

Farm Bill 2002: Title X - What Does Mandatory Country of Origin Labeling Mean for U.S. Livestock Producers?

Quick Notes...

Country of Origin Labeling is designed to inform the consumer where the commodity originated.

The law covers beef, pork, lamb, fish, peanuts, fruits, and vegetables.

Potential Impact to Colorado Producers:

- ! increased production costs,
- ! the ability to produce a differentiated product.

The ultimate impact will depend on the regulations imposed and methods of enforcement.

The intensely debated issue of country of origin labeling of food products is quickly becoming a reality for the United States. Title X, Section 10816 of the Farm Security and Rural Investment Act of 2002 (Farm Bill) includes a mandatory country of origin labeling (COOL) provision stating that "...a retailer of a covered commodity shall inform consumers, at the final point of sale of the covered commodity to consumers, of the country of origin of the covered commodity." The commodities covered under the COOL law include beef, pork, lamb, fish, peanuts, fruits and vegetables. In order to be labeled with a U.S.

country of origin label, the commodity must be born, raised, and slaughtered/processed in the U.S.

According to the COOL provisions, labeling will be voluntary for two years beginning September 30, 2002. The USDA must issue voluntary guidelines by September 30, 2002. A draft of the voluntary COOL guidelines will be available for public comment in late August (<http://www.ams.usda.gov/news/173-02.htm>).

Labeling for country of origin will become mandatory on September 30, 2004. There are two important exceptions to COOL provided in the legislation. First, COOL does not apply to food service establishments such as cafeterias and restaurants. Secondly, it does not include commodities that are ingredients in processed products. These two exemptions have important implications as approximately 30-40 percent of beef and pork consumption occurs through either processed products or at food service establishments.

The COOL Debate

The COOL debate has been ongoing for several years. There are a number of arguments both in favor and against COOL. Proponents of COOL claim it would give U.S. producers the opportunity to create a competitive differentiated product market. This argument assumes that consumers would select American products over imported products.

Labeling advocates also contend that consumers have “the right-to-know” where their food products originate. For example, a national survey sponsored by the National Cattleman’s Beef Association, found that 78% of the 1,000 American consumers polled support COOL (*Supermarket News, 1999*). Finally, proponents of a mandatory labeling policy argue that the costs associated with this labeling policy would be minimal.

Opponents of labeling believe that the COOL program would be difficult and costly to implement. A 2000 U.S. Congressional study determined that the potential costs associated with implementation of a county-of-origin labeling system would outweigh the potential benefits. This is due to the fact that approximately 15% of the beef sold in the United States is imported (USDA-FSIS), and is often mixed with U.S. origin beef when processed. Therefore, industry compliance costs could be too high, and optimally, the consumer may be bearing these additional costs. Additional arguments against COOL include the concern that a label is an unnecessary trade barrier. Trade officials have expressed concern that other countries would retaliate against this trade policy if implemented by the U.S., and that U.S. meat exports could suffer an intense reduction as a result. Finally, labeling adversaries argued that many consumers may develop a taste for international, imported food products (as it happened with Japanese cars in the 1980's), resulting in a reduction of the U.S. market share.

The Impact on the Livestock and Meat Industries

An obvious question posed by the mandatory law is implementation of the program. A comprehensive product identification or traceback system where the product could be traced from the farm to the consumer would likely be necessary for source-verification. In the beef industry, this type of system would require increased information sharing amongst all sectors of the supply chain:

retailers, wholesalers, packers, feedlot and stocker operations, cow-calf producers, and seedstock producers. The need for increased information sharing will likely prompt an increase in vertical alliances and agreements. Furthermore, existing alliances that are currently selling a USDA certified branded product and have an existing traceback system may become the model for the industry to follow. A traceback system would likely be more easily implemented in the more highly vertically integrated pork industry.

