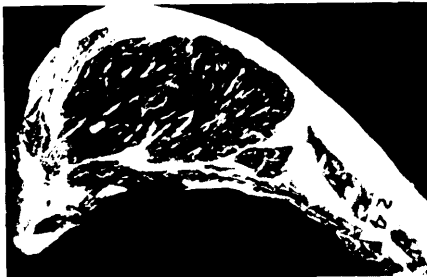
Present—U.S. No. 1
Alternative—U.S. Grade B



Present—U.S. No. 2
Alternative—U.S. Grade C

U.S. Department of Agriculture photos.

Fresh Red Meat



Present—U.S. Prime
Alternative—U.S. Grade A

Present Grade Criterion— Carcass Grade:

Beef Rib Steaks—These three steaks, all the same cut, show the top three beef grades—U.S. Prime, U.S. Choice, and U.S. Good. As beef increases in quality, it has more marbling (flecks of fat within the lean), is more tender, juicy, and flavorful.



Present—U.S. Choice
Alternative—U.S. Grade B

Alternative:

Retail Cut Grade—Based on yield per lb. or per serving. Yield is the trim or amount of external fat in relation to lean per retail cut. Grade A would have the highest ratio of lean to fat, Grade B the next highest, and Grade C the least.



Present—U.S. Good
Alternative—U.S. Grade C

U.S. Department of Agriculture Photos.

little or no evidence exists which indicates that nutrition cannot be incorporated. In addition, while consumer advocates are concerned about costs of mandatory grading, their concern does not equal industry's. Consumer representatives believe industry's cost concerns are an expected position for them. In addition, they point to such products as orange juice, eggs, and poultry which use retail grades already without any apparent problems.

Mandatory Grading

Some consumers' representatives want to make grading mandatory. They believe the entire food industry will not use it unless the law requires it to do so. Consumers want retail grades to assist them in their shopping. Interestingly, in 1933 such a system was desired by Mrs. Harris T. Baldwin, the National Vice President of the League of Women Voters. She expressed the hope in a hearing before a Senate Commerce subcommittee with the following statement: ". . . we are looking forward to the day when there will be grade labeling on the food products which we buy in the stores."¹⁹ However, one OTA panelist, Ms. Jennifer Cross, consumerism, Consumer Action in California, perceived no consumer sentiment for mandatory grading:

I certainly would not make grades mandatory if they are going to add to the cost of the product, or bog us (consumers) down in a welter of costly regulations. I detect no consumer clamor at all for mandatory grades at least as presently designed. However, I believe shoppers would use a simple national system, e.g., A, B, C, or 1, 2, 3, which gave some weighting to nutritional values.²⁰

The mandatory/voluntary issue is discussed in more depth in later sections of this report.

Grade Designation or Nomenclature

Consumer advocates want uniform nomenclature for various grades which would

cover all food categories. For example, either a letter or number system would be acceptable, but it must be uniform—A, B, C, etc., or 1,2,3, etc.,—in addition to limiting the number of grades for each product.²¹

Preference for letter grades was indicated by 43.6 percent of those consumers surveyed in a 1970 USDA poll, while 31.6 percent preferred words and 18.2 percent preferred numbers.²² Consumer groups consider uniform grade designations necessary to allow consumers to easily recognize and understand the grades and thus compare products.

A summarization of desires by consumer advocates with respect to grading was given by Ms. Cross and Mr. Rodney Leonard, consumerist, Consumer Nutrition Institute, during the OTA workshop:

... There is essential consumer desire for a grading system which generates information on the nutritional quality, the economic value, and the relative safety of the product being offered to the consumer.

Such a system should provide at a minimum, first, standard grade nomenclature across the system.

Secondly, standard values within the class or category (of food products).

And third, mandatory grades, if the processor or retailer wants to use grading, the standard nomenclature should be stated in symbols that communicate known values—that is, 1, 2, 3, or A, B, and C.

The standard values within the categories are value judgments and should be determined in a process prior to public hearings where more than half of those who participate do not have a conflicting responsibility.²³

¹⁹74th Congress, Hearing Before a Subcommittee of the Senate Committee on Commerce. Vol. 276, March 2, 1935, p. 38.

²⁰Workshop, vol. I, p. 118.

²¹Mr. Jim Turner, Lawyer-Consumer Advocate, Interview.

²²USDA Consumer Study, "Consumer Knowledge and Use of Government Grades for Selected Food Items," Economic Research Service, April p. 23.

²³Workshop, vol. V, pp. 86-87.

SUMMARY

As a result of its study, OTA has identified the major issues surrounding the present Federal food-grading system. These are:

- Criteria used for grading,
- Mandatory or voluntary grading,
- Nomenclature used for grading.

Government agencies charged with administering the present grading program, consumer groups, and the food processing industry all have different perspectives on each issue.

Grade Criteria

Present grade standards are disputed by both industry and consumer groups, but for different reasons. Both question how much physical appearance should have to do with grade. Both contend that factors such as color, shape, lack of blemishes, and uniformity are not the most important criteria for grades. Some consumer groups view nutritional content or health value of food as the primary quality factor on which to base grades. Industry views sensory characteristics as the consumer's real criteria for quality and hence grading. USDA maintains that both nutrition and sensory quality cannot be included in one standard and that nutritional labeling should be a supplement to USDA grades. USDA gives no indication that it intends to attempt reform or modification of present grade standards to include nutritional values.

Mandatory Grading

Because they are voluntary, USDA grades do not appear on all products for which grading programs exist at either wholesale or retail. Of the two marketing levels, grades are used least at retail. Industry maintains that grades should not be made mandatory at the wholesale or retail level because it would reduce competition, costs would outweigh benefits to the consumer, and quality difference due to geographic location could not be taken into account. USDA does not favor mandatory grades at either marketing level because it maintains the program would be too costly. Some consumer groups believe grades are needed at retail, and the only way grades would be used at retail is if the law requires industry to use such grades.

Grade Designation or Nomenclature

One of the principal reasons for consumer confusion about food grades is their variety. Consumers are perplexed by the many different letters, numbers, and words and by the fact that there are at least ten different terms denoting the top grade for various food products. USDA's position is that it continues to support the goal of reducing consumer confusion regarding grade nomenclature but feels there are too many quality variables among different classes of food products to enable a single system to cover all food products. USDA prefers to develop uniform grade designations within several groups of similar products, such as within fresh fruits and vegetables.