

TRUTH or SCARE

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Two days before this past Christmas, Oregon cattle rancher Doc Hatfield was sitting in his office after finishing his outside chores, when the phone rang. A customer, worried about catching the human equivalent of mad cow disease from eating Hatfield's beef, wanted to know what steps he had taken to protect his animals.

The 65-year-old Hatfield was perplexed, but he calmly explained to her that mad cow disease spreads when cows eat feed mixed with boiled-down slaughterhouse byproducts. Hatfield's High Desert Ranch cows, on the other hand, are fed a diet of grass and natural grain that contains no hormones, antibiotics or other artificial additives. "Nothing is a thousand percent," Hatfield assured her. "But we're as safe as you can get."

Hatfield didn't understand the woman's sudden interest in bovine spongiform encephalopathy (BSE), a disease that had wreaked havoc on the British beef industry in the late 1980s and early '90s. Then he turned on his television. On the evening news, U.S. Secretary of Agriculture Ann Veneman was announcing that federal food inspectors had discovered the first suspected case of BSE in the U.S. in neighboring Washington state.

The incident, so far, has turned out to be a single, isolated case. As is the tendency when food safety scares occur, shocks of alarm pulsed through consumerdom and the media in the immediate aftermath of the disclosure. Government health and safety officials, lobbyists, agencies and corporate affairs representatives sprang into action. They responded decisively and methodically to consumers' fears and questions as the nation momentarily curbed its huge appetite for beef. But only momentarily.

Assuming no new cases of the disease emerge in the coming days and months, December 23, 2003, may well pass into food safety annals as little more than a footnote. Americans' consumption of about \$900 billion in fresh and processed foods each year - through channels such as supermarkets, corner delis, price clubs and mass merchants, convenience stores, restaurants, hospitality and other food service providers, as well as other conduits - won't be likely to change a lick as a result of this lone incident.

What is changing, though, is a broader context of consumerism within which the mad cow scare took place. The challenge for those vested and invested in the food business is that more and more ordinary people are becoming more demanding about everything they buy. They want to know precisely what's in what they buy. What are the ingredients? What was the manufacturing process? Who made it? How was it made? Where? Were the conditions safe? Humane? What impact did the manufacture of the item have on the environment, and the people in the environment? People are asking these questions and demanding "transparency" and forthrightness in answers to them.

For the American food business, the telephone call to Doc Hatfield on the afternoon of Dec. 23rd told of a story behind the headlines, illustrative of an American consumer public that has begun to behave differently - more information-hungry, more active, more discriminating - in an environment where food safety crises crop up in America and around the world. Crisis public relations may have been sufficient to quell concerns about America's food supply this time round, but food manufacturers, distributors and retailers may not be so fortunate in the future.

In the weeks that followed that first late-December phone call, Hatfield had at least 50 calls and e-mails from prospective customers interested in buying his natural beef because of concerns over BSE. However, Hatfield, who heads Oregon Country Beef, a family ranch cooperative, says consumer demand had been increasing even before the latest scare. Oregon Country Beef saw same-store sales of its meat jump 43 percent in the last quarter of 2003. Sales for the year reached \$18 million, 24 percent higher than in 2002. The cooperative's biggest customers include the Whole Foods Markets natural food chain and a number of high-end independent grocery stores in the Pacific Northwest.

"When we started 18 years ago, our customers ranged from hippies to urban gourmets," says Hatfield, who founded the business with his wife Connie. "But now mainstream urbanites want to know where their food is coming from. It's not just about nuts and twigs any more."

NOT JUST GRANOLA

Hatfield's right. It's not just "nuts and twigs" who are buying food produced without chemicals, hormones and other additives. As more Americans make health, nutrition and food safety a higher priority, they're buying more organic and natural food. "Organic" is one of the labeling terms in the food business Americans equate most closely with transparency, and so they're driving high double-digit sales growth in food categories that are generally flat year-on-year. Americans bought \$13.5 billion worth of natural and organic food in 2002, 8.9 percent more than they did a year earlier, according to the latest data provided by SPINS, a San Francisco market research company that tracks retail sales scanned at supermarkets, natural food stores, mass merchandisers and drug stores. Of that, organic food sales were \$8.2 billion, or 17.8 percent higher than in 2001. SPINS estimates that natural and organic food and beverage sales rose more than 12 percent. That rate of growth is considerably higher (by a ratio of 4-to-1) than that of conventional grocery product sales.

In an exclusive poll for American Demographics conducted in mid-January by Harris Interactive, a polling firm in Rochester, N.Y., of 2,289 respondents, 1 person in 4 was either "extremely concerned" or "very concerned" about the safety of meat and produce. Almost 2 in 5 Americans (39 percent) believe organic or natural foods are healthier. And 1 in 3 believes they are safer.

