



National Beef

A U.S. Premium Beef Company

March 2, 2007

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Mr. O'Conner
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National Beef[®] Packing Company LLC is pleased to submit comments and recommendations regarding *Food Safety Inspection Service (FSIS) Product Labeling: Definition of the term "Natural" Docket No. FSIS-2006-004E* and *Agricultural Marketing Services (AMS) Proposed Standards to Address Livestock Production Activities – "Naturally Raised"*.

National Beef is commenting on the *definition of "natural"* and the *"naturally raised"* topics jointly in this correspondence due to the intrinsic relationship they have to one another. We believe the agencies joint collaboration in addressing the definition and use of the term "natural" and the proposed marketing claim "naturally raised" is critical for clear and concise labeling and marketing of meat products in the future. In the absence of clarity the use of the word "natural" or any derivative has the potential to further create marketplace confusion with meat products labeling and marketing.

Therefore, we believe any action taken on behalf of the AMS regarding the proposed marketing claim of "naturally raised" *should not* occur without understanding the actions on the proposed FSIS *definition of the word "natural"*.

Summary Position:

1. National Beef understands and agrees with the current petition that the definition of natural *is not intended to address animal raising practices. These animal raising marketing claims* should continue to be addressed through marketing claims allowed through the AMS.
2. National Beef recommends the AMS does not add *any* additional marketing claims that include, in the claim's phrasing, the term "natural" or any derivative of the term.
3. National Beef supports the process underway by the agencies to address the rules surrounding the use of the voluntary claim "natural" on meat labels. We encourage the exploration of the factors and questions outline per the December 12, 2006 natural meeting. From our experience processing and marketing value based beef programs, the consumer market, including the natural segment, is vast and diverse. *We view improving clarity for the qualifications for the use of the term natural versus pursuit of a radical natural definition change as the most prudent manner in which to proceed.*
4. National Beef believes that consumer comprehension and understanding of the term "natural" and natural protein programs cannot be achieved through regulation, but rather through clear, consistent communication by companies across *all communication mediums*. We view any current consumer confusion as an opportunity for companies to take a leadership role in educating and informing consumers by delivering labeling and marketing communication that is diligent and deliberate. Through clear and consistent product and program communications credibility and trust can be built for the entire natural category.

We applaud both FSIS and the AMS for their diligence in addressing these two critical labeling and marketing opportunities. We submit our position based on our insights regarding today's consumers derived from our work marketing value-based branded beef products and programs.

National Beef History and Background:

Kansas City based National Beef Packing Company, LLC is the nation's fourth largest beef processor with sales exceeding \$4 billion facilitating over 14% market share. National Beef processes more than three million head of cattle a year and ships over 1,900 orders each week to customers across the United States.

National Beef is the only major beef processing company in the United States with a majority of its ownership held by beef producers. National Beef's majority owner, U.S. Premium Beef[®], empowers its rancher-owners to manage their operations more effectively and respond to customer preferences. This provides National Beef[®] with a steady supply of high quality cattle.

National Beef's U.S. operations include Liberal and Dodge City, Kansas; Brawley, California; Hummels Wharf, Pennsylvania; Moultrie, Georgia and Kansas City, Kansas. National Beef processes and markets single ingredient fresh beef, case-ready beef processed through the injection of water, sodium phosphate and other natural ingredients and beef by-products for domestic and international markets.

National Beef has processed and marketed fresh beef programs for many years. During this time, our primary focus has been determining consumer preferences and delivering programs that fulfill those needs. This strategy has led us to offer several different brands in the market with each one delivering specific attributes combined to appeal to a clearly defined market segment.

Overview of National Beef Natural Beef Programs:

National Beef has developed two natural beef programs and acquired a third brand since 2003. The structure and approach to market is different for each of these three programs. However; what is consistent is *clear and consistent labeling* and *marketing communications* that explain the brand program attributes and communicate a specific value set and benefit to the consumer market place.

Naturewell Natural Beef

Naturewell Natural Beef features Midwest fed Angus type cattle that have been given no antibiotics or added hormones 120 days prior to processing. They have been fed 100% vegetarian, corn-fed diets and humanely handled during the finishing phase. The Naturewell Natural Beef program offers Choice and Select grade programs utilizing only Grade A maturity steers and heifers with no dairy or Brahman influence. The Naturewell program is managed through the Naturewell Quality Assurance Program™ and marketing claims are verified per feedlot 120 day affidavits.

