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Country of Origin Labeling:

Protecting US Agriculture or Exporting Jobs?

CAES

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Purpose of COOL

- **The intent of the law is to provide consumers with additional information on which they base their purchasing decisions**
- **To ensure the public receives credible and accurate information on country of origin of covered commodities**

USDA/AMS

What is COOL?

- Congress decided in the early part of this decade that country of origin (COOL) labels on food were important to consumers
- COOL requirements were included in the 2002 Farm Bill
- Mandatory country of origin labeling of certain foods in certain U.S. retail outlets
- Retailers handling fresh and frozen fruits and vegetables with an invoice value of at least \$230,000 annually
- Penalties of up to \$10,000 for violations
- Foodservice operations and processed foods are exempt

Covered Commodities

Muscle cuts and ground meats:

Beef

Veal

Lamb

Pork

Chicken

Goat Meat

Wild and farm-raised fish and shellfish

Perishable agricultural commodities (fresh and frozen fruits and vegetables)

Peanuts

Pecans

Macadamia nuts

Ginseng

***NOTE: Exclusion for an ingredient in a processed food product**

Chronology

2002 U.S. Farm Security and Rural Investment Act (Farm Bill) created COOL requirements for covered commodities (beef, lamb, pork, fish and shellfish, fruits and vegetables and peanuts)

October 2003: USDA published a proposed rule for mandatory COOL

January 2004: delayed implementation of mandatory COOL until September 30, 2006

November 2005: delayed implementation on all covered commodities other than farmed and wild caught fish and shellfish until September 30, 2008

June 2008: COOL was modified in the 2008 Farm Bill, including the addition of meat from goats and chickens, ginseng, macadamia nuts and pecans

July 15, 2008: meat from all animals present in US up to that date considered “Product of US”

August 2008: interim final rule published to provide opportunity for comments before the September 30, 2008 implementation date

January 2009: published final rule to meet effective date of March 16, 2009

February 2009: Secretary of Agriculture sent an open letter to U.S. meat industry participants asking them to comply with stricter labeling requirements than those included in the Final Rule, as well as voluntarily including processed foods

Estimated Costs of COOL

USDA (2003) estimated the cost of implementing COOL in the first year at **\$2.5 billion**

Sparks/CBW COOL Consortium 2003 set up to provide objective estimates of COOL implementation costs

Food Industry COOL Cost Summary

Supply Chain	Segment Cost (million \$)
Cattle and Beef	\$1550-1725
Hogs/Pork	\$500-800
Fish/Seafood	\$60-90
Produce	\$1550-3000
TOTAL COST	\$3,660—5,615

Changes in Final Rule

Acceptance of affidavits from producers as to livestock being born and raised in the US

More flexibility in labeling at retail stores, as well as packer level

Less onerous penalties (up to \$1000) and need for proof of ongoing, willful violation

Labeling Examples

Acceptable markings: placard, band, pin tag, sign, sticker, twist tie or other display

Label Categories for Meat:

A – born and raised in the U.S. (“Product of US”)

B – born in Canada, fed and slaughtered in U.S. (“Product of US, Canada”)

C – Canadian fed cattle or hogs imported for immediate slaughter (“Product of Canada, US”)

‘D’ – foreign meat imported into the U.S. (“Product of Canada”)

‘E’ – ground beef must be labeled with all countries that may be reasonable contained (“Product of US, country x, country y, etc”); may be in any order

USDA Estimates of Production Affected by COOL

<u>Commodity</u>	<u>% of Total Production</u>
Beef	25%
Pork	26%
Lamb and goat	27%
Chicken	39%
Fish and shellfish	14%
Fruit, vegetable and ginseng	39%
Peanuts, pecans, and macadamia nuts	2%

Updated Cost Estimates – Beef & Pork

- **Producer level:** lower than previous estimates due to acceptance of producer affidavits
- **Packer level:** lower for packers using US born animals, steady with previous estimates for utilization of foreign born animals
- **Retail distribution/store level:** lower for retailers specifying US only product, higher for retailers accepting products of mixed origin
- **Total food chain costs:** somewhat lower than previous estimates but still significant

