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Introduction

During today's session, we will be discussing the role that policy analysis can play in regulatory decisionmaking, particularly with respect to international trade issues. The regulatory issues that will be discussed are primarily related to the Federal Meat and Poultry Inspection Regulations which are administered by the Department's Food Safety and Inspection Service (FSIS). The primary mission of this Agency is to ensure that all meat and poultry products, including imports and exports, are safe, wholesome and accurately labeled.

Regulatory issues, especially those that are perceived as restricting trade or as harmful to domestic producers, are frequently highly emotional issues. Policy analysis can facilitate the resolution of these issues in several ways, for example, it can:

1. Provide information that helps in assessing the magnitude of a specific regulatory problem.

2. Demonstrate that there are at least two sides to all issues, and thus help shift the discussion from an emotional argument to an analytical debate over facts and figures.

3. Ensure that all aspects of an issue are considered, such as foreign trade implications, when we consider changes in domestic regulations or our trading partners consider changes in their regulations.

To achieve these ends, policy analysts will generally be involved in the following types of activities:

1. Collecting information about an issue which is to be addressed by policy and/or regulation;

2. Developing alternative ways to accomplish regulatory or policy goals and objectives;

3. Identifying, and if possible quantifying, the costs and benefits associated with each policy alternative, and identifying the secondary effects on competition, prices, supplies, employment and other factors in the affected nations and industries; and,

4. Developing the justification for ranking alternative solutions, in order of desirability, with respect to policy goals and objectives.

The Department's meat and poultry inspection regulations are often involved in foreign trade issues for many reasons. For example:

1. Consumer groups, certain domestic producers and Congressional Committees have expressed concern over the wholesomeness of imported product (e.g. pesticide, residue, or food additive levels), and, therefore, push for tighter controls or new regulations.

2. Domestic producers, domestic manufacturers, or Congressional Committees may seek new regulatory initiatives because of economic concerns, such as what they perceive to be unfairly low prices for certain imported products.

3. Foreign governments may be concerned that U.S. exports have not been produced according to the processing specifications and standards established by their regulations, without regard to final product standards. In other cases, there may simply be a need to resolve inconsistencies between U.S. and foreign regulations.

This has been a brief overview of how meat and poultry regulations relate to foreign trade issues and of how policy analysis can facilitate the resolutions of these issues. In today's presentation, we will illustrate using the following cases, the different roles that policy analysis has played in resolving regulatory issues associated with meat and poultry inspection. To facilitate the presentation, each role is presented separately with an example case, nevertheless, the three roles are not mutually exclusive.

1. The analysis conducted following the 1981 Australian meat substitution incident illustrates how policy analysis can provide new insight into the potential magnitude of a specific problem.

2. The analysis conducted during the 1981 Farm Bill debate on proposed amendments to the Federal Meat Inspection Act provides an example of how policy analysis can ensure that all sides of an issue are considered.

3. A regulatory impact analysis conducted in conjunction with changes to improve the efficiency and productivity of domestic slaughter plants illustrates the need to examine the foreign trade implications of all changes in domestic regulations. In this role, the analysis provides the vehicle that ensures that potential foreign trade impacts are considered in the decisionmaking process.

Case I

In the Summer of 1981, FSIS identified both horse meat and kangaroo meat in shipments labeled as boneless beef from Australia. The staff work conducted following this incident provides an example where policy analysis was able to provide considerable insight into the magnitude of a problem. The intent of the analysis was to provide a point of reference upon which to measure the reasonableness or cost effectiveness of proposed corrective actions.

When the product from Australia was found to be mislabeled for species identification, the U.S. was required by law to halt all shipments of Australian beef which may have been mislabeled and to ensure that product labeled as beef was in fact beef, and not horse meat, kangaroo meat or some other species. This enforcement of domestic regulations was not intended to be a trade barrier to Australian product, but rather to assure domestic industries and U.S. consumers that the imported Australian product was what the labeled declared it to be. Australian officials, concerned that the stigma of demonstrated fradulent practices be removed from the meat producers of their country, were generally supportive of proposed corrective U.S. initiatives.