NatureSource Natural Angus Beef

NatureSource Natural Angus Beef uses only U.S. born Angus cattle. Antibiotics or added hormones are not introduced during the life of these cattle. They are fed a 100% vegetarian diet with a minimum corn-feeding of 120 days prior to processing. As with the Naturewell program, NatureSource includes USDA Choice and Select grade programs, utilizing only Grade A maturity steers and heifers with no dairy or Brahman influence. The NatureSource program is managed through the NatureSource Verification System™ and verified for compliance per the affidavits provided by the program feedlots.

Vintage Natural Beef

Vintage Natural Beef features calf fed Holstein steers with no antibiotics 300 days prior to processing and added hormones are never introduced. Cattle receive a 100% vegetarian diet and are grain-fed a minimum of 350 days. Elevated Vitamin E supplement is introduced 100 days prior to processing. The Vintage Natural Beef program is managed through the Vintage Natural Beef Verification System™ and verified for compliance per the affidavits provided by the program feedlots.

Consumer Insight and Understanding:

Our in-market experience with natural beef brands has brought valuable insight into the natural consumer through proprietary research, in-store surveys and feedback gained through our websites and information hotlines.

Large and Growing Interest in Healthy and Wholesome:

Consumer interest in the natural category has grown tremendously over the last five years. Many factors have stimulated interest in the product segment including shifts in social concern and awareness, expanded availability and the shifting diet emphasis of emerging demographic groups such as aging baby boomers, X and Y generations and young parents with concerns for their children's health.¹

Together these market factors and purchase behaviors have accounted for explosive growth in the natural category. The *Nutrition Business Journal*, in a study of natural and organic food retail sales estimates that the "natural category" will double in retail sales from 2002 to 2010. National Beef's experience and the performance of our brands in the natural category serve to substantiate this claim.²

Consumer Diversity:

Within the widely referenced "natural" category, there is a broad range of consumers with varying purchase desires, from "true organic" to a desire to support and consume product from varying management styles and feeding practices. While each consumer set requires a different program to fulfill their purchase requirements, they are all universally tied by their desire to have added assurance and confidence that the products they purchase deliver on label claims as well as trust in systems and companies that deliver them.³

Consumers Purchase Requirement Value Equation:

Household income, product availability, and access to retail outlets impact purchase decisions for natural beef products. Many consumers are compelled to accept multiple positioning of natural beef, and will base their purchase decisions on the final value equation of the product as defined by the attributes it delivers relative to its market price as well as the price and availability of other alternatives. This is demonstrated by the natural category's flexibility to add more attributes if the price/value relationship change is minimal.⁵

Consumers Demand Information:

With great consistency, consumers have told us that they want to be informed about the products they purchase and consume⁴. They derive trust and confidence through a clear message of what the product does and does not deliver. This clear message is delivered via packaging and labeling and in-store marketing communication. Additionally, consumers look for additional information regarding oversight, processes and production systems that drive confidence, trust and loyalty for natural beef

¹ Datamonitor USA; Capitalizing on Natural and Fresh Food Trends, Sept. 06

² Nutrition Business Journal, US Natural & Organic Food Retail Sales 1997-2010e

³ National Beef & Wooldridge Associates Qualitative Research 2003

⁴ National Beef Research Internal Survey 2003, 2005

products that are critical to success. This information is sought out by consumers via web site searches and direct contact with processors/marketers via telephone or electronic mail inquiries.

Auditable Program Compliance:

Consumers in the natural beef category require additional confidence and assurances in the products they purchase that ensure the product attributes they desire are consistently delivered through a system that monitors and audits compliance. Consumer belief in the system and its implementation are critical for developing brand acceptance and trust.

In summary, through our in-market experiences, research and consumer interaction, National Beef recognizes that there are multiple consumer segments within the natural beef category. Universally, each segment requires products that are positioned to deliver on the following criteria to find mass appeal:

- Deliver a perceived value through additional marketing claims.
- Align with the price/value expectation of the target consumer.
- Deliver a high quality eating experience.
- Offer strong brand communication that builds trust and confidence.

Most critical, each consumer segment in the natural category is motivated by a specific lifestyle need which can include environmental concerns, health concerns, safety concerns or combinations of all three. As a result, each consumer segment has a different vision of what natural beef should be and requires different attribute sets and assurances that define natural beef products for their consumer segment.