"The Baby Boomers are driving demand for organic food in general, because they're health-conscious and can afford to pay higher prices," says Professor Steven G. Sapp, a sociologist at Iowa State University who studies consumer food behavior. More than half of Americans (54 percent) have tried organic food, according to a survey for Whole Foods Market conducted by Synovate in August 2003. In the American Demographics' survey, 28 percent of respondents say that they buy more organic or natural foods than they did five years ago. And 31 percent would like a greater assortment of organic and natural food in their local supermarket.

Consumers are also putting more organic and natural products in their shopping carts because they're want more information about how their food is produced. Food can only be labeled organic if it meets the USDA's strict standards: no pesticides, no hormones, no genetically modified organisms (GMOs) and no artificial additives of any kind.

While much of this demand is driven by concerns about food safety, many consumers are willing to pay more for organic food in the belief that they're supporting family farmers. About two-thirds of all customers who switch to organic food are motivated primarily by the presumed health benefits, says Ronnie Cummins, executive director of the Organic Consumers Association in Little Marais, Minn. "But once people realize the deeper significance of organic food," he says, "they generally stay organic." Many small farmers who offer organic food stress to consumers that they are family businesses. "There's a fork in the road of U.S. agriculture," says Mark Kastel, a LaFarge, Wis.-based farm policy analyst and consultant whose clients include the Organic Valley dairy cooperative. "One fork is high capital, high intensity farming. The other fork is small farms and meaning."

THE BIG O

No sooner had the sick Holstein in Washington been destroyed than a broad array of interest groups started using the scare to push their own agendas. Led by People for the Ethical Treatment of Animals, animal rights activists announced that the outbreak was yet another good reason for Americans to go vegetarian. Organic food advocates saw an opportunity to tout the virtues of an organic diet, pointing out that no organically raised cow had ever been diagnosed with mad cow disease.

"The BSE scare is a great opportunity for organic producers to explain what organic beef is," says Katherine DiMotta, executive director of the Organic Trade Association. "Many consumers didn't understand that you could have an organic cow."

The Center for Consumer Freedom, a nonprofit advocacy organization funded by food companies and the restaurant industry, responded with aggressive attack ads that dismissed the vegetarians and the organic community as alarmist, self-serving hypocrites who sought to deny Americans their God-given right to eat whatever the heck they wanted. The National Cattlemen's Beef Association, which has an annual budget of nearly \$68 million, of which \$7.45 million is spent on government lobbying, seized on the fact that the sick cow had been found as proof that the USDA's cattle inspection system worked perfectly.

Beef industry critics dismissed these claims, pointing out that inspectors see only a tiny fraction of the 30 million cows that are slaughtered each year and arguing that the USDA was a wholly owned subsidiary of U.S. corporate agriculture in general and Big Beef in particular. After all, Secretary Veneman and 11 of her senior aides had previously worked as beef industry lobbyists, they pointed out.

"The USDA is the lobbying arm of the beef industry," says John Stauber, executive director of the Madison, Wis.-based Center for Media & Democracy and co-author of the muckraking book *Mad Cow USA* (Common Courage Press, 1997). "We're hearing a lot of misleading assurances from USDA and [the beef] industry, which convince a lot of people because so much money goes into them. The entire effort is to save domestic beef consumption and then arm-twist foreign consumption into coming back."

Yet it's unclear that warnings about meat safety actually filter down to consumers. "The attentive public isn't there on this issue," says William Browne, a political scientist at Central Michigan University who has written extensively on U.S. agricultural policy issues. "The New York Times and The Wall Street Journal ran stories [about mad cow], but there wasn't that much interest in local papers. People don't like to read food stories unless there's a bargain on beef at the local Randalls."

ORGANIC GOES CORPORATE

Organic food sales are still quite small, accounting for no more than 3 percent of the U.S. food market, according to the Organic Consumers Association. But while conventional food sales have been essentially flat in recent years, organic food has been racking up steady double-digit increases every year since 1991. That's despite the fact that organic products are usually 30 percent to 50 percent more expensive. "If you plot out that graph, in 20 years most food sold at U.S. grocery stores will be organic," says Cummins.

A far-fetched scenario, perhaps, but as consumers' demand grows, major food companies are entering a sector that was once the domain of small farmers. In 1999, General Mills, the \$11.5-billion food behemoth whose brands include Betty Crocker, Hamburger Helper and Green Giant vegetables, bought Small Planet Foods, maker of Cascadian Farm and Muir Glen, the country's largest processor of organic tomatoes. And in January, Borden and Land O' Lakes' parent Dean Foods Co., with \$9.5 billion in sales, bought Horizon Organic Dairy for \$216 million in cash and assumed the milk producer's \$40 million debt.