Reports of this short term embargo situation had considerable effect on both imported and domestic U.S. beef markets. Analysts within FSIS were asked: 1) to assess the actual costs associated with the short-term market distortions; and 2) to estimate the long-term impacts under a scenario where Australian beef and beef products were embargoed from U.S. markets for one year, with no increases in imports from other countries to offset the loss. The analysis of short-term effects determined that market distortions occurred for approximately eight market days. The analysis showed that these distortions could have: 1) caused prices of all processing type beef to increase sufficiently to result in a \$14.7 million overall cost; 2) caused industry operating expenses (other than raw materials) to increase by \$2.1 million; and, 3) led to Agency expenditures, to correct the identified problems, of at least \$.5 million. The short-term market distortions were attributed to factors including: 1) the extensive use of lean Australian beef by the U.S. processed meat industry; 2) the inability of U.S. producers to produce very lean beef economically, in sufficient quantities and in sufficient time, to satisfy short-term domestic demand; and, 3) the reliance of the U.S. on Australia for over half of the manufacturing type beef imported into this country, which generally precludes obtaining substantial additional supplies from other sources in the short run.

The analysis predicted potentially far greater effects on the U.S. ecomomy if the embargo situation had lasted for as long as one year. The Economic Research Service's Food and Agricultural Policy Simulator Model was used in conjunction with the following assumptions: 1) there would be a one year disruption of imported Australian beef and beef products; 2) 792 million pounds of Australian boneless beef would be prevented from entering U.S. markets; and 3) there would be no increase in imports from other countries since U.S. shifts to other sources would take substantial amounts of time and other sources may not find it desirable to respond to just a temporary increase in demand. Based on these assumptions, it was estimated that total U.S. beef supplies would decrease by 3.4 percent, that farm prices for beef would increase by 4.9 percent, and that the consumer price index (CPI) for beef and veal would increase by 3.6 percent. The CPI's for beef substitutes such as pork and chicken would also increase. It was also estimated that the CPI for all food would increase by approximately one percent. Analyses of other than the domestic situation indicated that if an embargo took place, Australian producers would probably lose more than $.5 billion in beef exports.

The information developed through various analytical techniques was forwarded to policymakers along with information on the limitations of the analyses. For example, the data used in the analysis of the short-term effects may not have been exact; however, it did provide some reasonable estimates as to the cause and effect relationship that existed between the beef substitution incident and the wholesale price increases that were observed. Since models are based on assumptions and sequences of certain postulated events, the long-term analysis was also not conclusive. Although these analyses could not prove that the specific costs occurred, or would occur, they did provide decision-makers with estimates of short-term effects and projections concerning the potential impact of a year-long embargo on Australia beef. As a result of the species substitution incident, two new regulatory efforts were initiated, one by the United States and one by the Australian government. Today, the United States routinely collects samples to perform species analyses on imported product and Australia is in the process of developing and implementing a comprehensive inspection system for exported meat products. As policy analysts we can assume that the material provided helped in the decisionmaking process, and that the cost and benefits identified helped support the development of the new programs.

This example demonstrates that policy analysis can provide a means of estimating potential impacts of a specific occurrence and can provide policy-makers with information that should be helpful in evaluating alternatives and taking corrective actions. The analysis conducted following this incident provided considerable insight into the potential magnitude of the species substitution problem and helped identify the costs sustained by various sectors of the economy.

Case II

There have been several issues associated with imported meat in recent years. Problems with residue levels detected in some products have raised issues with respect to wholesomeness. In recent years, U.S. producers have been sensitive to the quality and quantity of imports especially since domestic production has not been very profitable. U.S. producers and their Congressional supporters have also questioned the level of inspection that imported meat receives. In this second case, we have an emotional issue where tighter controls are sometimes viewed as having a dual benefit, i.e., ensuring the wholesomeness of imported product while at the same time restricting its flow and thereby benefiting a U.S. balance of trade problem. At the same time others see tighter controls as detrimental to an overall objective of increasing agricultural exports. This area thus provides an appropriate background where policy analysis could take the role of pointing out that there are two sides, associated with all issues.

