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# Economic Impact of Mandatory Labeling

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## **Economic Impact of Mandatory Labeling**

The agriculture world is always changing. Innovative ideas and new technology aid to this change. Genetically modified organisms (GMO's) are one of the many innovative products of the agriculture world. GMO's first hit the market in the mid-1990's (Zilberman 2012). However, with this product comes controversy. The idea that whether or not food manufacturers should be required to label products that contain genetically modified (GM) ingredients is still in question. Mandatory labeling of GM food products will have an economic impact on the world. Not only will producers and food manufacturers be paying the extra cost that goes along with mandatory labeling, but consumers will be picking up the additional cost as well.

To fully understand the controversy behind labeling products that contain genetically modified ingredients, it is important to comprehend what a genetically modified organism (GMO) is. According to Dictionary.com, a GMO is, "an organism or microorganism whose genetic material has been altered by means of genetic engineering" ("definition of GMO," n.d.). Genetically modified organisms are being added into food products. These food products are then known to contain a GM ingredient. Some products are labeled that contain GM ingredients and some are not. Colorado State University states that the main problem with labeling products that contain GM ingredients is the consumer's rights to know what

ingredients are in the food that they are eating (Byrne, Pendell, & Graff, 2014). Labeling GM products is becoming a topic that many people believe needs discussion. If consumers are buying food products, they think they should have the right to know what is going into the food they are eating. However, some consumers may not see the bigger picture with mandatory labeling.

When talking about labeling products with GMO's, there are two types of labeling: voluntary and mandatory. These two types of labeling are very different. The United States' current policy regarding labeling GM foods is that the product only has to be labeled if it has a nutritional or food safety issue that is significantly different from what the consumer would normally expect from that product (Byrne et al., 2014) (Zilberman 2014). Colorado State University provides insight into what the difference is between the two types of labeling. Voluntary labeling is just like it sounds. Companies can voluntarily label products that contain GM ingredients and products that do not. Currently, in the United States many companies already voluntarily label products they produce that do not contain GMO's (Byrne et al., 2014). Companies do so because they want consumers to know their products do not contain GMO's. By telling consumers that the product they are selling does not contain GM ingredients, some food manufacturers believe they will receive more customers. Companies can also voluntarily label products that do contain GMO's, but this is not seen as frequently. When shopping in stores, a person is more likely to see labels that say GMO-free versus a label that says it contains GMO's.

With volunteer labeling, the cost that goes into doing so is taken on by the people who buy those products. Consumers who buy those products are paying for the label to say GMO-free. Mandatory labeling would make it required that all food products containing GM

ingredients be labeled (Byrne et al., 2014). If the government decided to be even stricter, mandating that every GM ingredient be listed on the label could be an option. With mandatory labeling all consumers will be paying the extra cost that associated with mandated labeling. Consumers that care about the labeling and those that do not will be paying the extra cost (Byrne et al., 2014). Mandatory labeling would add extra costs to consumers and the food manufacturers. Currently, the United States has no laws requiring labeling of GM food products. However, there has been laws and policies reviewed for the mandatory labeling of GM products (Byrne et al., 2014).

Mandatory labeling will have an economic impact if it becomes law across the United States. With mandatory labeling, there is the expected cost of all of the paper and ink to print the label (Byrne et al., 2014). Every product that contains GM ingredients would be labeled as such. This extra label would add costs to the food manufacturer producing these products. Mandatory labeling would also add other machines that would label these products, again adding additional costs to labeling the products that contain GM ingredients.

There are more costs associated with mandatory labeling. Colorado State University goes into detail about other expenses associated with mandatory labeling. Additional costs can come from setting up a system to track the products that contain GM ingredients (Byrne et al., 2014). Food manufacturers would have to make sure they keep track of what products need the mandatory label and which ones would not. Not only would the manufacturers of these products have to come up with a system to keep track of GM ingredients, but also all of the other places the GM ingredients went to before arriving to be packaged and sold (Byrne et al., 2014). Farmers, elevators, and grain processors would have to put a system in place to separate GM crops from conventional crops (Byrne et al., 2014). Not only would a system need to be

put into place, but also detailed records and testing. This method would be executed wherever the GM ingredient travels to in order to make sure there is no contamination between GM and non-GM crops. Keeping the crops separate is essential in order to reduce contamination. Having a system in place lets manufacturers know exactly which products have been genetically modified so they can label their products as such (Byrne et al., 2014). This additional cost would be another one that food manufacturers would have the burden of paying. All of these other expenses leads to the idea that consumers will also begin to pay the price for mandatory labeling. If companies have to start paying more to label the products, then customers will also see an increase in the price they are paying for the products.

Another way that mandatory labeling will affect the economy is the increase in product prices for consumers. Food prices will most likely increase due to mandatory labeling (Byrne et al., 2014). The reason behind the increase in food prices is because manufacturers will now be paying the additional cost to label their products that contain GM ingredients. Since the food manufacturer now has to pay a higher price, they will make their product cost more for the consumer to buy. With volunteer labeling, this is not an issue. Only consumers who purchase the products with volunteer labeling would take on that cost. Studies show that the added cost of mandatory labeling could cost the consumer up to \$400 a year (Byrne et al., 2014). Higher food prices due to mandatory labeling will be taken on by all consumers.

Not only are there direct costs with mandatory labeling, but also indirect costs. An indirect cost with mandatory labeling would be monitoring and enforcing mandatory labeling. The public would take on this cost of monitoring and enforcing mandatory labeling. The cost associated with enforcing labeling laws would be put on the taxpayers (Byrne et al., 2014). They would be responsible for paying the people that are inspecting the plants producing food

that contains GM ingredients. Inspectors would have to make sure that the right products are labeled according to a mandatory labeling law. Paying for these costs may upset some consumers because whether or not they are eating products that contain GM ingredients they will be paying for the monitoring and enforcing of mandatory labeling laws.

In some parts of the United States, mandatory labeling is required within a state. For example, on July 1, 2016, Vermont passed a law that required food manufacturers to label their products to be sold in Vermont if they contained GM ingredients (Gelski, 2016). If Vermont food manufacturers want to avoid fines, they must label all their products containing GM ingredients even those they may not even be sold in Vermont. With this new law in place in Vermont, mandatory labeling could potentially have a one-time cost to consumers of \$3.8 billion, or \$32 per household according to a study funded by the Washington-based Corn Refiners Association (Gelski, 2016).

Genetically modified organisms will always be a staple in the agriculture world. GMO's will also continue to be present in food products. According to David Zilberman, "from an economic perspective, it only makes sense if the net benefit from having it outweighs the cost" (Zilberman 2012). The information previously provided overviews some of the added costs that go along with the mandatory labeling of GM products. People feel strongly that products should be labeled if they contain GM ingredients because it is their right to know what goes into their food. However, before this argument is made and laws get passed, it is important to see the economic impact that mandatory labeling will have on food manufacturers as well as consumers.

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