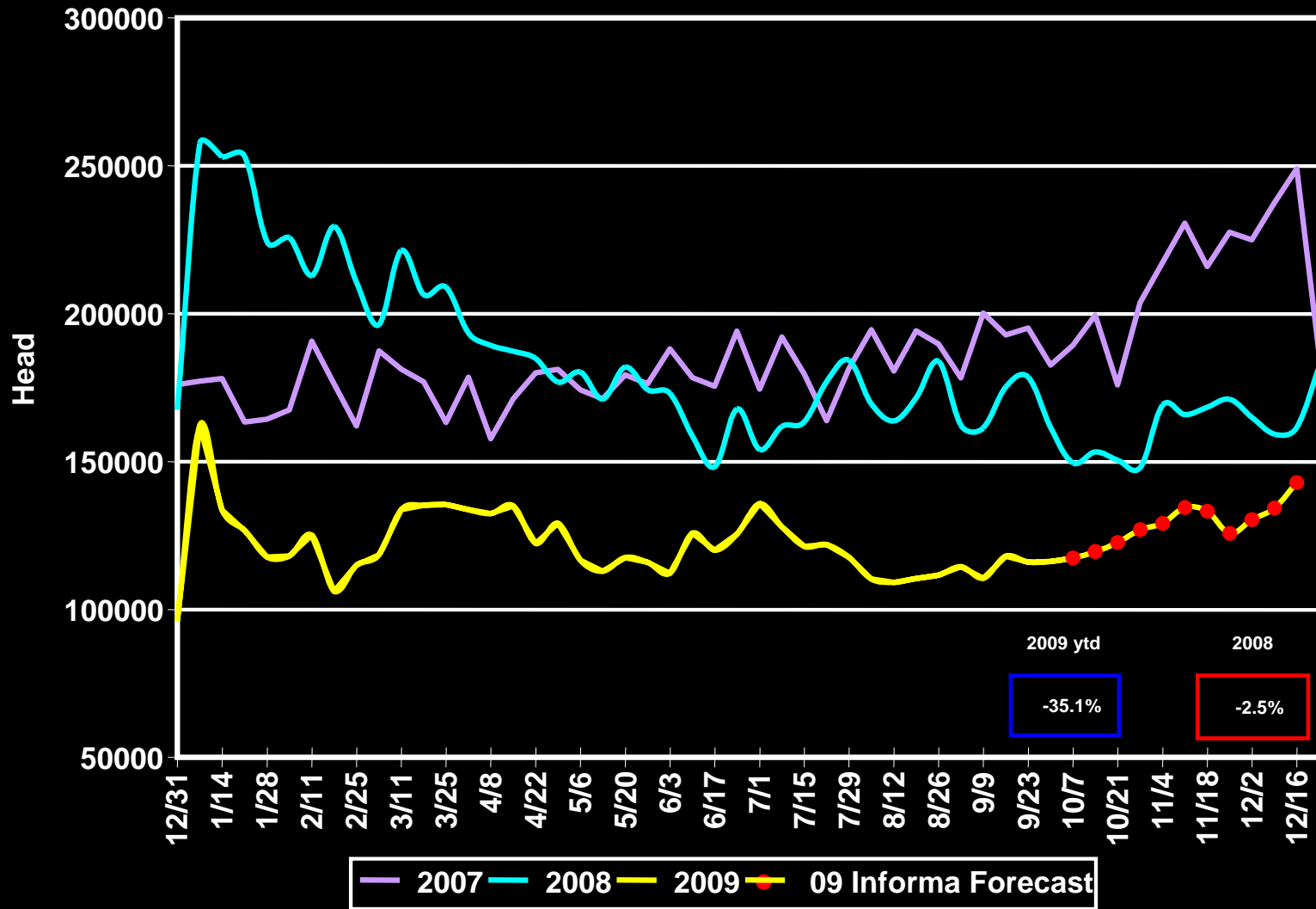
Impacts on Business Practices and Trade

- **Retailer: deciding whether to accept only Product of US or product of potentially mixed origin**
- **Retailer: in many cases, substantial investment in new scales, computer programming, training, handling of more SKUs**
- **Packer: some have decided not to handle foreign born animals**
- **Packer: some will continue taking foreign born animals, but only on certain days or certain shifts (segregation, more sorts, more SKUs)**
- **Producer: facing discounts from packers on foreign born animals and/or fewer bidders for these animals**
- **Producer: contracts with Canadian suppliers of feeder cattle and feeder pigs have been modified, not renewed or cancelled**

