

Economics Behind Food Manufacturers Choices in Labeling

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Informed Consumer Choice

“Informing people, whether by labels, package inserts, or more extensive programs, is but part of the larger problem of helping people cope with the risks and uncertainties of modern life”

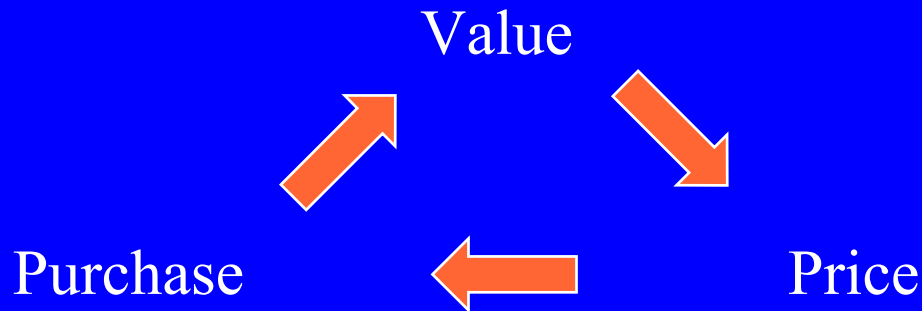
Slovic, Fischhoff, Lichtenstein, 1980

When to Label Product Attributes

1. Consumer preference differs
2. Information provided is clear and concise
3. Costs and benefits of consumption borne by consumer
4. Standards, testing, certification, and enforcement services available
5. No political consensus on restricting products

Food Companies Must Profit

- Need a return on the investment
- Target market



- Concern
 - Increased Price → Decreased Demand
 - Increased Sales → Decreased Price

Labeling Attributes Must Add Value

- Health/Safety
- Natural/Organic
- Country of origin
- Social



Consumer Perception of Value

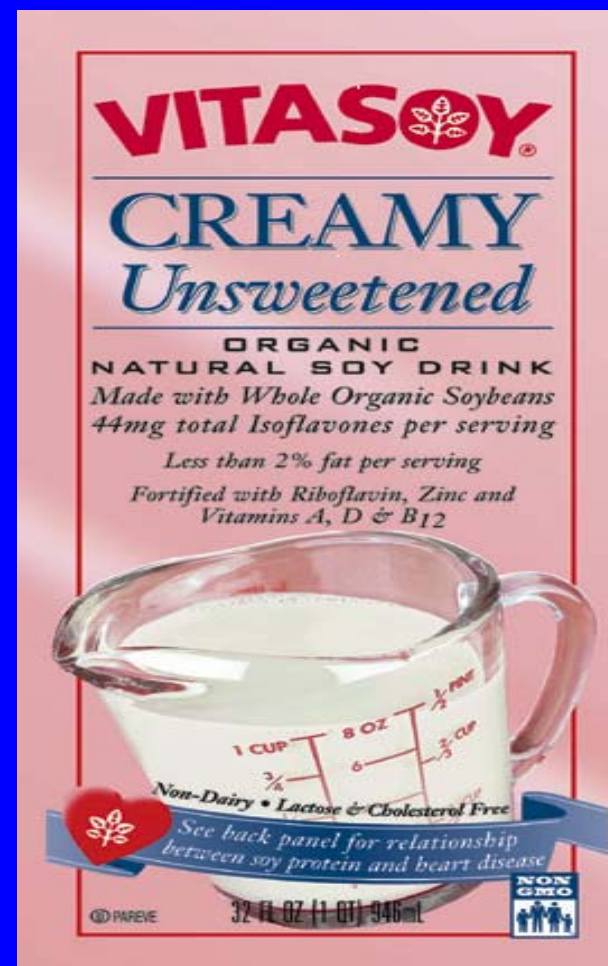
- Value Added
 - Health Claim
 - Nutrient Content Claims
 - Organic and Non-biotech
- Value Subtracted
 - Handling Instructions for Meat and Eggs
 - Irradiation
 - Nutrition Labeling for Fat, Cholesterol, etc.

Expectations of Soy Consumers

- Market is dynamic and broadening
- Health-conscious consumers expect foods to:
 - Promote health
 - Decrease risk of disease
 - Contain no unsafe ingredients
 - Do no harm to the environment

Soyfood Labels Promote

- Soy protein and heart health claim
- Certified organic
- Isoflavone content
- Vitamin Fortification
- Use non-genetically modified soybeans



Organic Labeling Requirements

- National USDA standards for acceptable practices and ingredients for production/processing
- Certification: producers & handlers (QAI)
- Strict labeling guidelines
- USDA Seal - 10/21/02
- Monitoring/enforcement



Costs of Organic Labeling

- Higher price for certified organic grains/beans
- Limited and irregular supply of certified organic ingredients
- Segregated storage and transportation
- Clean-out protocols between operating lines
- Increased record keeping/traceability
- Certification agent fee
- Marketing and informing customers

Benefits of Organic Labeling

- Higher premium (40 - 175% ↑)
- Absence of synthetic pesticides and synthetic ingredients

Role of Third Party

- USDA National Organic Standards driven by industry to:
 - provide oversight and uniform criteria
 - protect market from abuses and fraud
- To assure consumers that certified organic product claims are valid and reliable and, thus, worthy of the added value.

Guidance for Biotech Labeling

- FDA **voluntary** guidelines for labeling products with/without biotech components
 - No national standards setting tolerances
 - No uniform detection methods - DNA/Protein
 - FDA believes practices and record keeping for “certified organic” statement is sufficient to substantiate a claim that a food was not produced with using bioengineering.
- USDA certifies testing laboratories

Costs of Biotech Labeling

- Higher premium charged for specifying identity-preserved non-biotech soybeans and ingredients
- Testing of ingredients and finished product
- Reformulate product in some cases
- Clean-out protocols between operating lines
- Increased record keeping
- Dedicate separate storage/transportation equipment
- Marketing and informing customers

Benefits of Biotech Labeling

- Gain access to markets where biotech not approved or accepted
- May enhance firm's reputation for safety or environmental stewardship with some consumers
- Avoid swings in prices and uncertainty of biotech commodity market
- Receive price premium for non-biotech crops or food in some markets

Role of Third Party

- GMA petition to FDA for Voluntary Guidance on Biotech Labeling
 - Consumer groups want to assure right-to-know
 - Industry and consumers want to protect against fraud

Soyfoods Labels

- *IPP Certified Non-GMO soybeans*
- *Certified to contain no GMO soybeans*
- *No genetically modified soybeans*
- *Made with non-GMO soy*
- *Using only non-GMO soybeans*
- *Contains no genetically modified ingredients*
- *Non-GMO*



Weighing Costs and Benefits

- Level of consumer confidence that value added products are not fraudulent
- Existence of national standards, reliable detection methods, and enforcement
- Feasibility of IP system to segregate
- Sustained commitment to environment
- Adequate disposable income
- Future applications of biotechnology