The COOL legislation prohibits the U.S. Secretary of Agriculture from creating a mandatory system for traceback. Additionally, Congress did not provide the USDA-AMS with any additional funds to cover the costs of administering either the voluntary or mandatory phases of the COOL program. Thus, when the program becomes mandatory, livestock producers, processors and meat suppliers will likely ultimately bear the costs of the mandatory program. These costs will be incurred through increased production costs from traceback and/or segregated production systems. A private, U.S. meat industry association estimates that COOL will cost the U.S. livestock, red meat and supermarket industries approximately \$1 billion in additional annual costs and the USDA \$60 million in additional costs to administer the program. Regardless of who ultimately bears the costs of the mandatory program, it seems inevitable that U.S. livestock producers who are not already involved in an identification system for their livestock should consider one.

While the COOL act was intended to provide U.S. meat products with a competitive advantage in U.S. retail markets, COOL may potentially have an adverse affect. Importers of beef into the U.S., such as Canada, which already has a mandatory identification program in place, could immediately begin labeling their beef as “Canadian Beef.” U.S. consumers may become loyal to the Canadian brand, thus decreasing demand for U.S. beef.

The outcome of mandatory COOL remains to be seen; however, it is likely to remain a controversial subject both nationally and internationally, particularly among major importers of livestock and those involved in the U.S. meat industry. For example, Canada, the largest importer of both pork and beef into the U.S. (Figures 1 and 2), has strongly protested the mandatory COOL act. In July, the Canadian Embassy issued a letter to the USDA stating their opposition to the mandatory COOL provisions. In the letter, the Canadians warned of potential trade restrictions that would violate the North American Free Trade Agreement (NAFTA), as well as possible price distortions caused by compliance costs that would decrease the competitiveness of the North American meat industry in the world market.

The impact of COOL on producers will depend greatly upon the regulations imposed by the U.S. Secretary of Agriculture, and the methods by which these rules are enforced. Ultimately, the reactions of both national and international industry participants as well as consumers of U.S. products will determine whether the costs

of implementing COOL outweigh the potential benefits of the mandatory labeling act.

For additional information please visit the following websites and references:

- ! <http://www.ams.usda.gov/cool/>
- ! <http://www.ams.usda.gov/news/173-02.htm>
- ! <http://www.senate.gov/~agriculture/Briefs/2001FarmBill/confame.htm>
- ! <http://www.meatami.com/Template.cfm?Section=Archived&NavMenuID=275&template=PressReleaseDisplay.cfm&PressReleaseID=1044>
- ! <http://www.fsis.usda.gov/oa/congress/cool.htm>
- ! <http://www.lmic.info/>
- ! Supermarket News, 1999. February 22, 1999. "National Cattleman's Beef Association sponsors survey that indicates that most Americans approve of country-of-origin labeling on beef products," 49(8) pg. 37.

Figure 1. Major Sources of U.S. Beef Imports

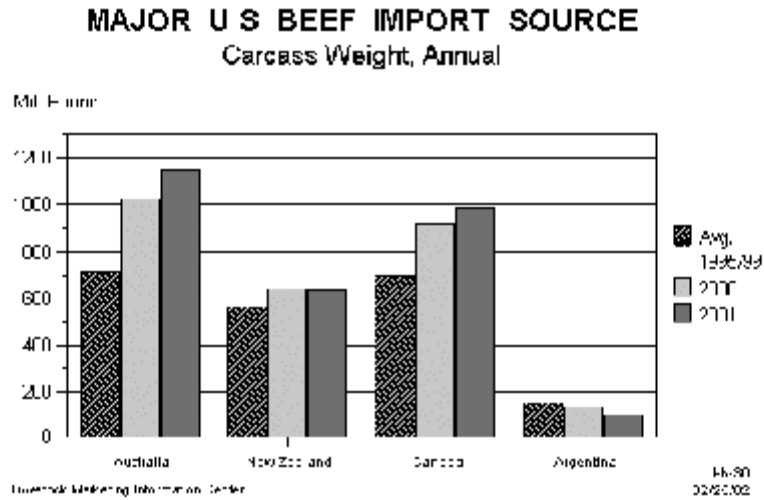


Figure 2. Major Sources of U.S. Pork Imports