However, big food producers avoid giving consumers the impression that their organic products are healthier than their conventional offerings. H. J. Heinz Co., for example, launched its own organic ketchup brand in 2002, says spokesman Robin Teets. Although industry-wide organic ketchup sales have doubled in the past two years (to \$6 million from \$3 million), that's still a tiny percentage of the \$500 million U.S. ketchup market. "We don't position any organic product as being healthier nutritionally than any other product," Teets says. "Instead, we treat organic food like any other market niche. Basically, it's a lifestyle choice."

Inspired by the success of Whole Foods and Wild Oats Natural Marketplace, Safeway, Kroger and other mainstream grocery chains now offer organic food under their own private labels. Even the world's largest retailer, Wal-Mart Stores Inc., which caters to middle America, stocks organic food on its shelves. According to SPINS, more than 75 percent of all natural products - food, beverages, beauty aids and health supplements - are now sold in supermarkets, drug stores and mass merchandisers.

The beef industry is no exception to this trend. Mel Coleman, Jr., is a fifth-generation Colorado rancher who heads Coleman's Natural Beef in Denver, one of the nation's largest producers of natural beef. Coleman used to sell most of his meat to natural food stores, but that's changed in recent years. Today, mainstream supermarkets account for 60 percent of total sales, Coleman says.

Like Oregon Country Beef, Coleman beef comes from cattle raised without growth hormones or so-called sub-therapeutic antibiotics (both commonly used in the mass-market beef industry). In 2003, Coleman's sales shot up 38 percent, compared with a 2 percent to 3 percent increase for conventional beef. (Sales spiked after the mad cow disease report: For the week ending Jan. 16, orders were up 25 percent to 30 percent over the previous week.) "There's been a whole lifestyle change as compared to years past," Coleman says.

LABEL CONSCIOUS

The recent mad cow crisis is only the latest in a series of food scares that have driven consumers to demand more precise food labeling regulations. During the Alar scare of 1989, for example, consumer concern about pesticide use in the apple industry sparked a demand for organic apples and apple juice. At the time, national standards for what constitutes "organic" didn't exist. Instead, a hodgepodge of state and private agencies provided organic certification.

Today, 39 percent of all Americans say they "always" or "often" inspect food labels to find out how the product was produced, according to the American Demographics/Harris Interactive survey. And older Americans tend to inspect labels more often than younger ones: 50 percent of men between the ages of 45 and 54 look at labels; 55 percent of women over the age of 55 look at them. In contrast, 34 percent say they "rarely" or "never" look at food labels.

The organic and natural food market meets consumer demand for more detailed information about food production. While organic labeling standards are fairly clear, providing an audit trail from farm to fork, the "natural" standard remains vague. Under USDA rules, natural beef is defined as "minimally processed without artificial ingredients." That includes just about all the beef produced in the U.S., much of which comes from cattle raised with growth hormones, antibiotics, and various animal byproducts. While producers such as Coleman Natural Beef and Oregon Country Beef apply a far more rigorous standard for "natural" beef, they are under no legal obligation to do so.

Congress included a country-of-origin labeling requirement in its most recent appropriations bill. Even though the measure enjoyed broad consumer support after the BSE scare, in late January, legislators delayed implementation of the law for two years under pressure from beef industry lobbyists who argued that it would impose unreasonable costs on producers.

IT'S A MAD, MAD COW

Over the past few years, federal authorities have gradually tightened cattle feed regulations in an effort to reduce the risk of a BSE outbreak. The USDA banned feeding cattle protein to cattle in 1997, one year after the British government acknowledged that mad cow-infected beef appeared to cause the fatal, brain-wasting illness in humans known as variant Creutzfeldt-Jacob Disease, or CJD. The ban contained several large loopholes that the USDA only started to close a week after the cow in Washington was diagnosed with BSE. In late January, faced with continuing concerns about the safety of beef, the FDA issued stricter rules on meat production.

The agency banned feeding cow blood and chicken waste to cattle. It also banned the use of dead or disabled cows to make dietary supplements, cosmetics, soups or other foods that contain traces of meat. In a New York Times article, Tommy G. Thompson, the Secretary of the Health and Human Services Department, didn't rule out the possibility of further restrictions on animal feed.

WHERE'S THE BEEF?

During her December 23 TV appearance, Secretary Veneman announced that U.S. beef was perfectly safe and that she herself planned to eat beef for Christmas. Even so, more than 40 countries moved to ban U.S. beef imports, including Japan, the biggest overseas consumer. The \$30-billion beef industry normally sells around 10 percent of its product abroad. Suddenly, the industry was looking at \$2 billion in lost 2004 export revenues, according to Chris Hurt, an agricultural economist at Purdue University.

Surveys showed that Americans intended to eat less red meat. On January 16, a Wall Street Journal/Harris Interactive poll found that 1 in 5 Americans (21 percent) planned to change their eating habits out of fear of mad cow disease. Most (78 percent) said they would eat less beef, while 16 percent said they would stop eating beef altogether. By late January, consumers were once again eating beef.