During the debate on the 1981 Farm Bill, several members of Congress supported amending the provisions of the Federal Meat Inspection Act concerning imported meat and meat products. One proposed amendment would have prohibited the importation of all meat or meat products produced using a chemical or drug that was not permitted, for health or safety reasons, in the production of domestic products. A second, more comprehensive proposal would have prohibited the importation of meat products that had been produced with any chemical, drug or medicated feed not approved for the same use in the United States.

Shortly after these amendments were proposed, analysts in the State and Agriculture Departments, as well as analysts from outside organizations (such as The Office of the U.S. Trade Representatives, The Council of Economic Advisors, and others) were asked to interpret the potential effects of these proposals on U.S. industry and consumers. The analysts initially concluded that enactment of either proposed amendment could severely restrict meat and meat product imports.

In the case of the first proposal, the importation of meat and meat products would be substantially curtailed because some foreign producers use chemicals and drugs explicitly not permitted in U.S. meat and meat product production. Many of these substances cannot be detected in produot since there are no acceptable residue tests for a number of these substances. Under this proposed amendment, where the possibility exists of a prohibited substance being present in product that can not be identified through production records or residue analysis, there would be little choice but to reject the product on the assumption that a disallowed substance may have been used.

In the case of the second proposal, importation of a large volume of meat and meat products could be prohibited simply because the use of agricultural drugs or chemicals by foreign producers sometimes differs from the use of these substances domestically, or because the foreign controls on the manufacturing, processing, packaging, or labeling of these drugs or chemicals are different than domestic requirements.

Another potential effect of either of these proposals would be the possibility reciprocal trade actions initiated by our trading partners. This could severely restrict our export markets for agricultural commodities and industrial items. U.S. exports of agricultural commodities totaled approximately $43.7 billion in crop year 1981, while agricultural imports totaled only $17.2 billion that year.

The final major effect of enactment of either of these proposals would be the need for a comprehensive study by the Department of Agriculture to determine what specific agricultural chemicals, animal drugs, and medicated feeds are used in each of the countries which export meat and meat products to the United States and to determine whether these substances are approved for the same uses in the United States.

In summary, the policy analysts (inside and outside the Department of Agriculture) evaluating the potential effects of implementing either proposed amendment generally agreed that in both cases, enactment could have serious impacts on U.S. agricultural trade and could violate obligations under the General Agreement of Tariffs and Trade. One impact would be the retaliation by our trading partners through imposition of similar restrictions or amendments of certain trade concessions which had previously been negotiated. This could have an adverse effect not only on U.S. exports of agricultural commodities, but also on the export of high technology industrial trade items. As a second likely impact, industry and consumers would suffer since these amend-ments would reduce the availability of lean manufacturing type beef used in further processed products, and decrease the supply of many meat speciality items in the marketplace. Implementation would not only disrupt foreign trade, but would also jeopardize the Administrations's Caribbean Basin Plan and other foreign policy initiatives.

These and other conclusions developed by the various groups of policy analysts, as well as information on the limitations of the analyses, were passed on to policy makers. One important qualifier was that since the language of the proposed amendments was somewhat vague, various interpretations were possible, and there were differences in interpretation among the analysts. Nevertheless, they all made similar projections concerning the type and magnitude of the potential effects. They were also able to provide information to policy makers which strongly suggested that implementation of either of the proposals would not serve to protect the public health and safety to any significantly greater degree. Many of the analysts involved with the project pointed out that there was no scientific evidence to suggest that even a total ban on imported agricultural food products would have the effect of providing the consumer with greater protection and, further, that there was no scientific reason to conclude that domestic product contains fewer residues or lower levels of residues than imported product.

