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Country Of Origin Labeling: Who Wants It?

by **Sebastien Pouliot**

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AFTER YEARS of discussions, compromises, and revisions, the USDA Agricultural Marketing Service (AMS) published the final interim rule on August 1, 2008, regarding Country of Origin Labeling (COOL). Full enforcement of COOL began on March 16, 2009.

There was little opposition to COOL for most of the commodities covered; however, COOL for muscle cuts of beef and pork has raised international trade concerns. Soon after the United States released its interim final rule for COOL, Canada and Mexico initiated a dispute with the United States at the World Trade Organization (WTO). The WTO panel determined that provisions of COOL for cattle and hogs violated the WTO trade agreement. The United States revised the rule for COOL in May 2013. As of November 2013, Canada and Mexico are exploring possible retaliatory measures against the United States.

The legal and economic issues pertaining to the WTO ruling have been discussed at length elsewhere. However, the domestic impacts of the COOL regulation for cattle and hogs, although important, have been mostly ignored. We discuss these impacts here.

Specifics of the Regulations

COOL requires providing consumers specific labels. Until May of 2013, the labels essentially identified the countries of origin ordered by where most value was added. For example, meat from cattle born and raised in Canada but slaughtered in the United States was labeled “Product of Canada and the United States.”

In response to WTO rulings, AMS amended its rule for COOL in May 2013. The new rule adds more

information, such that labels now identify the country of birth, the country where an animal is fed, and the country where an animal is slaughtered. For example, meat from a cattle born and raised in Canada but slaughtered in the United States is now be labeled as “Born and raised in Canada, slaughtered in the United States.”

COOL has been justified on the ground that consumers want to know where their food comes from. However, if consumers sufficiently valued COOL and the costs of COOL were small, profit-maximizing meat packers would have offered COOL to capture the premium consumers are willing to pay for COOL.

The argument for COOL contrasts with empirical evidence that shows that consumers place significantly more value to attributes other than country of origin, such as food safety. In its dispute with Canada and Mexico, the United States made it clear that food safety was not a motive for COOL. If the motivation for COOL was food safety, it would be an implicit admission by the United States that its food safety system is inadequate, as food imports are subject to the same standards as food produced domestically.

Economic Impacts of COOL

COOL requires the transmission of country of origin information from farms to consumers. Labeling products through a supply chain is not very costly when there is a single origin. However, for feedlots and packers that accept animals from multiple



origins, COOL requires segregation and additional management of animals and meat according to their country of origin. As such, COOL imposes additional costs to facilities that accept domestic and imported animals, thus lowering the demand for imported animals.

Feeders and processors of hogs and cattle are those that are the most directly impacted by COOL. In particular, it is the facilities that relied on imports before COOL that are the most negatively impacted, as they must either incur the direct cost of COOL or exclusively source animals domestically at a higher cost. The facilities that did not import animals are indirectly affected as they face greater competition for domestic animals, thus increasing their procurement costs.

Increased competition for domestic cattle and hogs translates into higher prices for domestic hogs and cattle, thus making hog and cattle producers the

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Current trade complications

A number of trade complications between the United States and China have prevented US producers from fully taking advantage of agricultural needs in China, especially where pork, beef, and poultry are concerned. Some of these trade barriers are artificial, such as subsidies and import duties, and are meant allow domestic livestock producers in China to remain competitive so as to retain food independence.

Technical barriers, whether artificial or not, have also proven to be a factor in the unstable demand for US products in China, and have prevented many producers developing markets in China. China has been historically unaccepting of certain practices that are common in the United States, such as using genetically modified strands of soybeans, wheat, and corn, and the use of ractopamine in pork. China has restricted US beef imports due to the outbreak of BSE in the US beef herd. US political officials have also shown a

general distrust of Chinese food quality standards, and have placed restrictions on poultry imported from China, furthering trade complications.

Overcoming Complications and Leveraging Trade Opportunities

The United States, and Iowa in particular, as a significant producer of livestock and livestock feed grains, could create mutually beneficial trade opportunities with China. However, the Chinese government is concerned about the possible impact that large-scale purchases would have on prices in world markets. One such way of overcoming current trade complications would be through the use of long-term production contracts, either with livestock producers, feed producers, or both. In this type of scenario, a US farmer could enter into a contract with a Chinese company willing to pay for feed, construction costs, or any other barrier currently restricting a US farmer from producing livestock for China's market. The Chinese investors

could retain ownership of the animal, with both parties benefiting from a contractually obligated purchase amount and price, thus helping stabilize demand.

Secondly, China has more labor than almost any other country. If it were to further open its market to imported livestock feed, it would free millions of acres of arable land and laborers for production of labor-intensive crops, such as berries, fruits, vegetables, flowers, spices, honey, and dozens of other products. US imports of processed fruits and vegetables has already risen to \$1 billion in 2012, and lessening the restrictions on a free-market would allow the United States to become a major exporter of feed grains to China, while at the same time offsetting the trade by becoming an even larger importer of China's value-added agricultural products.

View the accompanying figures to this article at www.card.iastate.edu/ag_policy_review. ■

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direct beneficiaries of COOL. Stronger demand for US cattle and hogs from COOL increases farm prices most likely by only a few percentage points. Even if COOL helps improve the profitability of farms, not all farmers support COOL, as some see the policy as unnecessary government intervention.

For consumers, the impact of COOL is less straightforward. The costs from COOL to packers percolate all the way down to consumers who must then pay a higher price for meat. There are certainly consumers willing to pay a premium for COOL in red meat that covers the costs of COOL. Those consumers, however, are too few, as otherwise packers would have exploited that market niche at a large scale. This indicates that the increase

in retail prices from COOL is most likely more than the value that the average consumer places on COOL for red meat, suggesting that mandatory COOL has a negative impact on the average consumer.

Consumption of beef in the United States totals about 25 billion pounds per year while consumption of pork totals about 23 billion pounds per year. If COOL increases retail prices on average by one cent per pound more than the value that consumers place in COOL, then COOL in red meat creates a loss to consumers of nearly half a billion dollars per year.

Conclusion

A manifestation of the distributional effects of COOL is the recent lawsuit against the USDA regarding the rules of COOL. The parties involved in the lawsuit illustrate well those who gain

and those who lose from COOL. The American Meat Institute, the largest meat industry association, leads the lawsuit and is joined by several other associations representing meat processors, along with trade groups from Canada and Mexico. Note that National Cattlemen's Beef Association joined the lawsuit, highlighting that the regulation does not receive the support of all producers. In early hearings, other producer groups and one activist group intervened in favor of the USDA. A preliminary injunction stopping the latest COOL rules was declined in the middle of September. The lawsuit now follows its course and along with the outcome of the litigation at the WTO, will define the future of COOL in the United States. ■