Comments and Insights:

Rule Making for the Term Natural:

National Beef supports the actions of the agencies in regards to clarifying the application rules for the use of natural as presented in the petition October 2006. National Beef understands this petition and proposed rule change *is not intended to address animal raising practices that includes but is not limited to meat products free of antibiotics, no added hormones, grass fed, humanely raised and handled, etc.* Despite this, we are motivated to address the strong opinions brought forth during the natural meeting held December 12, 2006 in Washington D.C. and listening sessions held December 11, 2006 and January 17 and 18, 2007 where some respondents expressed the belief that the term “natural” should be changed from its current definition to include referral to animal raising practices such as never received antibiotics or added hormones, grass fed, or other raising claims. We support the perspective of managing these types of animal raising claims designed to establish a market preference independently from the definition of “natural” through the established approach of AMS marketing claims and standards.⁵ We base this view on three main observations:

⁵ Federal Register / Vol. 67, No. 250 / Monday, December 30, 2002 / Notices & Federal Register / Vol. 71, No. 92 / Friday, May 12, 2006 / Notices

1. An established precedence exists for the current market definition of the term “natural” and how it’s applied. This definition and application provides an objective, measurable approach to the term that is consistent with the generally accepted definition of “natural” that exists outside of the industry.⁶
2. We do not see any clear consensus on what natural means in the context of raising animals that would allow for a universally acceptable application.
3. If we are going to apply a subjective definition to the term “natural”, the question should be asked, “Can we sustain the definition for the foreseeable future?” Consumer perspective is dynamic, and we do not know the next issue that may sway it.

Proposed AMS Naturally Raised Marketing Claim:

National Beef, through its in-market experience and interaction with consumers, feels that it is extremely difficult to establish any marketing claim that includes the use of the term “natural” or a derivative in its designation. This conclusion is driven by three observations:

1. With multiple consumer segments seeking wholesome and healthy choices through natural beef offerings, it is problematic to develop a definition that is acceptable for one segment that excludes the remaining consumer sets. As an example, one consumer set may indicate that a subjective natural definition should include only a grass diet as being “natural”, while another consumer set feels that a 100% vegetarian based diet that allows grains is “natural”. Without general consensus for the definition of the term “natural”, allowing it into the terminology of marketing claims will only increase confusion among consumers.
2. It is extremely difficult, from a process standpoint to identify an acceptable timeline in an animal’s life that the “naturally raised” definition begins. For example, does a “never ever” program claim including no antibiotics and a vegetarian diet start at the animal’s birth, or prior to gestation because of transference from the mother? Is the Dam and Sire required to never have had antibiotics or hormones? Depending on the natural consumer set this question is posed to, they will all have different requests that cannot be achieved with acceptable compliance and product pricing for each group.
3. Inclusion of any additional marketing claim that includes in the phrasing the word “natural” or a derivative could cause increased confusion among consumers by conflicting with the concurrent FSIS definition of “natural”. Consider a product that meets a proposed marketing claim for “Naturally Raised” (such as no antibiotics or added hormones) that includes the addition of synthetic ingredients or preservatives in processing. The result would be the allowance of “naturally raised” in labeling or marketing material for a product that is no longer considered “natural” through the FSIS definition and is in fact fundamentally not natural as it relates to its product form and chemical constitution.

⁶ <http://dictionary.reference.com/browse/natural>

Conclusions:

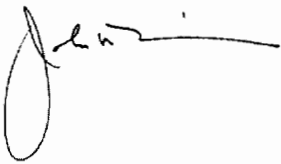
We applaud both the FSIS and AMS for their efforts and work in pursuing clear and concise communication with consumers. National Beef acknowledges the questions raised by the current petition and the need to continue to work to further define the application rules for the term natural. However, we also feel that *the responsibility for implementing natural terminology, as well as additional allowable marketing claims, in a manner that drives consumer understanding and confidence rest largely with those that participate in the natural category.* We believe the current regulatory framework for the FSIS definition of the term “natural” in conjunction with additional AMS marketing claims allows the industry to clearly communicate specific product attributes to diverse consumers segments across multiple mediums. *This comprehensive structure allows for a cohesive market approach that provides for all of the necessary applications needed to educate and communicate accurately about natural beef products with consumers.*

Additionally, we feel that *the objective of marketing claims is to clearly communicate product attributes beyond a scientific-based approach that consumers can associate with a perceived value.* Currently, *the imposed system and terminology used by AMS allows suppliers to clearly and accurately communicate these product attributes without negative connotations to other beef products and minimal confusion.* Introducing an additional application of the word natural (AMS proposed “naturally raised”) that is tied to consumer preference with a competing definition (FSIS definition of “natural”) that has precedence in the market will only confuse the natural consumer.

In closing, we encourage the agencies to work together for consistent communication and policy making standards. This will facilitate consistent application of the current standards in the market place and promote efficiency in the product, program and label approval process.

Thank you again in your efforts in addressing these two very import topics relating to the labeling and marketing of meat products.

Regards,



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Tim Klein
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