The findings of the policy analysts indicated that passage of either amendment would not be in the best interest of the U.S. public or industry. These findings presumably helped convince policymakers to reject these proposed amendments. Furthermore, this example demonstrated that regardless of the relative accuracy of the analyses or the limitations associated with preparing the analyses, policy decisions can still be facilitated as long as the analysts are capable of determining the relative direction and magnitude of the impacts associated with a proposal.

Case III

Our final case is included to illustrate the role where policy analysis helps ensure that all aspects of an issue are at least considered when decisions are made. Occassionally, regulatory changes are considered for domestic meat and poultry operations that are not intended to affect foreign trade directly or indirectly, but which ultimately may do so. Therefore, regulatory modifications considered should be accompanied by an analysis that at least raises the question of potential impacts on trade, especially when those changes could have a substantial impact on domestic production costs.

A recent case involved the internal consideration of new cattle post-mortem inspection procedures. The purpose of these changes would be to increase the efficiency of plant and government operations by increasing the number of carcasses inspected per hour, while maintaining the same level of effectiveness for post-mortem inspection.

As an internal proposal was being developed, our staff was asked to perform an analysis to determine: 1) the potential annual savings to industry and government if all eligible domestic cattle slaughter plants were incorporated into the new system; 2) the effect of the new system on industry and government per unit production cost; and, 3) the effect on imports and exports. There were limited historical data with which to analyze the potential effects of implementing the new procedures considered. The analysts, therefore, relied primarily on information about experiences gained when similar procedures were implemented in domestic swine slaughter operations in 1981. Using industry and Federal estimates on employment, plant size, slaughter costs, and other factors, analysts determined that those segments of the industry which implemented new swine slaughter procedures in 1981 had an average annual increase in productivity of 14.6 percent and an annual average aggregate savings of approximately $98 million in labor costs. The net result of using the new swine slaughter procedures was an estimated decrease in production costs of $1.34 per animal.

We recognized that a change in domestic production costs could have an impact on trade. However, not enough data were available to determine the exact effects on imports or exports. Even using traditional economic assumptions about stable prices, markets and supplies, and exchange rates; available models demonstrated that U.S. imports and exports of pork products could fluctuate moderately. The primary reasons for these situations could be attributed in part to export and import contracts, diverse and changing consumer preferences, fluctuations in comparative exchange rates between the dollar and other major currencies, and domestic production cycles. Therefore, since an exact determination could not be reasonably made on the effects of the swine slaughter regulations with respect to foreign trade, an extrapolation of those effects could not be applied to the cattle slaughter changes under consideration. However, the analysis did point out that fluctuations in foreign trade, that could be caused by this regulatory proposal, would not cause a major impact.

In summary, the analysis demonstrated that reasonable projections on domestic market behavior could be developed, using historic swine data, when estimating the potential effects of implementing similar cattle slaughter procedures. Projections on import/export market behavior were somewhat limited using the historic swine data due to the state of flux of international market conditions. However, through the various analyses performed, it was concluded that the likely benefits in domestic markets would far outweigh any possible adverse reactions in foreign markets.

Although the analysis did not reach any definitive conclusions, the analysts provided information to policymakers that should help them determine the course of action to follow with respect to the changes considered. The important point is that the question of possible impact on trade was at least raised and considered.

Concluding Remarks

During this session, we have discussed the role that policy analysis can play in regulatory decisionmaking, particularly with respect to international trade issues. We have demonstrated that policy analysis can facilitate the resolution of regulatory issues with foreign trade implications by:

1. Providing new insight into an issue by demonstrating cause and effect relationships;

2. Removing the emotional aspects of an issue and examining the issue objectively in terms of facts and figures; and

3. Ensuring that all aspects of an issue are considered.

We have also pointed out that all analyses have limitations and that analysis is only one source of information available to the decisionmaker. We believe that policy analysis can play a valuable role, but because analysis is not an exact Science, it should never replace the judgement or the institutional wisdom of the policymaker.

Thank you.