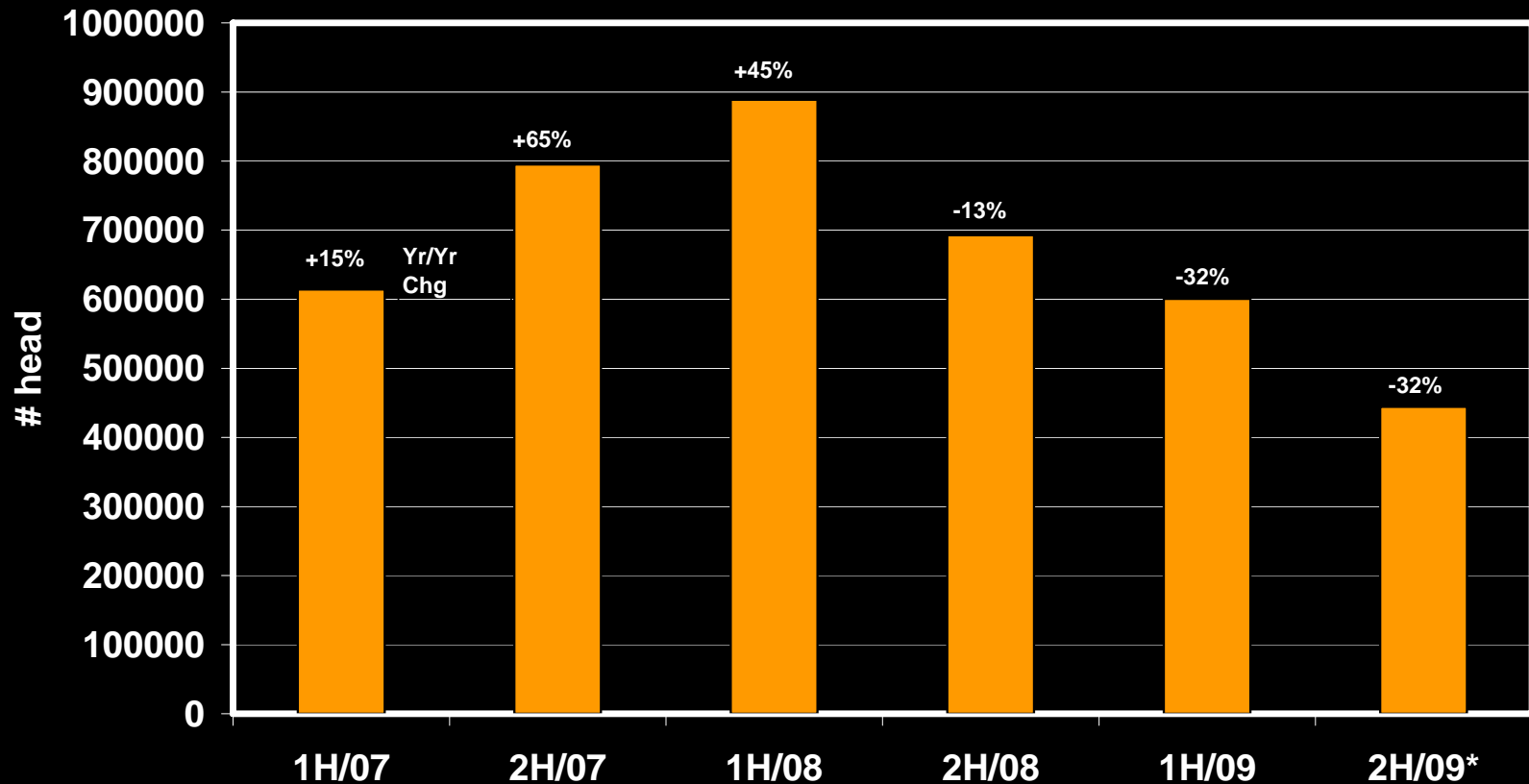
Impacts on Business Practices and Trade

- **Canada: livestock exports to US have declined sharply**
- **Canada: following failed consultations with US, Canada has launched a WTO dispute mechanism process**
- **Canada: request for dispute panel will be considered by WTO on October 23rd**
- **Mexico: continues significant shipments of feeder cattle to US (fewer options than Canadian producers)**
- **Mexico: filed a request for arbitration with WTO**
- **Mexico and Canada: account for more than half of US beef exports (#1 & #2 destinations)**
- **Mexico and Canada: account for nearly 30% of US pork exports (#2 & #3 destinations)**

Total Live Hog Imports from Canada



Imports of Canadian Slaughter and Feeder Cattle to US



* Informa estimate

Benefits of COOL

Perceived Benefits of COOL

- **Consumer information**
- **Food safety**
- **Potential premiums for US origin products**

Summary and Conclusions

- **COOL is in place and adding significant costs to the food supply chain**
- **Part of the added costs are probably being pushed up to the consumer in higher retail prices and part being pushed back down to producers in lower livestock prices**
- **Various sectors and companies complying with rules in a variety of ways**
- **Audits for compliance will be performed by USDA (with contracted assistance from state and local agencies)**
- **With the large number of firms and establishments involved (1.3 million or more), how meaningful will be sample audits**

Summary and Conclusions

- **Fewer livestock imports from Canada resulting in more Canadian beef and pork available for shipment to US or export to other countries in competition with US meat**
- **Does this mean less value-added production in US and “export of jobs” to Canada? → probably**
- **Trade disputes still to be resolved**
- **Benefits of COOL still to be identified and measured**



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