



NATIONAL CHICKEN COUNCIL

1015 FIFTEENTH STREET NW, SUITE 930
WASHINGTON, DC 20005

PHONE: 202-296-2622
FAX: 202-293-4005

August 19, 2005

Ms. Mary Riley
Docket Clerk
U.S. Department of Agriculture
Food Safety and Inspection Service
300 12th Street, SW
Room 102 Cotton Annex
Washington, DC 20250

Re: Docket Number 03-027P, RIN 0583-AD12
FSIS Changes in Fees for Meat, Poultry and Egg Products Inspection
Services -- Fiscal Year 2005-2008

Dear Ms. Riley:

The National Chicken Council (NCC) provides the following comments regarding USDA/Food Safety and Inspection Service *Federal Register* notice of July 20, 2005 for the agency changes in fees for meat, poultry, and egg products inspection services for fiscal years 2005-2008. The National Chicken Council represents companies that produce/process about 95 percent of the young meat chickens in the United States and appreciates the opportunity to provide input on this important issue.

NCC is concerned about certain aspects of the notice. At the same time, however, NCC recognizes that FSIS, by providing estimates of annual fee increases for future years, gives all stakeholders a better opportunity to prepare more informed plans for their operations.

FSIS proposes the per-hour, per-employee fee for the following services (dollars per hour):

	Current Rate	FY 2005	FY 2006	FY 2007	FY 2008
Base time	43.64	46.78	47.79	48.84	49.93
Overtime and holiday	50.04	55.19	56.40	57.65	58.93
Laboratories	61.80	66.42	67.83	69.31	70.82

For overtime and holiday the annual percentage increases would be as follows:

	<u>Percent Increase</u>
Current to FY 2005	10.3
FY 2005 to FY 2006.....	2.2
FY 2006 to FY 2007.....	2.2
FY 2007 to FY 2008.....	2.2
Current to FY 2008	17.8

FSIS explains that the first increase (10.3 percent), from the current rate to the proposed 2005 rate, is larger than the subsequent increases because it is the first increase in two years, that is, since the rate was last set in 2003. Even with the allowance for two years, the 10.3 percent increase is clearly out-of-line with the proposed rate increases for subsequent years and with the pattern of rate increases over past years.

FSIS provides supporting data for determining the calculations for the cost of services in subsequent years. Despite these supporting data, it is interesting that the annual increase after FY 2005 is 2.2 percent for each of the years. Is 2.2 percent each of the years just coincidence or could better underlying assumptions be made about future years and therefore, different determinations be made?

In making the calculations FSIS does not provide for adjustments for improved productivity, performance, or management. NCC would like to see some recognition that improvements in these parameters could help hold cost increases to more manageable rates.

FSIS explains that \$563 million will be collected over the next four years as a result of the schedule of proposed fees. Further, based on total poultry and red meat production in 2002 the cost per pound of product associated with the proposed fee increases is \$.0002. This increase in cost would have an "insignificant impact on profits and process", FSIS believes. Also, these costs can be passed-on to the consumer, according to economic research cited. In the long run, it is true that all costs must be passed-on to the consumer or the company will cease operations. However, in the short-run, where most companies have to operate most of the time, increased costs cannot be passed-on to the buyer unless the supply/demand balance, market conditions, and competitive environment permit recovery of increased costs. NCC suggests FSIS be more aware of the difficult and challenging market that exists not only among the various companies and meats in the United States, but with competition from foreign countries.

The \$.0002 cost per pound of meat is for total production. However, when adjusted for poultry and red meat processed during overtime and holidays, the cost per pound is significantly higher and many multiples of the \$.0002. Thus, for many companies who must avail themselves of overtime and holiday work schedules, the cost to reimburse FSIS can total in the millions of dollars, not an insignificant dollar amount to have to absorb in the short-run.

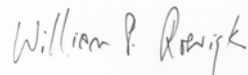
In summary, NCC recommends that FSIS:

- be more cognizant of the fact that cost increases in fees that are relatively small on a per pound of product turn into millions and tens of millions of dollars of additional costs for many companies that must use the services addressed in the notice

- provide more explanation to justify the proposed increases in fees, not just present the mathematical calculations of how a certain dollar amounts were derived
- address how improved productivity, performance, and management can be used to moderate the rate of increases in fees
- provide an early warning indication that an annual fee increase previously proposed may be re-addressed, perhaps, using FSIS semi-annual notice of schedule of work activities and initiatives, and
- at an appropriate stakeholders meeting provide an opportunity to have a discussion of the new plan that presents annual fee increases at one time for the next four years.

NCC appreciates the opportunity to provide comments and recommendations for this important initiative and issue. The concept has validity and potential benefit. NCC looks forward to working with FSIS to refine and improve the process so that the benefits of the process are greater and proposed fee increases are more fully justified. Without improvement in the process and resulting product, the previous approach of determining and announcing fees as needed and justified by actual incurred cost may be the better option.

Sincerely,



William P. Roenigk
Senior Vice President

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