After the news of mad cow disease in the U.S., the National Cattlemen's Beef Association's polls showed consumers had a high level of awareness and concern about mad cow disease (peaking at 96 percent at the end of December), but almost equally high levels of confidence in the safety of U.S. beef. By mid-January, 90 percent of respondents were confident that U.S. beef was safe, up 2 percentage points from a previous poll taken in September.

"Most people are comfortable with U.S. meat," said Dr. Christine Bruhn, a food safety expert who runs the Center for Food Research at the University of California-Davis. "Some aren't comfortable, and those people are either switching away from meat or looking for meat raised in a different way."

However, if more mad cow cases turn up, the U.S. organic beef industry could see a truly dramatic spike in demand. Alternatively, American consumers could start getting their protein from chicken, pork or soybeans. No matter what happens, though, we can be sure that all sides of the debate will continue to articulate their views at top volume.

Meanwhile, Doc Hatfield and his fellow organic and natural meat producers are enjoying the attention and increased sales that have come their way. "BSE has accelerated an already growing trend of people wanting to know where their food comes from," Hatfield says.

Richard McGill Murphy has written for The Wall Street Journal, The New Republic and The New York Times Sunday Magazine. His memoir, Lahore Nights, will be published later this year by Alfred A. Knopf.

Food Scares & Food Safety Regulations

1862

President Lincoln appoints a chemist to the new USDA, beginning the Bureau of Chemistry, the FDA's predecessor.

1906

Upton Sinclair's *The Jungle* describes Chicago's meatpacking industry's unsanitary conditions. Within weeks, meat sales fall by 50 percent.

Congress passes the Meat Inspection Act.

1920

Botulism in commercially canned food sickens 36 and kills 23. With sales declining, the industry sets new production safety standards.

1938

The Federal Food, Drug and Cosmetic Act is passed by Congress, setting standards for food quality and authorizing factory inspections.

1973

Seven people contract botulism after eating commercially canned peppers. New rules ensure low-acid packaged foods have adequate heat treatment.

1982

First documented case of an *E. coli* outbreak in food in the U.S. Bacteria found in hamburger meat.

1985

Largest food poisoning outbreak in California history; 40 people die after eating Jalisco Mexican Products' Queso Fresco (fresh cheese) contaminated with listeriosis bacteria.

Raw milk contaminates pasteurized milk in a processing plant outside of Chicago. Almost 200,000 people become ill with a strain of salmonella.

1986

British lab discovers cows that had acted strangely died of bovine spongiform encephalopathy (BSE), or mad cow disease.

1988

Britain begins slaughtering BSE-infected cattle.

1989

EPA bans Alar, a chemical used to improve apples' appearance, prompting the "Great Alar Scare." Scientists believe media overstated dangers.

1990

Congress passed the Organic Foods Production Act of 1990, calling for the establishment of standards for organic food.

U.K. Agriculture Minister and his daughter eat a hamburger on TV to assure Britons they can't get mad cow disease from eating beef.

1993

Four children die and more than 700 become ill after eating undercooked hamburgers tainted with E. coli bacteria at Jack in the Box restaurants. Agriculture Secretary Mike Espy steps up slaughterhouse inspections.

1995

The restaurant and food service industry launch National Food Safety Education Month.

1996

One child dies and more than 60 become ill from E.coli contaminated Odwalla fresh apple juice. Odwalla's sales sink 90 percent; stock prices fall 34 percent.

British government links mad cow disease to the human equivalent, variant Creutzfeld-Jacob Disease, or CJD.

1997

E. Coli outbreak in Colorado sickens 20 and prompts the recall of 25 million pounds of hamburger meat, the largest recall in U.S. history.

USDA bans feeding cattle protein to cattle.

1998

USDA introduces a radically new system of inspecting meat called Hazard Analysis and Critical Control Point (HACCP).

1999

USDA says salmonella contamination rates fell by 50 percent in chickens; 33 percent in ground beef.

2002

USDA issues organic food rules. They can't contain genetically modified organisms (GMOs), sewage sludge residue or have been irradiated.

2003

First case of BSE diagnosed in U.S.

USDA bans slaughtering downer cattle, killing cows using air injection stunning and automatic meat recovery systems.

As a precaution, 694 animals from the same farm as the cow with BSE are slaughtered; more than 40 countries ban U.S. beef

CDC says 153 variant CJD deaths worldwide.

2004

The USDA proposed fiscal 2005 budget calls for \$60 million to fund BSE-related programs; a \$47 billion increase.

FDA bans feeding cow blood and chicken waste to cattle; bans the use of dead or disabled cows to make dietary supplements, cosmetics or soups.

Sources: Food & Drug Administration, The Food Safety Information Handbook by Cynthia Roberts and various news reports.

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