

CONTROLLING AVOIDANCE OF FOOD SAFETY REGULATIONS IN MEAT PACKING INDUSTRY

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IAMA Forum & Symposium,
Budapest, Hungary
June 20-23, 2009

PROBLEM

- Consumers lack food safety information
 - Because of this, Food Safety and Inspection Service (FSIS) regulates meat processing
- Violation of FSIS regulations may be economical for meat processors
- Avoidance Activity
 - Avoid detection of the original crime
 - May or may not be illegal
 - Control of avoidance activity = control of original crime
- Objective
 - Develop an effective measure to control avoidance activity

OVERVIEW

- Timeline
- Food Safety Regulations – PR/HACCP
- Cost and Benefits of PR/HACCP Compliance
- Violations
 - Sale of Uninspected Meat
 - Sale of Adulterated Meat
- Avoidance Control
- Avoidance Control through Service Providers
- Conclusion

TIMELINE

- 1862 – Federal Inspection of meat processors began with the development of the USDA
- 1981 – Food Safety and Inspection Service (FSIS)
- 1996 July 25 - Pathogen Reduction and Hazard Analysis Critical Control Points (PR/HACCP) was introduced to satisfy the demand for stricter inspection standards
 - General *E. coli* and *Salmonella* testing are used to verify the effectiveness of the HACCP plan
 - Plants also need to implement Sanitation Standard Operating Procedures (SSOP)
 - FSIS inspectors are responsible for monitoring sanitation levels, product ingredients, and record keeping along with random testing of products
 - FSIS's power is limited

COST AND BENEFITS OF COMPLIANCE

- Benefits of Compliance are hard to quantify
 - However, product shelf life has increased according to a survey done by Ollinger *et al*
- Cost of Compliance
 - Meat Packing industry is characterized by:
 - Large number of firms
 - Small number of large firms are responsible for a large portion of the total sales
 - Cost of compliance per pound was greater for small plants (Ollinger *et al*)
 - Economies of Scale
 - Small and very small plants were more likely to exit the industry after the introduction of the PR/HACCP regulation. (Muth *et al.* (2007))
 - Disposal of Products = loss of sales

VIOLATIONS

- Possible Causes for violating a regulation
 - Loss of Sales
 - Cost of Compliance
 - Produce product at lower cost
- Avoidance activity
 - Prevent detection
 - Mislabeling
 - Counterfeiting official inspection documents
 - Illegal record keeping
 - Other avoidance activities may be legal by themselves

SALE OF UNINSPECTED MEAT

- Kingsville Hog Market delivered swine to Parmley's Holden Locker, a USDA non-inspected facility, where it was processed.
- Queen's Market knowingly purchased the uninspected meat and sold it as USDA inspected. (9,057 pounds)
 - Avoidance Activity: Mislabeled their product as inspected

SALE OF ADULTERATED MEAT

- Adulterated meat: unhealthy, unwholesome, and filthy
- A felony is given to individuals who knowingly sell adulterated meat
- LaGrou Distribution systems operated a cold storage warehouse in Chicago.
 - Inedited with rodents – product became adulterated
- LaGrou's pest control company recommended three steps to alleviative the problem.
 - Cement holes in the walls
 - Seal sewer lids
 - Rodent proof doors
- LaGrou's president believed the costs to follow the pest control company's recommendations were far too great

LAGROU DISTRIBUTION CASE

- May 30, 2002 – 14 USDA inspectors found the damaged and/or adulterated product
 - 22 million pounds of meat was detained
- LaGrou was ordered to pay \$8.2 million to their customers along with a \$2.2 million fine and 5 year probation and LaGrou's president was sentenced to 33 months of prison
- Original Crime: Sale of Adulterated Meat
- Avoidance Activity: Falsifying product information to customers

AVOIDANCE CONTROL

- EX-post vs. Ex-Ante Control
 - Ex-post punishment
 - May increase crime because it increases the marginal cost and marginal benefit of committing the crime
 - Ex-ante regulations
 - May increase the cost of avoidance activity
- Nussim *et al.* explains an ex-ante measure to control avoidance activity by increasing the liability to service providers such as accountants, lawyers, and financial advisors who participate in the avoidance activity

AVOIDANCE CONTROL THROUGH SERVICE PROVIDERS

- Modified for pest control companies
 - Contracts
 - Forced upon
 - Transparent
 - Fine imposed on Pest Control company if product is inspected and found adulterated by the FSIS
 - Liable for their work
 - Service Providers fine > contract fee + economic benefit the processors may receive

AVOIDANCE CONTROL THROUGH SERVICE PROVIDERS

- Two situations are plausible with the case of a contract between processors and pest control companies:
 1. Controls all pests
 - No fine
 - Revenue generated by contract fee
 2. Unable to control all pests
 - FSIS inspection yields discovery of adulterated product
 - Pest Control Company issued a fine
 - Contract fee remains intact
- In the case of LaGrou Distribution Systems
 - Pest Control – Too Costly
 - Ex-ante measure to stop avoidance activity in this case may have prevented the sale of adulterated meat

CONCLUSION

- The use of ex-ante measures such as contracting external service providers coupled with the threat of ex-post punishment on service providers would potentially decrease the number of avoidance activities and their associated original crime in the meat and poultry industry.
- The cases mentioned in the study are examples where the crime is detected; however, there may be multiple cases that go undetected.
- The paper is intended to raise the awareness of the existence of the problem of avoidance of food safety regulations in meat packing industry, its potential legal and economic consequences, and potential for further legal actions, ex-ante and ex-post, against the violators.



QUESTIONS?